

RuggedCom Inc.
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
1st Quarter ended June 30, 2009

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

	June 30, 2009	March 31, 2009
	(unaudited)	(audited)
	\$	\$
Assets		
Current		
Cash and cash equivalents (note 4)	47,105	45,099
Accounts receivable (note 5)	8,829	9,780
Prepaid expenses and other	1,490	1,025
Inventories (note 6)	5,000	4,555
Income taxes recoverable	2,098	-
Future income taxes	298	283
	64,820	60,742
Future income taxes	221	246
Property and equipment	2,438	2,662
Other assets (note 3)	1,891	580
	69,370	64,230
Liabilities		
Current		
Accounts payable and accrued liabilities	5,487	5,793
Current portion of warranty	533	482
Income taxes payable	-	2,268
Current portion of deferred income	154	50
Current portion of obligations under capital lease	101	126
	6,275	8,719
Warranty	396	347
Deferred income	23	21
Obligations under capital lease	41	48
Leasehold inducements	107	6
	567	422
	6,842	9,141
Shareholders' Equity		
Capital stock (note 7)	48,645	46,820
Contributed surplus (note 8)	1,718	1,559
Accumulated other comprehensive loss (note 9)	(4,382)	(8,952)
Retained earnings	16,547	15,662
	12,165	6,710
	62,528	55,089
	69,370	64,230

Contingent liabilities (note 10)

See accompanying notes to consolidated interim financial statements.

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

	3 month period ended June 30, 2009	3 month period ended June 30, 2008
	\$	\$
Revenue	16,017	12,751
Cost of goods sold	6,940	4,883
	<hr/>	<hr/>
Gross margin	9,077	7,868
	<hr/>	<hr/>
Operating expenses		
Research and development — net of investment tax credits of \$187 (2008 - \$95)	1,838	1,111
Sales and marketing	2,978	2,564
General and administrative	1,953	1,459
Loss on foreign exchange	531	192
Amortization	393	259
	<hr/>	<hr/>
	7,693	5,585
	<hr/>	<hr/>
Operating income	1,384	2,283
Net interest income	63	446
	<hr/>	<hr/>
Income before income taxes	1,447	2,729
	<hr/>	<hr/>
Income taxes (note 15)		
Current	505	1,005
Future	57	1
	<hr/>	<hr/>
	562	1,006
	<hr/>	<hr/>
Net income for the period	885	1,723
	<hr/>	<hr/>
Retained earning — Beginning of period	15,662	3,334
	<hr/>	<hr/>
Retained earnings — End of period	16,547	5,057
	<hr/> <hr/>	<hr/> <hr/>
Net earnings per share (note 11)		
Basic	\$ 0.07	\$ 0.15
Diluted	\$ 0.07	\$ 0.14
	<hr/>	<hr/>
Basic weighted average number of common shares outstanding	11,896,306	11,719,623
Diluted weighted average number of common shares outstanding	12,623,918	12,280,710

See accompanying notes to consolidated interim financial statements.

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

	3 month period ended June 30, 2009	3 month period ended June 30, 2008
	\$	\$
Net income for the period	885	1,723
Foreign currency translation gain (note 9)	4,570	331
Comprehensive income	<u>5,455</u>	<u>2,054</u>

See accompanying notes to consolidated interim financial statements.

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

	3 month period ended June 30, 2009	3 month period ended June 30, 2008
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income for the period	885	1,723
Non-cash items		
Amortization of property and equipment	302	244
Amortization of other assets	91	15
Future income taxes	57	1
Stock based compensation	278	172
Warranty	29	102
Leasehold inducements	99	(8)
Net change in non-cash working capital (note 14a)	(3,899)	(1,183)
	(2,158)	1,066
Investing activities		
Additions to property and equipment	(553)	(413)
Additions to other assets	(652)	(87)
	(1,205)	(500)
Financing activities		
Repayment of obligations under capital lease	(46)	(70)
Issuance of common shares	1,706	57
	1,660	(13)
Effect of exchange rates on cash	3,709	47
Increase in cash and cash equivalents during the period	2,006	600
Cash and cash equivalents — Beginning of period	45,099	8,037
Cash and cash equivalents — End of period (note 14b)	47,105	8,637
Supplemental disclosures		
Interest paid	\$ 6	\$ 16
Income taxes paid	\$ 4,854	\$ 653

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 (GAAP) for interim financial statements and, accordingly, certain disclosures normally included in annual audited consolidated financial statements prepared in accordance with Canadian GAAP are not provided. These consolidated financial statements have been prepared following accounting principles consistent with those used in the annual audited consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended March 31, 2009, except as disclosed in note 3. The results of operations for the interim period are not necessarily indicative of the results of operations for any other interim period or a full fiscal period.

New accounting pronouncements

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

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

International Financial Reporting Standards

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

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Goodwill and intangible assets

Effective April 1, 2009, the Company adopted the CICA Handbook Section 3064, Goodwill and Intangible Assets. This standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard required the Company to retroactively reclassify our computer software assets that meets the definition of an intangible asset on our consolidated balance sheet from property and equipment to intangible assets. The net book value of the purchased computer software reclassified as of April 1, 2008 was \$267. As of June 30, 2009, purchased computer software of \$1,508 is included within other assets.

RuggedCom Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(In thousands of United States dollars, except for "Number of Shares" and "Per share amounts")****(unaudited)****4. REVOLVING DEMAND FACILITY**

The Company has a \$1,000 Canadian dollar revolving demand facility with a major Canadian financial institution. Funds drawn against this facility bear interest at prime rate. The use of the revolving demand facility has been restricted by \$139 United States dollars as security for guarantees. The bank has a first ranking on \$1,000 Canadian of term deposits and bank balances. As at June 30, 2009 and March 31, 2009, there was no balance drawn against this facility.

5. ACCOUNTS RECEIVABLE

	June 30, 2009	March 31, 2009
	\$	\$
Trade receivable	8,892	9,816
Allowance for doubtful accounts	(63)	(36)
	<u>8,829</u>	<u>9,780</u>

6. INVENTORIES

	June 30, 2009	March 31, 2009
	\$	\$
Raw materials	4,884	4,437
Finished goods	116	118
	<u>5,000</u>	<u>4,555</u>

Included in cost of sales is \$108 (2008 - \$74) recognized as an expense in the period as a provision for the write-down of inventories.

7. CAPITAL STOCK**Authorized**

Unlimited number of Class A Shares

Unlimited number of common shares

Issued

	June 30, 2009	March 31, 2009
	\$	\$
12,096,250 (March 31, 2009 - 11,812,608) common shares	<u>48,645</u>	<u>46,820</u>

	Number of shares	Amount \$
Balance, March 31, 2009	11,812,608	46,820
Issued for options exercised (a)	33,642	325
Issued for warrants exercised (b)	250,000	1,500
Balance, June 30, 2009	<u>12,096,250</u>	<u>48,645</u>

(a) Common shares issued for options vested and exercised in the period were 33,642 at a weighted average share price of \$6.17 (\$7.20 Canadian).

(b) Common shares issued for warrants exercised in the period were 250,000 at a weighted average share price of \$5.99 (\$6.52 Canadian).

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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8. CONTRIBUTED SURPLUS

The following table presents the reconciliation of contributed surplus:

	2009	2008
	<u>\$</u>	<u>\$</u>
Balance, March 31	1,559	684
Stock based compensation expense	278	172
Stock options exercised	(119)	(46)
Balance, June 30	<u>1,718</u>	<u>810</u>

9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	2009	2008
	<u>\$</u>	<u>\$</u>
Balance, March 31	(8,952)	2,018
Unrealized foreign currency gain for the period	4,570	331
Balance, June 30	<u>(4,382)</u>	<u>2,349</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 consolidated 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 interim consolidated financial statements. Losses, if any, will be recorded in the consolidated statements of earnings and retained earnings, and comprehensive income in the period that 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, 2009	3 month period ended June 30, 2008
Net income and dilutive net income attributable to common shareholders	<u>\$ 885</u>	<u>\$ 1,723</u>
Common shares outstanding — beginning of period	11,804,347	11,520,092
Weighted average number of common shares issued in the period	91,959	199,531
Weighted average number of common shares	<u>11,896,306</u>	<u>11,719,623</u>
Effect of dilutive securities and stock options and warrants	727,612	561,087
Weighted average diluted common shares outstanding — end of period	<u>12,623,918</u>	<u>12,280,710</u>

RuggedCom Inc.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

12. SEGMENTED INFORMATION

The Company operates in one reportable segment. Segments are defined as components for which separate financial information is available and is regularly evaluated by the chief operating decision maker. Sales were derived from the following regions and industries.

	3 month period ended June 30, 2009	3 month period ended June 30, 2008
Sales by region	\$	\$
North America	7,795	6,614
Latin America	1,070	595
Asia Pacific	2,665	2,113
Europe, Middle East and Africa	4,487	3,429
Total	<u>16,017</u>	<u>12,751</u>

	3 month period ended June 30, 2009	3 month period ended June 30, 2008
Sales by industry	\$	\$
Electric Power (Utilities)	10,425	8,434
Transportation Systems	2,791	2,230
Industrial Processes	1,482	1,367
Military	1,273	680
Other	46	40
Total	<u>16,017</u>	<u>12,751</u>

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

	3 month period ended June 30, 2009	3 month period ended June 30, 2008
Canada	7.70%	11.80%
United States of America	41.30%	40.00%

All material assets are held in Canada.

13. ECONOMIC DEPENDENCY AND CONCENTRATION OF CREDIT RISK

In the three month period ended June 30, 2009, the Company had sales to one customer which accounted for 9.5% of total sales (2008 - 12.2%). This customer represented 6% (2008 - 11%) of the accounts receivable.

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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14. SUPPLEMENTAL CASH FLOW INFORMATION

(a) Net change in non-cash working capital

	3 month period ended June 30, 2009	3 month period ended June 30, 2008
	\$	\$
Accounts receivable	1,771	(330)
Prepaid expenses and other	(377)	(712)
Inventories	(59)	(878)
Accounts payable and accrued liabilities	(793)	492
Deferred income	100	-
Income taxes payable/recoverable	(4,541)	245
	<u>(3,899)</u>	<u>(1,183)</u>

(b) Cash and cash equivalents

	June 30, 2009	June 30, 2008
	\$	\$
Cash	7,245	3,340
Cash equivalents	39,860	5,297
	<u>47,105</u>	<u>8,637</u>

15. INCOME TAXES

	3 month period ended June 30, 2009	3 month period ended June 30, 2008
	\$	\$
Income before income taxes	<u>1,447</u>	<u>2,729</u>
Tax at statutory rate (31.14% (2008 - 31.77%))	451	872
Permanent differences	131	63
Effect of rate changes	(18)	67
Other	(2)	4
	<u>562</u>	<u>1,006</u>

RuggedCom Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

16. CAPITAL DISCLOSURES

In the management of capital, the Company includes shareholders' equity, excluding accumulated other comprehensive income (loss). 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 GAAP, 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, 2009	March 31, 2009
	\$	\$
Loans and receivables (1)	8,829	9,780
Other financial liabilities (2)	6,416	6,622

(1) Includes accounts receivable

(2) Includes accounts payable and accrued liabilities and warranty payable

Fair value

The carrying values of cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate 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. The Company is also exposed to interest rate fluctuations with respect to the use of its 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 period ended June 30, 2009 was \$78 (2008 - \$461).

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)

Credit risk

Financial instruments that subject the Company to concentrations of credit risk principally consist of cash equivalents and accounts receivable.

The Company minimizes the credit risk of cash equivalents 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 industries and geographical regions as outlined in note 12. These specific industries and geographical regions may be affected by economic factors, which may impact accounts receivable. Management does not believe that any single industry 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, 2009, \$353 (2008-\$765) was over 90 days and of this amount, \$63 (2008 - \$36) was allowed for and \$53 (2008 -\$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 United States 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.

If the Canadian dollar had depreciated 5 percent against the United States dollar at June 30, 2009, with all other variables held constant, the impact of the foreign currency change on the Company's United States denominated financial instruments would lead to an additional after tax net earnings of \$224 (2008 -\$272) for the period ended June 30, 2009. If the Canadian dollar had appreciated 5 percent against the United States dollar at June 30, 2009, with all other variables held constant, the impact of the foreign currency change on the Company's United States denominated financial instruments would lead to a decrease of after tax net income of \$224 (2008 -\$272) for the period ended June 30, 2009.

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 with 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.

18. COMPARATIVE FIGURES

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