

RuggedCom Inc.
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
1st Quarter ended June 30, 2008

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

	June 30, 2008	March 31, 2008
	(unaudited)	(audited)
	\$	\$
Assets		
Current		
Cash and cash equivalents (note 4)	8,637	8,037
Short term investments (note 4)	34,422	34,194
Accounts receivable (note 5)	6,972	6,602
Prepaid expenses and other	2,908	2,188
Inventories (note 6)	4,339	3,446
Income taxes recoverable	-	166
Future income taxes	593	579
	57,871	55,212
Future income taxes	731	737
Property and equipment	2,231	2,022
Other assets	285	239
	61,118	58,210
Liabilities		
Current		
Accounts payable and accrued liabilities	4,711	4,196
Current portion of warranty liability	659	569
Income taxes payable	76	-
Current portion of obligations under capital lease	254	269
	5,700	5,034
Warranty	522	504
Obligations under capital lease	162	213
Leasehold inducements	31	39
	6,415	5,790
Shareholders' Equity		
Capital stock (note 7)	46,487	46,384
Contributed surplus (note 8)	810	1,344
Accumulated other comprehensive income (note 9)	2,349	2,018
Retained earnings	5,057	3,334
	7,406	5,352
	54,703	53,080
	61,118	58,870

Contingent liabilities (note 10)

See accompanying notes to consolidated financial statements.

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

	3 month period ended June 30, 2008	3 month period ended June 30, 2007
	\$	\$
Revenue	12,751	8,031
Cost of goods sold	4,883	3,643
	7,868	4,388
Gross margin		
Operating expenses		
Research and development — net of investment tax credits of \$95 (2007 -\$69)	1,111	702
Sales and marketing	2,564	1,741
General and administrative	1,651	1,237
Amortization	259	197
	5,585	3,877
Operating income	2,283	511
Interest income (expense)	446	(111)
	2,729	400
Income before income taxes		
Income taxes (note 15)		
Current	1,005	251
Future	1	(15)
	1,006	236
Net income for the period	1,723	164
Retained earning (deficit) — Beginning of period	3,334	(1,530)
Retained earnings (deficit) — End of period	5,057	(1,366)
Net earnings per share (note 11)		
Basic	\$ 0.15	\$ 0.03
Diluted	\$ 0.14	\$ 0.02
Basic weighted average number of common shares outstanding	11,719,623	5,926,776
Diluted weighted average number of common shares outstanding	12,280,710	7,215,243

See accompanying notes to consolidated financial statements.

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

	3 month period ended June 30, 2008	3 month period ended June 30, 2007
	\$	\$
Net income for the period	1,723	164
Foreign currency translation gain	331	569
Comprehensive income	<u>2,054</u>	<u>733</u>

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

3 month period **3 month period**
ended June 30, **ended June 30,**
2008 **2007**

\$ \$

Cash provided by (used in)

Operating activities

Net income for the period	1,723	164
Non-cash items		
Amortization of property and equipment	244	155
Amortization of other assets	15	42
Gain on disposal of property and equipment	-	5
Future income taxes	1	(15)
Accretion and cumulative dividends on preferred shares	-	148
Stock based compensation	172	100
Warranty	102	69
Leasehold inducements	(8)	1
Net change in non-cash working capital (note 14)	(1,183)	(326)
	1,066	343

Investing activities

Additions to property and equipment	(441)	(122)
Additions to other assets	(59)	(16)
	(500)	(138)

Financing activities

Repayment of obligations under capital lease	(70)	(56)
Issuance of common shares	57	34,314
Share issuance costs	-	(2,420)
	(13)	31,838

Effect of exchange rates on cash

	47	466
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Increase in cash and cash equivalents during the period

	600	32,509
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Cash and cash equivalents — Beginning of period	8,037	3,316
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Cash and cash equivalents — End of period (note 14b)	8,637	35,825
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RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of United States dollars except for "Number of Shares" and "Per share amounts")
(unaudited)

1. THE COMPANY

RuggedCom Inc. (the Company) was incorporated under the provisions of the Business Corporations Act (Ontario) on February 22, 2001. The Company designs and manufactures industrial strength network hardware.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and, accordingly, certain disclosures normally included in annual consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles are not provided. These consolidated financial statements have been prepared following accounting principles consistent with those used in the annual audited consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended March 31, 2008, except as disclosed in note 3. The results of the operations for the interim period are not necessarily indicative of the results of operations for any other interim period or a full fiscal period.

New accounting pronouncements

The Canadian Institute of Chartered Accountants ("CICA") has issued Section 3064, Goodwill and Intangible Assets to replace Section 3062, Goodwill and Intangible Assets and section 3450 Research and Development Costs. It establishes standards for the recognition, measurement, and disclosure of Goodwill and Intangible Assets to converge with international financial reporting. This standard is effective for fiscal years beginning on or after October 1, 2008 and will be adopted by the Company effective April 1, 2009. The Company is in the process of evaluating the impact of the adoption of this standard on its financial statements.

International Financial Reporting Standards

In February 2008, The Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises effective January 1, 2011. The Company is presently considering the effect these standards will have on its financial statements.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. ADOPTION OF NEW ACCOUNTING STANDARDS

Inventories

Effective April 1, 2008, the Company has adopted the new recommendations from the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031, Inventories. The new standard clarifies the definition of "cost" to include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw material inventories do not require write downs if the finished goods in which they will be incorporated are expected to be sold at or above cost. The adoption of this standard did not result in a change from the Company's existing policy.

Capital Disclosures

Effective April 1, 2008, the Company has adopted CICA Handbook Section 1535, Capital Disclosures. This new guidance establishes standards for disclosing information about an entity's capital and how it is managed. This section requires the disclosure of an entity's objectives, policies and processes for managing capital and information regarding an entity's compliance or non-compliance with any capital requirements. This standard affects disclosure only. Refer to note 16, "Capital Disclosures".

Financial Instruments

Effective April 1, 2008, the Company has adopted CICA Handbook Sections 3862, Financial Instruments: Disclosure, and 3863, Financial Instruments: Presentation. These new standards establish additional presentation and disclosure requirements including the significance of financial instruments to the Company's position and performance, discussion regarding the nature and extent of risks surrounding the Company's financial instruments. This standard affects disclosure only. Refer to note 17, "Financial Instruments".

4. REVOLVING DEMAND FACILITY

The Company has a \$1,000 Canadian dollar revolving demand facility with a major Canadian financial institution. Funds drawn against the facility bear interest at prime rate. The bank has a first ranking on \$1,000 Canadian of term deposits and bank balances. As at June 30, 2008, there was no balance drawn against the facility.

5. ACCOUNTS RECEIVABLE

	June 30, 2008	March 31, 2008
	\$	\$
Trade receivable	7,008	6,659
Allowance for doubtful accounts	(36)	(57)
	6,972	6,602
	6,972	6,602

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

	June 30, 2008	March 31, 2008
	\$	\$
Raw materials	3,819	3,371
Finished goods	520	75
	<u>4,339</u>	<u>3,446</u>

Included in cost of sales is \$74 (2007 - \$68) recognized as an expense in the period as a provision for the write-down of any losses of inventories.

7. CAPITAL STOCK

Authorized

Unlimited number of Class A Shares

Unlimited number of common shares

Issued

	June 30, 2008	March 31, 2008
	\$	\$
11,738,380 (March 31, 2008 - 11,717,268) common shares	46,487	46,384

	Number of shares	Amount \$
Balance, March 31, 2008	11,717,268	46,384
Issued for options exercised (a)	21,112	103
Balance, June 30, 2008	<u>11,738,380</u>	<u>46,487</u>

(a) Common shares issued for options vested and exercised in the period were 21,112 at a weighted average share price of \$2.74 (\$2.76 Canadian).

8. CONTRIBUTED SURPLUS

The following table presents the reconciliation of contributed surplus:

	2008	2007
	\$	\$
Balance, March 31	684	1,344
Stock based compensation expense	172	100
Conversion of preferred shares	-	(798)
Stock options exercised	(46)	(113)
Balance, June 30	<u>810</u>	<u>533</u>

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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9. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	2008	2007
	\$	\$
Balance, March 31	2,018	(54)
Unrealized foreign currency gain for the period	331	569
Balance, June 30	<u>2,349</u>	<u>515</u>

10. CONTINGENT LIABILITIES

The Company has been named in several lawsuits. In management's view, these claims are without merit and should not have a material adverse effect on the financial position of the Company. Although no assurances can be made as to the ultimate outcome, no provision has been made for a loss in these consolidated financial statements. Losses, if any, will be recorded in the consolidated statement of earnings and retained earnings (deficit), and comprehensive income in the year such losses are determinable.

11. EARNINGS PER COMMON SHARE

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

	3 month period ended June 30, 2008	3 month period ended June 30, 2007
Net income and dilutive net income attributable to common shareholders	<u>\$ 1,723</u>	<u>\$ 164</u>
Common shares outstanding — beginning of period	11,717,268	5,345,717
Weighted average number of common shares issued in the period	2,355	581,059
Weighted average number of common shares	11,719,623	5,926,776
Effect of dilutive securities and stock options and warrants	561,087	1,288,467
Weighted average diluted common shares outstanding — end of period	<u>12,280,710</u>	<u>7,215,243</u>

In the prior period the Class A Shares were not considered in calculating the dilutive earnings per share because they had an anti-dilutive effect.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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12. SEGMENTED INFORMATION

The Company manages its operations and determines its sales segments on a geographic and industry basis.

Sales by region	3 month period ended June 30, 2008	3 month period ended June 30, 2007
	\$	\$
North America	6,614	3,478
Latin America	595	602
Asia Pacific	2,113	1,051
Europe, Middle East and Africa	3,429	2,900
Total	<u>12,751</u>	<u>8,031</u>

Sales by industry	3 month period ended June 30, 2008	3 month period ended June 30, 2007
	\$	\$
Electric Power (Utilities)	8,434	4,971
Transportation Systems	2,230	1,325
Industrial Processes	1,367	992
Military	680	621
Other	40	122
Total	<u>12,751</u>	<u>8,031</u>

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

	3 month period ended June 30, 2008	3 month period ended June 30, 2007
Canada	11.80%	7.70%
United States of America	40.00%	35.60%

All material assets are held in Canada.

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13. ECONOMIC DEPENDENCY AND CONCENTRATION OF CREDIT RISK

In the three month period ended June 30, 2008, the Company had sales to two customers which accounted for 21% of total sales (2007 - 26%). These two customers represent 19% (2007 - 35%) of the accounts receivable.

14. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Net change in non-cash working capital

	3 month period ended June 30, 2008	3 month period ended June 30, 2007
	\$	\$
Accounts receivable	(330)	(197)
Prepaid expenses and other	(712)	63
Inventories	(878)	(498)
Accounts payable and accrued liabilities	492	1,077
Income taxes payable	245	(771)
	<u>(1,183)</u>	<u>(326)</u>
	<u>(1,183)</u>	<u>(326)</u>

(b) Cash and cash equivalents

	June 30, 2008	June 30, 2007
	\$	\$
Cash	3,340	1,505
Cash equivalents	5,297	34,320
	<u>8,637</u>	<u>35,825</u>
	<u>8,637</u>	<u>35,825</u>

(c) Supplemental disclosures

Interest paid	\$ 16	\$ 22
Income taxes paid	\$ 653	\$ 951

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15. INCOME TAXES

	3 month period ended June 30, 2008	3 month period ended June 30, 2007
	\$	\$
Income before income taxes	2,729	400
Tax at statutory rate (34.5% (2007 - 35.5%))	941	143
Manufacturing and processing deduction	(69)	-
Permanent differences	63	95
Effect of rate changes	67	-
Other	4	(2)
	1,006	236
	1,006	236

16. CAPITAL DISCLOSURES

In the management of capital, the Company includes shareholders' equity, excluding accumulated other comprehensive income. The Company manages its capital to ensure that financial flexibility is present to increase shareholder value through organic growth and selective acquisitions, as well as to allow the Company to respond to changes in economic or marketplace conditions. At this time the Company is not utilizing its debt facility as part of its capital management program nor has it paid dividends to its shareholders. The Company is not subject to any externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period.

17. FINANCIAL INSTRUMENTS

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held for trading, held-to-maturity, available-for-sale, loans and receivables and other financial liabilities. The following table summarizes information regarding the carrying values of the Company's financial instruments.

Classification	June 30, 2008	March 31, 2008
	\$	\$
Held to maturity (1)	39,719	40,690
Loans and receivables (2)	6,972	6,602
Other financial liabilities (3)	4,711	4,196

(1) Includes cash equivalents and short term investments

(2) Includes accounts receivable

(3) Includes accounts payable and accrued liabilities

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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17. FINANCIAL INSTRUMENTS (continued)

Fair value

The carrying value of cash equivalents, short term investments, accounts receivable and accounts payable approximates their fair values due to the immediate or short-term maturity of these financial instruments.

Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash equivalents and short-term investments. The Company is also exposed to interest rate fluctuations with respect to the use of its bank revolving credit facility which bears interest at floating rates. Management does not believe the impact from the interest rate risk would be significant. Recognized interest income for the Company's cash equivalents and short-term investments for the three month period ended June 30, 2008 was \$461 (2007 - \$60).

Credit risk

Financial instruments that subject the Company to concentrations of credit risk principally consist of cash equivalents, short-term investments and accounts receivable.

The Company minimizes the credit risk of cash equivalents and short-term investments by depositing with only reputable financial institutions and investing only in securities that meet minimum credit ratings as stipulated by the Company's investment policy.

Credit risk associated with accounts receivable is minimized by the Company's program of credit evaluations of customers with limits on the amount of credit extended. Credit risk is further minimized through the large diversified customer base, which is engaged in various industry segments and geographical regions as outlined in note 12. These specific industry segments and geographical regions may be affected by economic factors, which may impact accounts receivable. Management does not believe that any single industry segment or geographical region represents significant credit risk. Provisions against losses from bad debts are estimated according to credit risk, historical trends and other information. Credit risk concentration is disclosed in note 13. Credit terms with customers normally range between 30 to 90 days. As at June 30, 2008, \$765 was over 90 days and of this amount, \$36 was allowed for and \$676 was collected during the month after the period end. None of the amounts outstanding have been challenged by the customers and the Company continues to conduct business with them. Accordingly, management has no reason to believe that this balance is not fully collectible in the future.

Currency risk

The Company enters into transactions in multiple currencies and is subject to gains and losses due to fluctuations between those currencies. 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.

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

17. FINANCIAL INSTRUMENTS (continued)

If the Canadian dollar had depreciated 5 percent against the United States dollar at June 30, 2008, with all other variables held constant, the impact of the foreign currency change on our United States denominated financial instruments would lead to an additional after tax net income of \$91 for the three months ended June 30, 2008. If the Canadian dollar had appreciated 5 percent against the United States dollar at June 30, 2008, with all other variables held constant, the impact of the foreign currency change on our United States denominated financial instruments would lead to a decrease of after tax net income of \$91 for the three months ended June 30, 2008.

For the three month period ended June 30, 2008, general and administrative expenses included a foreign exchange loss of \$191 (2007 - \$57).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash and cash equivalents. The ability to do this relies on the Company collecting its accounts receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs.