

RuggedCom Inc.

First Quarter 2012 Consolidated Interim Financial Statements
and Results of Operations
(Unaudited)

RuggedCom Inc.

Consolidated Interim Balance Sheets

(In thousands of US dollars)
(Unaudited)

	June 30 2011	March 31 2011	April 1 2010
	\$	\$	\$
Assets			
Current assets			
Cash and cash equivalents (note 6)	36,269	38,106	33,145
Trade receivables (note 7)	18,704	18,265	13,494
Inventories (note 8)	16,770	14,509	10,301
Prepaid expenses	3,679	2,184	1,825
Income taxes recoverable	-	-	1,043
	75,422	73,064	59,808
Non-current assets			
Prepaid expenses	848	272	520
Deferred income taxes	718	676	1,197
Property and equipment (note 9(a))	10,657	10,299	10,952
Intangible assets (note 9(b))	9,965	10,311	10,836
Goodwill	3,133	3,133	1,640
	25,321	24,691	25,145
Total assets	100,743	97,755	84,953
Liabilities			
Current liabilities			
Trade and other payables (note 10)	8,720	7,835	7,494
Income taxes payable	349	1,299	280
Provisions (note 11)	1,082	921	719
Other liabilities (note 12)	271	351	316
Total current liabilities	10,422	10,406	8,809
Non-current liabilities			
Provisions (note 11)	702	697	678
Other liabilities (note 12)	4,002	3,221	2,775
Total non-current liabilities	4,704	3,918	3,453
Total liabilities	15,126	14,324	12,262
Equity			
Share capital	50,427	49,574	48,963
Contributed surplus	5,209	5,147	3,695
Retained earnings	29,981	28,710	20,033
Total equity	85,617	83,431	72,691
Total liabilities and equity	100,743	97,755	84,953

Contingencies and guarantees (note 15)

Peter Crombie – Director **J. Ian Giffen – Director**

The accompanying notes form an integral part of these consolidated interim financial statements.

RuggedCom Inc.**Consolidated Interim Statements of Operations and Comprehensive Income (Loss)**

(In thousands of US dollars, except share and per share amounts)

(Unaudited)

	Three months ended	
	June 30 2011	June 30 2010
	\$	\$
Revenues	26,562	19,990
Cost of sales	11,291	8,252
Gross profit	15,271	11,738
Operating expenses		
Sales and marketing	5,888	4,312
Research and product development	3,647	2,904
General and administrative	3,141	4,204
	12,676	11,420
Income from operations	2,595	318
Finance income (expenses), net		
Interest income	36	39
Interest expense	(24)	(26)
Other finance income (expenses)	(215)	95
Finance income (expenses), net	(203)	108
Income before income taxes	2,392	426
Income tax expense	1,121	1,181
Net income (loss) and comprehensive income (loss) for the period	1,271	(755)
Income per common share (note 16)		
Basic	\$0.10	\$(0.06)
Diluted	\$0.10	\$(0.06)

Weighted average number of common shares outstanding (note 16)

The accompanying notes form an integral part of these consolidated interim financial statements.

RuggedCom Inc.**Consolidated Interim Statements of Changes in Equity**

(In thousands of US dollars, except share and per share amounts)

(Unaudited)

	Share capital Number	Share capital Amount \$	Contributed surplus \$	Retained earnings \$	Total equity \$
Balance at April 1, 2010	12,144,458	48,963	3,695	20,033	72,691
Comprehensive loss for the period	-	-	-	(755)	(755)
Employee stock options:					
Value of services recognized	-	32	(32)	-	-
Proceeds from issuing common shares	12,480	57	-	-	57
Expense for the period	-	-	445	-	445
Balance at June 30, 2010	12,156,938	49,052	4,108	19,278	72,438
Balance at April 1, 2011	12,241,495	49,574	5,147	28,710	83,431
Comprehensive income for the period				1,271	1,271
Employee stock options:					
Value of services recognized		284	(284)		-
Proceeds from issuing common shares	128,140	569			569
Expense for the period			346		346
Balance at June 30, 2011	12,369,635	50,427	5,209	29,981	85,617

The accompanying notes form an integral part of these consolidated interim financial statements.

RuggedCom Inc.
Consolidated Interim Statements of Cash Flows

(In thousands of US dollars)

(Unaudited)

	Three months ended	
	June 30	June 30
	2011	2010
	\$	\$
Cash and cash equivalents provided by (used in)		
Operating activities		
Net income (loss) for the period	1,271	(755)
Items not affecting cash		
Amortization and depreciation	1,298	1,206
Unrealized finance (gain) loss	215	(95)
Stock-based compensation	346	445
Deferred income tax expense	(42)	242
Net change in non-cash working capital (note 18(a))	(4,114)	(334)
Cash provided by (used in) operating activities	(1,026)	709
Investing activities		
Purchase of property and equipment	(1,068)	(832)
Proceeds from disposal of property and equipment	-	23
Purchase of intangibles	(312)	(224)
Cash used in investing activities	(1,380)	(1,033)
Financing activities		
Common shares issued for options exercised	569	57
Cash provided by financing activities	569	57
Decrease in cash and cash equivalents during the period	(1,837)	(267)
Cash and cash equivalents - Beginning of period	38,106	33,145
Cash and cash equivalents - End of period	36,269	32,878

Supplemental disclosure (note 18(b))

The accompanying notes form an integral part of these consolidated interim financial statements.

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 1. Basis of preparation and adoption of IFRS

RuggedCom Inc. (the Company) prepares its consolidated interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") as set out in the Handbook of The Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated interim financial statements. In these consolidated interim financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and "IFRS" refers to Canadian GAAP subsequent to the adoption of IFRS.

These consolidated interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 and IFRS 1. Subject to certain transition elections disclosed in note 5, the Company has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at April 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's annual consolidated financial statements for the year ended March 31, 2011.

The policies applied in these interim consolidated financial statements are based on IFRS in effect as of August 9, 2011, the date the Board of Directors approved these statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ended March 31, 2011 could result in restatement of these consolidated interim financial statements, including the transition adjustments recognized on changeover to IFRS.

These consolidated interim financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended March 31, 2011. Note 5 discloses IFRS information for the year ended March 31, 2011 that is material to an understanding of these consolidated interim financial statements.

Note 2. The Company

The Company was incorporated under the provision of the Business Corporations Act (Ontario) on February 22, 2001. The Company is domiciled in Canada and its registered head office is 300 Applewood Crescent, Concord, Ontario, Canada.

The Company provides rugged communications networking solutions designed for mission-critical applications in harsh environments. The solutions include hardware, software (proprietary embedded software and applications software) and professional services.

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 3. Summary of significant accounting policies, judgments and estimation uncertainties

Summary of significant accounting policies

Basis of measurement

The consolidated interim financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value.

Basis of consolidation

The consolidated interim financial statements of the Company include the accounts of RuggedCom Inc. and its wholly owned subsidiaries (RuggedCom (USA) Inc., RuggedCom Deutschland GmbH Gr. RuggedCom Ltd. (formerly WiNetworks Inc.) and RuggedCom Asia PTE. LTD.). All material intercompany transactions, balances and unrealized gains and losses on transactions between companies are eliminated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Company. Subsidiaries include all entities controlled by the Company. Control exists when the Company has the power to, directly or indirectly govern the financial and operating policies. The existence and potential voting rights that are presently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date on which control ceases.

Business combinations

The Company uses the purchase method to account for business combinations. All identifiable assets and liabilities, including contingent liabilities, are recorded at fair value at the acquisition date. The excess of the consideration transferred over the fair value of the identifiable net assets acquired is recorded as goodwill. Subsequent changes in the fair value of the identifiable net assets are generally recorded through the consolidated statements of operations. Acquisition-related costs are expensed as incurred in the consolidated statements of operations and comprehensive income (loss).

Foreign currency translation

The consolidated interim financial statements are presented in United States dollars, which is the Company's functional currency. Items included in subsidiaries financial statements are measured using the currency of the primary economic environment in which the entity operates (its "functional currency").

The financial statements of entities that have a functional currency different from that of the parent ("foreign operations" are translated into US dollar as follows: assets and liabilities at the closing rate at the date of the balance sheet, and income and expenses at the average rate of the period (as this is considered a reasonable approximation to actual rates). Foreign currency exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statements of operations and comprehensive income (loss).

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income (loss) related to the foreign operation are recognized in income or loss. If an entity disposes of part of an interest in a foreign operation that remains as a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income (loss) related to the subsidiary are reallocated between controlling and non-controlling interests.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 3. Summary of significant accounting policies, judgments and estimation uncertainties (continued)

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and financial liabilities are offset and the net amount reported in the consolidated interim balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the financial asset and settle the financial liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories, depending on the purpose for which the financial instruments were acquired, as follows:

- (i) *Loans and receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise trade receivables and cash and cash equivalents and restricted cash and are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet dates, which is classified as non-current. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- (ii) *Held-to-maturity.* Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in income or loss.
- (iii) *Financial liabilities at amortized cost.* Financial liabilities at amortized cost include trade and other payables and other liabilities. Trade and other payables, severance fund, deferred income and obligation under finance lease are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Repayable government contributions are recognized initially at fair value and, subsequently, at amortized cost using the effective interest method. At the end of each reporting period, interest accretion related to repayable government contributions is included in interest expense and changes in value attributable to changes in the timing and amount of estimated future cash flows are included in other finance (gains) losses. If it is determined at the reporting period that any portion of the government contribution is no longer repayable, the fair value of this amount is considered a forgivable loan and treated as a government grant and is recognized in income or loss in the period in which it becomes known.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

RuggedCom Inc.
 Notes to Consolidated Interim Financial Statements
 (In thousands of US dollars, except share and per share amounts)
 (Unaudited)

Note 3. Summary of significant accounting policies, judgments and estimation uncertainties (continued)

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss on the financial asset, which is carried at amortized cost. The loss is determined as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the financial asset's original effective interest rate. The carrying value of the asset is reduced by this amount indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. The reversal of the previously recognized impairment loss is recognized in the consolidated interim statements of operations and comprehensive income (loss).

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Inventories

Raw materials, work-in-progress and finished goods are valued at the lower of cost, determined on a weighted average basis, and net realizable value. The costs are measured based on a standard cost method, which is reviewed regularly in to ensure relevant measures are utilized. The standard cost includes the cost of materials, labour, variable overhead and an allocation of direct manufacturing overhead based on normal production volumes and a standard exchange rate for product not purchased in the company's functional currency. Any variances arising from this are flowed through the cost of sales on a monthly basis. Net realizable value is the estimated selling price less applicable selling expenses. Inventory excludes merchandise purchased by the company on a consignment basis, where the company does not have the risks and rewards of ownership.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The cost and accumulated depreciation of replaced assets are derecognized when replaced. Repairs and maintenance costs are charged to the consolidated interim statements of operations and comprehensive income (loss) during the period in which they are incurred.

The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment. When parts of items of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

The major categories of property and equipment are depreciated on a straight-line basis as follows:

Furniture	5 years
Equipment	5 years
Computer hardware	5 years
Evaluation units	3 years
Tooling	5 years
Automobiles	5 years

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 3. Summary of significant accounting policies, judgments and estimation uncertainties (continued)

Property and equipment (continued)

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in general and administrative expenses in the consolidated interim statements of operations and comprehensive income (loss).

Leases

The Company is the lessee of property and equipment, computer hardware and buildings. Leases where the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under these leases are generally treated as rentals and recognized as expenses on a straight-line basis over the term of the lease in the consolidated interim statements of operations and comprehensive income (loss). In instances where the risks and rewards of ownership have substantially transferred to the Company, these leases are classified as finance leases. Finance leases are capitalized at the commencement of a lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments, and are depreciated over the shorter of the useful lives of the assets and the lease term. Corresponding liabilities, net of finance costs, are included in the consolidated interim balance sheets. Each lease payment is allocated between the liability and finance costs.

Identifiable intangible assets and research and product development costs

The Company's intangible assets consist of trademarks, patents, domain names, technological assets, customer related assets, computer software and certain agreements with finite useful lives. These assets are capitalized at either historical cost or at fair value if acquired through a business combination and amortized on a straight-line basis in the consolidated interim statements of operations and comprehensive income (loss) over the period of their expected useful lives as follows:

Trademarks, patents and domain names:	5 years
Computer software	3 years
Customer related assets and agreements	5 years
Technological assets	8 years

The Company incurs costs associated with the design and development of new products. Expenditures during the research phase are expensed as incurred. Expenditures during the development phase are capitalized if the Company can demonstrate each of the following criteria: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) its intention to complete the intangible asset and use or sell it; (iii) its ability to use or sell the intangible asset; (iv) how the intangible asset will generate probable future economic benefits; (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development; otherwise, they are expensed as incurred. To date, no product development costs have been capitalized.

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 3. Summary of significant accounting policies, judgments and estimation uncertainties (continued)

Impairment of non-financial assets

Property and equipment and intangible assets with a definite life are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Intangible assets with an indefinite useful life or intangible assets not yet available for use are subject to an annual impairment test. For the purpose of measuring recoverable values, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGUs"). The recoverable value is the higher of an asset's or CGU's fair value less costs to sell and value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the value by which the asset's or CGU's carrying value exceeds its recoverable value. The process of determining value in use, or discounted cash flows, is subjective and requires management to exercise judgment in making assumptions about future results, including revenue and cash flow projections and discount rates. The process of determining fair value less costs to sell requires the valuation and use of appraisals for property. Impairment losses are recognized in the consolidated interim statements of operations and comprehensive income (loss).

Impairment losses are reversed if the circumstances that led to the impairment no longer exist. At each reporting date, the Company reviews for indicators that could change the estimates used to determine the recoverable amount. The amount of the reversal is limited to restoring the carrying amount to the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized in prior periods.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. Goodwill acquired through a business combination is allocated to each CGU, or group of CGUs, that are expected to benefit from the related business combination. A CGU represents the lowest level within the entity at which goodwill is monitored for internal management purposes, which is not higher than an operating segment. The Company has two CGU's, which includes the design, development, manufacture and sale of Ethernet based equipment and its associated software and services.

The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration. Impairment losses for goodwill are not reversed in future periods.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. The unwinding of the discount is recognized in interest expense on the consolidated interim statements of operations and comprehensive income (loss). Additionally, the Company performs evaluations to identify onerous contracts and where applicable, records provisions for such contracts. Disclosure of a contingent liability is included where it is likely that no present obligation exists at the end of the period, unless the possibility of outflows is remote. Provisions are not recognized for future operating losses.

Warranties

The Company offers a five-year warranty to its customers. A provision is recorded for future warranty costs based on management's best estimate as to the likelihood that the products sold will experience warranty claims, taking into account past and projected experience with the products. These estimates are reviewed and adjusted, as necessary, as experience develops or new information becomes known.

Research and product development funding

Funding for research and product development includes governmental and non-governmental research and product development support. Research and product development funding is recognized when there is reasonable assurance the Company has complied with the conditions attached to the funding arrangement and is recognized as the applicable costs are incurred. Where the Company receives government contributions that include terms of repayment, a financial liability is recognized and measured in accordance with the terms of IAS 39, Financial Instruments, as discussed above. Funding where repayment is not required is treated as a grant and is recognized in the consolidated interim statements of operations and comprehensive income (loss) as a reduction in the research and product development expense when the funding is received.

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 3. Summary of significant accounting policies, judgments and estimation uncertainties (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the gross inflow of economic benefits during the period, arising in the ordinary course of the Company's activities.

Revenue is recognized when it is probable that the economic benefits will flow to the Company. Revenue is accounted for net of discounts and estimated returns. Historical experience is used to estimate and provide for discounts and returns.

Sale of goods (hardware or software)

For sales of hardware, these criteria are generally met at the time the product is shipped and delivered to the customer. Depending on the delivery conditions, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained, either via formal acceptance by the customer or lapse of rejection period. If all other revenue recognition criteria have been met but delivery has not occurred, the Company will recognize revenue, provided that the following criteria have been met:

- (i) it must be probable delivery will take place;
- (ii) the goods must be on hand, identified and ready for delivery to the buyer at the time the sale is recognized;
- (iii) the buyer specifically acknowledges the deferred delivery instructions; and
- (iv) the usual payment terms must apply.

Rendering of services

Services comprise after-sales service and maintenance and consulting. The Company commits to extensive after-sales support and maintenance. The amount of the selling price associated with the servicing agreement is deferred and recognized as revenue over the period during which the service is performed. This deferred income is included in other liabilities.

The Company also enters into transactions that represent multiple-element arrangements, which may include any combination of equipment and service. These multiple element arrangements are assessed to determine whether they can be sold separately in order to determine whether they can be treated as more than one unit of accounting or element for the purpose of revenue recognition. When there are multiple- elements or units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements on a relative fair value basis. If elements cannot be sold separately, revenue recognition is deferred until all elements have been delivered. The revenue recognition policy described above is then applied to each unit of accounting.

Cash received in advance of revenue being recognized is classified as deferred revenue.

Cost of sales

Cost of product sales includes the cost of finished goods inventory and costs related to shipping and handling. Cost of service sales includes direct labour and additional direct and indirect expenses.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction net of income taxes from equity.

Employee benefits

Severance fund

The Company's liability for severance pay is calculated pursuant to the statutory requirements of one of its foreign subsidiaries based on the most recent salary of the employees multiplied by the number of years of employment as at the interim consolidated balance sheet dates. The liability is offset against deposits made by the Company into related insurance policies. The value of these policies is recorded as an asset in the Company's consolidated interim balance sheets.

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 3. Summary of significant accounting policies, judgments and estimation uncertainties (continued)

Stock-based compensation

The Company grants stock options to certain employees. Stock options vest 25% one year from the date of grant and monthly thereafter over two and a half years (30 months) and expire after seven years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant, using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period, based on the number of awards expected to vest, by increasing contributed surplus. The number of awards expected to vest is revised, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. When the stock options are exercised, the company issues new common shares. The proceeds received net of any directly attributable transactions costs are credited to share capital when stock options are exercised.

Income taxes

Income tax expense comprises current income tax expense and deferred income tax expense. Current income taxes and deferred income tax expense are recognized in the interim consolidated statement of operations and comprehensive income (loss), except to the extent that it relates to items recognized directly in comprehensive income or equity, in which case income taxes are also recognized directly in comprehensive income or equity. If business combinations occur, income taxes may also be recognized in the business combination.

Current income taxes are the expected income taxes payable on the taxable income for the period, using income tax rates enacted, or substantively enacted, at the end of the reporting periods, and any adjustment to income tax payable in respect of previous periods.

Deferred income tax assets and liabilities are recognized for future income tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases, and on unused income tax losses and income tax credit carry-forwards. Deferred income taxes are measured using income tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences as well as unused income tax losses and income tax credit carry-forwards can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related income tax benefit will be realized. The effect of a change in income tax rates is recognized in the period of enactment or substantive enactment.

Deferred income taxes are provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences and unused income tax losses and income tax credits can be utilized. The carrying value of deferred income tax assets is reviewed at each consolidated interim balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be recovered. Deferred income tax liabilities are not recognized on temporary differences that arise from goodwill, which is not deductible for income tax purposes. Deferred income tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of certain assets and liabilities acquired other than in a business combination. Deferred income tax assets and liabilities are presented as non-current.

Income taxes on income in interim periods are accrued using the income tax rate that would be applicable to expected total annual income.

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 3. Summary of significant accounting policies, judgments and estimation uncertainties (continued)

Income per share

Basic income per share is calculated based on the weighted average number of common shares outstanding for the period. Diluted net income per common share is calculated using the weighted average number of common shares outstanding for the period for basic net income per common share plus the weighted average number of potential dilutive shares that would have been outstanding during the period had all potential common shares been issued at the beginning of the period or when the underlying stock options were granted, if later, unless they were anti-dilutive. The treasury stock method is used to determine the incremental number of common shares that would have been outstanding had the Company used proceeds from the exercise of stock options to acquire common shares.

Segmented reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or persons who are responsible for allocating resources and assessing performance of the operating segments.

Finance income and expenses

Finance income comprises interest income on funds invested, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial liabilities at fair value through profit or loss and impairment losses recognized on financial assets.

Significant accounting judgments and estimation uncertainties

Critical accounting estimates and judgments

The preparation of consolidated interim financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and notes to the interim consolidated financial statements. These estimates are based on management's best knowledge of current events and actions the Company may undertake in the future. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period in which the estimates are revised. Significant areas requiring the Company to make estimates include goodwill impairment testing and recoverability of assets, business combinations, warranty provisions, repayable government contributions and income taxes. These estimates and judgments are further discussed below:

RuggedCom Inc.
 Notes to Consolidated Interim Financial Statements
 (In thousands of US dollars, except share and per share amounts)
 (Unaudited)

Note 3. Summary of significant accounting policies, judgments and estimation uncertainties (continued)

Significant accounting judgments and estimation uncertainties (continued)

(i) Goodwill impairment testing and recoverability of assets

In accordance with IFRS 1, the Company performed a test for impairment of goodwill at April 1, 2010 and March 31, 2011 with the details surrounding these impairment tests discussed below.

The goodwill recorded in the consolidated interim financial statements relates to two CGUs: RuggedCom and WiNetworks. The Company's assumptions used in testing goodwill for impairment are affected by current market conditions, which may affect expected revenue and costs. The Company also has significant competition in markets in which it operates, which may impact its revenues and operating costs. The recoverable amount of the CGUs was estimated based on an assessment of fair value less costs to sell using a discounted cash flow approach. The approach uses cash flow projections based on financial budgets approved by management covering a three year period. Cash flows for the years thereafter are extrapolated using the estimated terminal growth rates listed below. The risk premiums expected by market participants related to uncertainties about the industry and assumptions relating to future cash flows may differ or change quickly, depending on economic conditions and other events. Accordingly, it is reasonably possible that future changes in assumptions may negatively impact future assessments of the recoverable amount for the CGU's and the Company would be required to recognize an impairment loss. As at April 1, 2010 and March 31, 2011, the Company's estimate of the recoverable amount for the WiNetworks CGU exceeded its respective carrying value by 60% and 14% respectively, and its estimate of the recoverable amount for the RuggedCom CGU exceeded its carrying value by 128% and 83% respectively. For the WiNetworks CGU at March 31, 2011 a change in assumptions related to discount rate and terminal growth rate of 4 percentage points or 2.5 percentage points respectively would cause the carrying value to exceed the recoverable amount.

The following are the key assumptions on which management based its determinations of the recoverable amounts of goodwill:

	April 1, 2010		March 31, 2011	
	RuggedCom	WiNetworks	RuggedCom	WiNetworks
Allocated goodwill	\$1,476	\$164	\$2,969	\$164
Gross margin	59.0%	51.0%	59.0%	52.0%
Terminal growth rate	2.0%	2.0%	2.0%	3.0%
After-tax discount rate	9.0%	45.4%	9.0%	22.5%

Whenever property and equipment and other intangible assets are tested for impairment, the determination of the assets' recoverable amounts involves the use of estimates by management and can have a material impact on the respective values and, ultimately, the amount of any impairment.

(ii) Business combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 3. Summary of significant accounting policies, judgments and estimation uncertainties (Continued)

Significant accounting judgments and estimation uncertainties (continued)

(iii) Warranty provision

As noted in note 3 above, the Company typically provides a warranty for parts and/or labour for up to five years. Management considers historical field data, results of internal testing and, in certain circumstances, application in determining the value of this provision.

(iv) Repayable government contributions

The Company has received government contributions related to certain historical research and development projects. Under the terms of these contracts, the Company was obligated to pay royalties related to the sale of products developed using the grant funding to a maximum of the contribution amount received plus interest.

These liabilities are measured at the net present value of the expected future payments with the difference between the liability and the funds received being treated as government assistance. The liability is reduced by royalty payments made in accordance with the terms of the contract and the interest is calculated by using the effective interest rate method and charged to the consolidated interim statements of operations and comprehensive income (loss) in the period accrued. Management reviews the expected future payments at each reporting date and any changes in projected future revenues, probabilities of amounts becoming repayable, and changes in foreign exchange rates that impact the value of the financial liability are recorded in other finance income and expenses.

(v) Income taxes

The Company, including the operating companies, operates and earns income in numerous countries and is subject to changing income tax laws in multiple jurisdictions within these countries. Significant judgments are necessary in determining worldwide income tax liabilities. At each consolidated balance sheet date, the Company assesses whether the realization of future income tax benefits is sufficiently probable to recognize deferred income tax assets. This assessment requires the exercise of judgment on the part of management with respect to, among other things, benefits that could be realized from available income tax strategies and future taxable income, as well as other positive and negative factors. The recorded amount of total deferred income tax assets could be reduced if estimates of projected future taxable income and benefits from available income tax strategies are lowered, or if changes in current income tax regulations are enacted that impose restrictions on the timing or extent of the Company's ability to utilize future income tax benefits.

The Company's effective income tax rate can vary significantly quarter-to-quarter for various reasons, including the mix and volume of business in lower income tax jurisdictions and in jurisdictions for which no deferred income tax assets have been recognized because management believed it was not probable that future taxable profit would be available against which income tax losses and deductible temporary differences could be utilized. The Company's effective income tax rate can also vary due to the impact of foreign exchange fluctuations.

(vi) Estimated useful lives of long-lived assets

Management reviews useful lives of depreciable assets at each reporting date. Management assesses that the useful lives represent the expected utility in terms of duration of the assets to the Company. Actual utility, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 3. Summary of significant accounting policies, judgments and estimation uncertainties (Continued)

Significant accounting judgments and estimation uncertainties (continued)

(vii) Provisions and contingencies

The Company is currently defending certain lawsuits, where the probability of economic outflow is remote. Therefore, no amounts have been recognized in these interim consolidated financial statements.

(viii) Internally generated research costs

Management monitors the progress of internal research and development projects. Significant judgment is required in distinguishing research from the development phase. Expenditures during the research phase are expensed as incurred. Development costs are recognized as an asset when the Company can demonstrate the following criteria: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the intention to complete the intangible asset and use or sell it; (iii) the ability to use or sell the intangible asset; (iv) how the intangible asset will generate probable future economic benefits; (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and (vi) the ability to measure reliably the expenditure attributable to the intangible asset during its development. Otherwise, they are expensed as incurred. To date, no product development costs have been capitalized.

Note 4. Accounting standards issued but not yet applied

The IASB has issued the following standards, which have not yet been adopted by the Company. Each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated interim financial statements or whether to early adopt any of the new requirements.

The following is a description of the new standards:

IFRS 9 – Financial Instruments (“IFRS 9”) was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 Financial Instruments – Recognition and measurement for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss).

IFRS 10, Consolidation (“IFRS 10”) requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 4. Accounting standards issued but not yet applied (continued)

IFRS 11, Joint Arrangements (“IFRS 11”) requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation, the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Ventures*.

IFRS 12, Disclosure of Interests in Other Entities (“IFRS 12”) establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

IFRS 13, Fair Value Measurement (“IFRS 13”) is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and, in many cases, does not reflect a clear measurement basis or consistent disclosures.

Amendments to Other Standards, In addition, there have been amendments to existing standards, including IAS 27, and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13.

Note 5. Transition to IFRS

Overview

The effect of the Company’s transition to IFRS, as described in note 1, is summarized as follows: (i) transition elections; (ii) reconciliation of equity and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS; (iii) explanatory notes; (iv) adjustments to the consolidated interim statements of cash flows; and (v) explanatory notes: additional IFRS information for the year ended March 31, 2011.

(i) *Transition elections*

The adoption of IFRS requires the application of IFRS 1 First-time Adoption of International Financial Reporting Standards (“IFRS 1”), which provides guidance for an entity’s initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of the Company’s first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment. The Company has applied the following transitional exceptions and exemptions to full retrospective application of IFRS in its preparation of an opening IFRS consolidated balance sheet at April 1, 2010, the Company’s “transition date”:

- a) To elect not to apply retrospective treatment to certain aspects of IAS 21, The Effects of Changes in Foreign Exchange Rates, and deem the cumulative translation differences for all foreign operations to be \$nil at the transition date
- b) To not apply IFRS 2, Share-based Payments, retrospectively only to awards that were issued after November 7, 2002 and had not vested by the transition date, but rather, to apply to all grants
- c) To apply IFRS 3, Business Combinations, prospectively from the transition date and, therefore, not restate business combinations that took place prior to the transition date. As such, Canadian GAAP balances relating to business combinations entered into before the transition date, including goodwill, have been carried forward without adjustment

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 5. Transition to IFRS (continued)

- d) To apply the transition provisions of International Financial Reporting Interpretations Committee ("IFRIC") 4, Determining Whether an Arrangement Contains a Lease, to determine if arrangements existing at the transition date contain a lease based on the circumstances existing at the transition date, rather than the historical date

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS consolidated balance sheet as at the transition date are consistent with those made under current Canadian GAAP.

The Company's transition date IFRS consolidated balance sheet is included as comparative information in the consolidated interim balance sheets in these consolidated interim financial statements.

- (ii) *Reconciliation of equity and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS*

	March 31, 2011			June 30, 2010			April 1, 2010		
	Canadian GAAP \$	Adjust- ment \$	IFRS \$	Canadian GAAP \$	Adjust- ment \$	IFRS \$	Canadian GAAP \$	Adjust- ment \$	IFRS \$
ASSETS									
Current assets									
Cash and cash equivalents (g)	38,106	-	38,106	32,878	-	32,878	33,140	5	33,145
Trade receivables (g)	18,264	1	18,265	11,989	(6)	11,983	13,494	-	13,494
Inventories (g)	14,859	(350)	14,509	11,381	303	11,684	10,497	(196)	10,301
Prepaid expenses (g)	2,111	73	2,184	1,854	(16)	1,838	1,825	-	1,825
Income taxes recoverable (g)	-	-	-	240	7	247	1,036	7	1,043
Deferred income taxes (g)(h)	644	(644)	-	600	(600)	-	637	(637)	-
	73,984	(920)	73,064	58,942	(312)	58,630	60,629	(821)	59,808
Non-current assets									
Prepaid expenses (b)	-	272	272	-	498	498	-	520	520
Deferred income taxes (g)(h)	-	676	676	222	733	955	431	766	1,197
Property and equipment (g)	11,188	(889)	10,299	11,010	113	11,123	11,372	(420)	10,952
Intangible assets (g)	10,975	(664)	10,311	10,460	31	10,491	11,373	(537)	10,836
Goodwill (f) (g)	3,693	(560)	3,133	1,839	(199)	1,640	1,928	(288)	1,640
Severance fund (b)	272	(272)	-	498	(498)	-	520	(520)	-
	26,128	(1,439)	24,691	24,029	678	24,707	25,624	(479)	25,145
Total assets	100,112	(2,357)	97,755	82,971	366	83,337	86,253	(1,300)	84,953

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 5. Transition to IFRS (continued)

(ii) *Reconciliation of equity and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS (continued)*

	March 31, 2011			June 30, 2010			April 1, 2010		
	Canadian GAAP \$	Adjust- ment \$	IFRS \$	Canadian GAAP \$	Adjust- ment \$	IFRS \$	Canadian GAAP \$	Adjust- ment \$	IFRS \$
LIABILITIES									
Current liabilities									
Trade and other payables (a)(g)	8,131	(296)	7,835	6,633	(109)	6,524	7,618	(124)	7,494
Current portion of warranty liability (c)(g)	696	(696)	-	486	(486)	-	604	(604)	-
Provisions (a)(g)	-	921	921	-	566	566	-	719	719
Deferred income (b)(g)	138	(138)	-	24	(24)	-	99	(99)	-
Income taxes payable (g)	1,304	(5)	1,299	97	-	97	280	0	280
Other liabilities (a)(g)(d)(b)	-	351	351	-	294	294	-	316	316
Current lease costs (b)(g)	26	(26)	-	57	(57)	-	26	(26)	-
Current obligation under finance lease (b)(g)	83	(83)	-	96	(96)	-	105	(105)	-
	10,378	28	10,406	7,393	88	7,481	8,732	77	8,809
Non-current liabilities									
Provisions (a)(g)	-	697	697	-	660	660	-	678	678
Deferred income taxes (g)	201	(201)	-	-	-	-	-	-	-
Warranty liabilities (c)(g)	389	(389)	-	400	(400)	-	413	(413)	-
Deferred income (b)(g)	224	(224)	-	40	(40)	-	32	(32)	-
Severance payable (b)(g)	312	(312)	-	534	(534)	-	558	(558)	-
Obligations under capital leases(b)(f)	17	(17)	-	70	(70)	-	95	(95)	-
Lease cost payables (c)(g)	308	(308)	-	260	(260)	-	265	(265)	-
Other liabilities (a)(g)(d)	-	3,221	3,221	-	2,758	2,758	-	2,775	2,775
	1,451	2,467	3,918	1,304	2,114	3,418	1,363	2,090	3,453
	11,829	2,495	14,324	8,697	2,202	10,899	10,095	2,167	12,262
EQUITY									
Share capital (e)(g)	49,511	63	49,574	48,976	76	49,052	48,886	77	48,963
Contributed surplus (e)(g)	3,844	1,303	5,147	2,907	1,201	4,108	2,538	1,157	3,695
Accumulated other comprehensive income (g)	8,894	(8,894)	-	1,339	(1,339)	-	4,887	(4,887)	-
Retained earnings (d)(j)(k)	26,034	2,767	28,710	21,052	(1,774)	19,278	19,847	186	20,033
Total equity	88,283	(4,761)	83,431	74,274	(1,836)	72,427	76,158	(3,467)	72,691
Total equity and liabilities	100,112	(2,266)	97,755	82,971	(366)	83,337	86,253	(1,300)	84,953

RuggedCom Inc.
 Notes to Consolidated Interim Financial Statements
 (In thousands of US dollars, except share and per share amounts)
 (Unaudited)

Note 5. Transition to IFRS (continued)

- (ii) *Reconciliation of equity and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS (continued)*

	Year ended March 31, 2011			Three months ended June 30, 2010		
	Canadian GAAP	Adjustment	IFRS	Canadian GAAP	Adjustment	IFRS
	\$	\$	\$	\$	\$	\$
Revenues	93,967	-	93,967	19,990	-	19,990
Cost of sales (b)(e)(g)(i)	38,171	1,376	39,547	8,064	188	8,252
Gross profit	55,796	(1,376)	54,420	11,926	(188)	11,738
Sales and marketing (e)(g)(i)	18,224	1,313	19,537	3,989	323	4,312
Research and product development (e)(g)(i)	12,599	(233)	12,366	2,918	(14)	2,904
General and administrative (e)(g)(i)(f)	10,216	(680)	9,536	2,401	1,803	4,204
Investment tax credit (g)	(2,171)	2,171	-	(499)	499	-
Loss (gain) on foreign currency exchange (g)	1,176	(1,176)	-	(533)	533	-
Amortization (g)(i)	5,363	(5,363)	-	1,287	(1,287)	-
	45,407	(3,968)	41,439	9,563	1,857	11,420
Income from operations	10,389	2,592	12,981	2,363	(2,045)	318
Net interest income (d)	247	(97)	150	31	(18)	13
Other finance gain (losses) (d)	-	(101)	(101)	-	95	95
Finance income, net	247	(198)	49	31	77	108
Net income before taxes	10,636	2,394	13,030	2,394	(1,968)	426
Income tax expense (f)	4,449	(95)	4,354	1,189	(8)	1,181
Net income for the period	6,187	2,249	8,676	1,205	(1,960)	(755)
Unrealized foreign currency translation gain (loss) (g)	4,007	(4,007)	-	(3,548)	3,548	-
Comprehensive income for the period	10,194	(1,518)	8,676	(2,343)	1,588	(755)

- (iii) *Explanatory notes*

- (a) *Provisions and other liabilities.* Under IFRS, other provisions, which were classified as accounts payable and accrued liabilities in the Canadian GAAP consolidated financial statements, have been reclassified as provisions. Customer deposits were reclassified to other liabilities.
- (b) *Severance fund, obligation under finance lease and deferred income.* Under IFRS, these items, which were disclosed separately on the Canadian GAAP consolidated financial statements, have been reclassified to other liabilities.
- (c) *Warranty liabilities, and lease cost.* Under IFRS, these items, which were disclosed separately on the Canadian GAAP consolidated financial statements, have been reclassified to provisions.

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 5. Transition to IFRS (continued)

- (iii) *Explanatory notes (continued)*
- (d) *Repayable government contributions.* The Company has received government contributions related to certain historical research and development projects. Under the terms of these contracts, the Company is obligated to pay royalties related to its sales. Under the terms of IAS 39, there is a requirement for this contract to be recorded as a financial liability under IFRS. The financial liability is measured as the net present value of future royalties owed, which is based on a percentage of revenues generated over a specific time period. Under Canadian GAAP, the royalty obligation was accrued at the time of sale. The adjustments to the values of this financial liability at April 1, 2010, June 30, 2010 and March 31, 2011 were \$2,183, \$2,209 and \$2,770 respectively. Changes in the value of this financial liability of (\$95) and \$101 have been recorded in other finance gains (losses), net and interest accretion of \$26 and \$115 has been recorded in interest expense for the three months ended June 30, 2010 and year ended March 31, 2011, respectively.
- (e) *Stock-based compensation.* Under Canadian GAAP, each grant was treated as a single arrangement and compensation expense was determined at the time of grant and amortized over the vesting period, generally 42 months, on a straight-line basis. IFRS requires a separate calculation of compensation expense for awards that vest in installments. Under Canadian GAAP, forfeitures of the stock-based compensation awards can be accounted for in the period in which the forfeiture occurs. Under IFRS, compensation expense differs from Canadian GAAP based on the changing fair values used for each installment, the application of the forfeiture rate and the timing of recognizing compensation expense. Generally, this results in accelerated expense recognition under IFRS. On the Transition Date, we recognized additional compensation expense of \$1,000, which decreased the Company's retained earnings, with a corresponding offset to contributed surplus. Total equity was not affected. Under IFRS, as compared to Canadian GAAP, stock-based compensation expense for the year ended March 31, 2011 increased by \$671 (three months ended June 30, 2010 — increased by \$195).
- (f) *Business combinations.* On October 1, 2010, the Company entered into a transaction to acquire the substation automation business of Bow Networks Inc. through a cash purchase of selected assets and intellectual property for \$2,210 (\$2,235 Canadian), including transaction costs of \$101. The transaction was completed October 29, 2010 by way of a Bow Networks Inc. shareholder vote. Under Canadian GAAP, these transaction costs were capitalized as part of the purchase price allocation. Under IFRS, acquisition-related transaction costs are expensed as incurred.
- (g) *Functional currency change.* Under Canadian GAAP, the functional currency of the parent company was Canadian dollars. Under IFRS, the company assessed that its functional currency is United States dollars. The company determined that, under IFRS, its functional currency would have changed from Canadian dollars to United States dollars effective September 17, 2009. This change caused the value of a number of balance sheet items held in currencies other than United States dollars to have values different under IFRS.
- (h) *Deferred income taxes.* Under Canadian GAAP, deferred income taxes (future income taxes) were classified as current or long term based on the underlying balance sheet classification of the item on which it was calculated. Under IFRS, deferred income taxes are all long-term. Due to the change in the net book value of certain assets under IFRS, deferred income taxes were affected accordingly. Deferred income taxes were increased by \$234 for the year ended March 31, 2011 and opening retained earnings were decreased by \$430 at April 1, 2010.
- (i) *Amortization.* Amortization presented separately on the consolidated interim statement of operations and comprehensive income (loss) under Canadian GAAP, has been reclassified and included in cost of sales, sales and marketing, general and administrative expenses and research and product development.

RuggedCom Inc.
 Notes to Consolidated Interim Financial Statements
 (In thousands of US dollars, except share and per share amounts)
 (Unaudited)

Note 5. Transition to IFRS (continued)

(iii) *Explanatory notes (continued)*

j) *Accumulated other comprehensive income.* A summary of transition adjustments to the Company's accumulated other comprehensive income from Canadian GAAP to IFRS is as follows:

	March 31 2011	June 30 2010	April 1 2010
	\$	\$	\$
Accumulated other comprehensive income, as reported under Canadian GAAP	4,198	1,339	4,887
Functional currency change	(4,198)	(1,339)	(4,887)
Accumulated other comprehensive income, as reported under IFRS	-	-	-

k) *Retained earnings.* A summary of transition adjustments to the Company's accumulated retained earnings from Canadian GAAP to IFRS is as follows:

	March 31 2011	June 30 2010	April 1 2010
	\$	\$	\$
Retained earnings	26,034	21,052	19,848
Government contributions	(2,770)	(2,208)	(2,183)
Stock-based compensation	(1,671)	(1,195)	(1,000)
Transaction costs	(101)	-	-
Deferred income taxes	234	1	130
Functional currency change	6,984	1,628	3,238
Retained earnings	28,710	19,278	20,033

(iv) *Adjustments to the consolidated statements of cash flows*

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company.

RuggedCom Inc.
 Notes to Consolidated Interim Financial Statements
 (In thousands of US dollars, except share and per share amounts)
 (Unaudited)

Note 5. Transition to IFRS (continued)

(v) *Explanatory notes.* Additional IFRS information for the year ended March 31, 2011 is as follows:

(A) *Goodwill*

The Company tests, at least annually, whether goodwill suffered any impairment, in accordance with the accounting policy in note 3. Please refer to note 3 for further information regarding critical estimates made and the methodology used in testing goodwill for impairment at April 1, 2010 and March 31, 2011.

(B) *Provisions*

	Warranties	Lease costs	Sales returns and allowances	Total
	\$	\$	\$	\$
At April 1, 2010	1,017	290	90	1,397
Additional Provisions	645	54	569	1,268
Utilized during the period	(609)	(25)	(358)	(992)
Unused amounts reversed	-	-	(100)	(100)
Effect of foreign currency exchange	30	15	-	45
At March 31, 2011	1,083	334	201	1,618

(C) *Expenses incurred by nature*

Expenses incurred by nature are as follows:

	March 31 2011 \$
Inventory costs	29,375
Employee benefits (D)	28,549
Depreciation, amortization and impairment charges	4,932
Commission	4,849
Travel, entertainment and advertising	4,164
Professional fees and consulting	3,084
Office premises	2,562
Gain on foreign currency exchange	(1,757)
Freight costs	1,703
Investment tax credits	(963)
Warranties	722
Other	3,717
	80,937

RuggedCom Inc.
 Notes to Consolidated Interim Financial Statements
 (In thousands of US dollars, except share and per share amounts)
 (Unaudited)

Note 5. Transition to IFRS (continued)

(v) *Explanatory notes.* Additional IFRS information for the year ended March 31, 2011 is as follows (*continued*)

D) *Employee benefits*

Expenditures for employee benefits are as follows:

	Year ended March 31 2011 \$
Salaries and wages	22,709
Employee benefits	3,834
Stock-based compensation	1,674
Other	332
	28,549

(vi) *Revenues by function*

Revenues earned by function are as follows:

	Year ended March 31 2011 \$
Sales of product	91,959
Sales of software	344
Sales of services	1,487
Other	177
	93,967

Note 6. Guarantees

At June 30, 2011, the Company had a guarantee issued by a major Canadian financial institution that totaled \$1,000 (March 31, 2011 - \$1,000). The Company has restricted cash totaling \$139 USD as security for guarantees issued in the normal course of business.

Note 7. Trade receivables

	June 30 2011 \$	March 31 2011 \$
Trade receivables	18,977	18,346
Allowance for doubtful accounts	(273)	(81)
	18,704	18,265

RuggedCom Inc.
 Notes to Consolidated Interim Financial Statements
 (In thousands of US dollars, except share and per share amounts)
 (Unaudited)

Note 8. Inventories

	June 30 2011 \$	March 31 2011 \$
Raw materials	15,566	13,261
Work-in-progress	466	524
Finished goods	738	724
	16,770	14,509

During the three months ended June 30, 2011, the Company recorded provisions of \$96 (June 30, 2010 - \$48) and reversed previously accrued net realizable value provisions for inventory totaling \$nil (June 30, 2010 - \$237). During the period ended June 30, 2011, approximately \$11,487 of inventories were expensed in cost of sales (June 30, 2010 - \$7,276).

Note 9. Property and equipment and intangible assets

(a) Property and equipment

	Leasehold improvements	Furniture and equipment	Computer hardware	Evaluation units	Other	Total
At April 1, 2010						
Cost	6,649	3,612	3,468	1,686	768	16,183
Accumulated depreciation	696	1,538	1,657	909	431	5,231
Net book value	5,953	2,074	1,811	777	337	10,952
Year ended March 31, 2011						
Opening net book value	5,953	2,074	1,811	777	337	10,952
Additions	45	354	694	855	149	2,097
Disposals	-	(4)	(74)	(23)	(135)	(236)
Depreciation for the period	(740)	(601)	(691)	(478)	(4)	(2,514)
Closing net book value	5,258	1,823	1,740	1,131	347	10,299
At April 1, 2011						
Cost	6,694	3,963	4,040	2,503	912	18,112
Accumulated depreciation	1,436	2,140	2,300	1,372	565	7,813
Net book value	5,258	1,823	1,740	1,131	347	10,299
Period ended June 30, 2011						
Opening net book value	5,258	1,823	1,740	1,131	347	10,299
Additions	2	132	678	227	29	1,068
Disposals	-	(70)	(1)	-	-	(71)
Depreciation for the period	(171)	(99)	(182)	(153)	(34)	(639)
Closing net book value	5,089	1,786	2,235	1,205	342	10,657
At June 30, 2011						
Cost	6,696	3,977	4,716	2,730	941	19,060
Accumulated depreciation	1,607	2,191	2,481	1,525	599	8,403
Net book value	5,089	1,786	2,235	1,205	342	10,657

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 9. Property and equipment and intangibles assets (continued)

(b) Intangible assets

	Technological assets	Computer software	Trademarks, patents & domain names	Customer related assets	Other	Total
At April 1, 2010						
Cost	8,228	3,367	793	655	391	13,434
Accumulated amortization	553	1,648	284	71	42	2,598
Net book value	7,675	1,719	509	584	349	10,836
Year ended March 31, 2011						
Opening net book value	7,675	1,719	509	584	349	10,836
Additions	488	807	372	139	1	1,807
Amortization	(1,054)	(878)	(177)	(145)	(78)	(2,332)
Closing net book value	7,109	1,648	704	578	272	10,311
At April 1, 2011						
Cost	8,716	4,171	1,165	794	392	15,238
Accumulated amortization	1,607	2,523	461	216	120	4,927
Net book value	7,109	1,648	704	578	272	10,311
Period ended June 30, 2011						
Opening net book value	7,109	1,648	704	578	272	10,311
Additions	-	258	55	-	-	313
Amortization	(272)	(261)	(66)	(40)	(20)	(659)
Closing net book value	6,837	1,645	693	538	252	9,965
At June 30, 2011						
Cost	8,717	4,429	1,221	794	392	15,553
Accumulated amortization	1,880	2,784	528	256	140	5,588
Net book value	6,837	1,645	693	538	252	9,965

Note 10. Trade and other payables

	June 30 2011 \$	March 31 2011 \$
Trade accounts payable	4,481	3,158
Accrued expenses	2,172	1,863
Accrued payroll and related compensation	2,052	2,762
Sales tax payable (receivable)	(7)	39
Other	22	13
	8,720	7,835

RuggedCom Inc.
 Notes to Consolidated Interim Financial Statements
 (In thousands of US dollars, except share and per share amounts)
 (Unaudited)

Note 11. Provisions

	Warranties \$	Lease costs \$	Sales returns & allowances \$	Total \$
At April 1, 2010				
Current	605	25	89	719
Long-term	413	265	-	678
Total	1,018	290	89	1,397
Additional provisions	645	54	568	1,267
Utilized during the period	(609)	(25)	(358)	(992)
Unused amounts reversed	-	-	(100)	(100)
Foreign currency exchange differences	31	15	-	46
At March, 31 2011	1,085	334	199	1,618
Current	696	26	199	921
Long-term	389	308	-	697
Total	1,085	334	199	1,618
Additional provisions	177	8	111	296
Utilized during the period	(8)	(5)	(117)	(130)
Unused amounts reversed	-	-	-	-
At June 30 2011	1,254	337	193	1,784
Current	863	26	193	1,082
Long-term	391	311	-	702
Total	1,254	337	193	1,784

The warranties are associated with the Company's five-year product warranty. It will be utilized monthly as actual warranty costs are incurred over the five-year warranty period.

In 2006, the Company entered into a non-cancellable lease for facilities, which, due to the growth of the Company, the Company ceased to use in October 2009. The lease expires in February 2012. The facilities have not been sublet for the remaining lease term. The obligation for the discounted future payments, net of expected rental income, has been provided for. The amount is utilized monthly on a straight-line basis over the remaining lease term.

The sales returns and allowances are the Company's estimate of adjustments to sales in the future for sales that have taken place in the past. They will be utilized monthly as actual adjustments are incurred.

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 12. Other liabilities

	Current		Long-term	
	June 30, 2011	March 31, 2011	June 30, 2011	March 31, 2011
	\$	\$	\$	\$
Obligation on government grant	100	100	2,905	2,668
Severance fund	-	-	890	312
Deferred income	161	169	207	224
Obligation under finance lease	10	82	-	17
	271	351	4,002	3,221

Note 13. Stock-based compensation

During the three months ended June 30, 2011, 108,800 (June 30, 2010 – 99,740) stock options with a weighted average fair value of \$8.99 per stock option (\$8.78 per stock option in Canada dollars) at the date of grant (June 30, 2010 – \$7.11) were issued to employees. Stock options vest 25% one year from the date of grant and monthly thereafter over two and a half years (30 months) and expire after seven years, unless otherwise determined by the Board of Directors. The fair value of the stock options was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	June 30, 2011
Risk free interest rate (%)	2.1% to 3.0%
Expected volatility (%)	45% to 55%
Expected life (in years)	4.3 to 5.7
Expected dividends	\$nil

Note 14. Research and product development expenses

Research and product development expenses are recorded net of non-repayable government funding received or receivable. For the three months ended June 30, 2011 and 2010, research and product development expenses and non-repayable government funding, which has been received or is to be received, are as follows:

	Three months ended	
	June 30, 2011	June 30, 2010
	\$	\$
Research and product development expenses	3,902	3,192
Research and non-repayable product development funding	(255)	(288)
Net research and product development expenses	3,647	2,904

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 15. Contingencies

The Company has entered into indemnification agreements with its current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the directors and officers are used as a result of their service.

These indemnification claims will be subject to any statutory or other legal limitation period. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors' and officers' liability insurance. No amount has been recorded in these consolidated interim financial statements with respect to these indemnification agreements.

In the normal course of operations, the Company may provide indemnification agreements, other than those listed above, to counterparties that would require the Company to compensate them for costs incurred as a result of changes in laws and regulations, or as a result of litigation claims, or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. No amount has been recorded in these consolidated interim financial statements with respect to these indemnification agreements.

Note 16. Income per common share

(a) Basic

Basic income per common share is calculated by dividing the net income attributable to owners of the parent company by the weighted average number of common shares in issue during the period.

	Three months period ended	
	June 30, 2011	June 30, 2010
Consolidated net income	1,271	(755)
Weighted average number of common shares in issue during the period	12,278,354	12,147,149
Basic income per common share	\$0.10	\$(0.06)

(b) Diluted

Diluted income per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential common shares. The Company has one category of dilutive potential ordinary shares: stock options. A calculation is performed to determine the number of common shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding common shares for the period), based on the monetary value of the exercise price associated with the stock options. The number of shares calculated above is compared with the number of common shares that would have been issued assuming exercise of the stock options. In June 2010, the results were anti-dilutive and therefore not included.

	Three months period ended	
	June 30, 2011	June 30, 2010
Consolidated net income	1,271	(755)
Weighted average number of common shares in issue	12,278,354	12,147,149
Adjustments for:		
Stock options	347,262	-
Weighted average number of common shares for diluted income per common share	12,625,616	12,147,149
Diluted income per common share	\$0.10	\$(0.06)

RuggedCom Inc.
 Notes to Consolidated Interim Financial Statements
 (In thousands of US dollars, except share and per share amounts)
 (Unaudited)

Note 17. Income taxes

	Three months ended June 30, 2011	June 30, 2010
	\$	\$
Earnings before income taxes	2,392	426
Tax at statutory rate	676	120
Subsidiaries foreign tax rates differential	47	42
Permanent differences	119	325
Effect of rate change	(29)	89
Unrecognized future tax asset	233	358
Other	75	247
	1,121	1,181

Note 18. Consolidated interim statements of cash flows**a) Components of the net change in non-cash working capital are as follows:**

	Three months ended June 30, 2011	June 30, 2010
	\$	\$
Trade receivables	(441)	1,514
Inventories	(2,261)	(1,383)
Prepaid expenses	(2,072)	9
Income taxes payable	(951)	613
Trade and other payables	889	(972)
Other liabilities	557	56
Provisions	165	(171)
	(4,114)	(334)

b) Supplemental disclosure

	Three months ended June 30, 2011	June 30, 2010
	\$	\$
Income taxes paid	1,745	3
Interest paid	2	99

RuggedCom Inc.
 Notes to Consolidated Interim Financial Statements
 (In thousands of US dollars, except share and per share amounts)
 (Unaudited)

Note 19. Segmented financial information

The Company has determined that it has two reportable segments: RuggedCom and WiNetworks. Each operating segment assumes responsibility for its operating results.

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

	Three months ended June 30, 2011		
	Ruggedcom	WiNetworks	Consolidated
	\$	\$	\$
Revenues	24,312	2,250	26,562
Cost of sales	10,061	1,230	11,291
Gross profit	14,251	1,020	15,271
Operating expenses			
Sales and marketing	5,881	7	5,888
Research and product development	2,688	959	3,647
General and administrative	2,948	193	3,141
	11,517	1,159	12,676
Income/(loss) from operations	2,734	(139)	2,595
Finance income (expenses), net			
Interest income	36	-	36
Interest expense	(1)	(23)	(24)
Other finance income	-	(215)	(215)
Finance income (expenses), net	35	(238)	(203)
Income (loss) before income taxes	2,769	(377)	2,392
Income tax expense	1,121	-	1,121
Net Income (loss) and comprehensive income (loss) for the period	1,648	(377)	1,271

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
(In thousands of US dollars, except share and per share amounts)
(Unaudited)

Note 19. Segmented financial information (continued)

	Three months ended June 30, 2010		
	Ruggedcom	WiNetworks	Consolidated
	\$	\$	\$
Revenues	19,348	642	19,990
Cost of sales	7,812	440	8,252
Gross profit	11,536	202	11,738
Operating expenses			
Sales and marketing	4,226	86	4,312
Research and product development	1,693	1,211	2,904
General and administrative	3,788	416	4,204
	9,707	1,713	11,420
Income (loss) from operations	1,829	(1,511)	318
Finance income (expenses), net			
Interest income	39	-	(39)
Interest expense	(9)	(17)	26
Other finance income	-	95	(95)
Finance income (expenses), net	30	78	(108)
Income (loss) before income taxes	1,859	(1,433)	426
Income tax expense	1,181	-	1,181
Net income (loss) and comprehensive income (loss) for the period	678	(1,433)	(755)

Revenues by geography for the three months ended June 30, 2011 and 2010 are as follows:

	Three months ended June 30, 2011		
	Ruggedcom	WiNetworks	Consolidated
	\$	\$	\$
North America	10,073	1,536	11,609
Latin America	2,696	474	3,170
Asia Pacific	5,852	-	5,852
Europe, Middle East and Africa	5,691	240	5,931
	24,312	2,250	26,562

RuggedCom Inc.
 Notes to Consolidated Interim Financial Statements
 (In thousands of US dollars, except share and per share amounts)
 (Unaudited)

Note 19. Segmented financial information (continued)

	Three months ended June 30, 2010		
	Ruggedcom	WiNetworks	Consolidated
	\$	\$	\$
North America	8,292	274	8,566
Latin America	1,692	35	1,727
Asia Pacific	4,365	8	4,373
Europe, Middle East and Africa	4,999	325	5,324
	19,348	642	19,990

Revenues by industry for the three months ended June 30, 2011 and 2010 are as follows:

	Three months ended June 30, 2011		
	Ruggedcom	WiNetworks	Consolidated
	\$	\$	\$
Electric Power (Utilities)	17,145	57	17,202
Transportation Systems	5,547	6	5,553
Industrial Processes	324	1,484	1,808
Military	1,296	7	1,303
Other	-	696	696
	24,312	2,250	26,562

	Three months ended June 30, 2010		
	Ruggedcom	WiNetworks	Consolidated
	\$	\$	\$
Electric Power (Utilities)	13,053	384	13,437
Transportation Systems	3,836	-	3,836
Industrial Processes	1,578	85	1,663
Military	852	101	953
Other	29	72	101
	19,348	642	19,990

The following table details our sales allocated by region among countries exceeding 10%.

	Three months ended	
	June 30 2011	June 30 2010
	\$	\$
Canada	8.7%	11.4%
USA	35.8%	32.1%