

RuggedCom Inc.

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

RuggedCom Inc.

Consolidated Interim Balance Sheets

(In thousands of US dollars)
(Unaudited)

	September 30 2011 \$	March 31 2011 \$
Assets		
Current assets		
Cash and cash equivalents (note 6)	39,045	38,106
Trade receivables (note 7)	18,893	18,265
Inventories (note 8)	16,324	14,509
Prepaid expenses	2,540	2,184
	76,802	73,064
Non-current assets		
Prepaid expenses	255	272
Deferred income taxes	682	676
Property and equipment (note 9(a))	10,831	10,299
Intangible assets (note 9(b))	9,420	10,311
Goodwill	3,133	3,133
	24,321	24,691
Total assets	101,123	97,755
Liabilities		
Current liabilities		
Trade and other payables (note 10)	7,364	7,835
Income taxes payable	1,094	1,299
Provisions (note 11)	993	921
Other liabilities (note 12)	306	351
Total current liabilities	9,757	10,406
Non-current liabilities		
Provisions (note 11)	577	697
Other liabilities (note 12)	2,863	3,221
Total non-current liabilities	3,440	3,918
Total liabilities	13,197	14,324
Equity		
Share capital	50,591	49,574
Contributed surplus	5,468	5,147
Retained earnings	31,867	28,710
Total equity	87,926	83,431
Total liabilities and equity	101,123	97,755

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**

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

(Unaudited)

	Three months ended September 30		Six months ended September 30	
	2011 \$	2010 \$	2011 \$	2010 \$
Revenues	28,624	21,692	55,186	41,682
Cost of sales	12,098	8,833	23,389	17,085
Gross profit	16,526	12,859	31,797	24,597
Operating expenses				
Sales and marketing	6,134	4,326	12,022	8,638
Research and product development	3,830	3,197	7,477	6,101
General and administrative	3,853	1,630	6,994	5,834
	13,817	9,153	26,493	20,573
Income from operations	2,709	3,706	5,304	4,024
Finance income (expenses), net				
Interest income	22	56	58	95
Interest expense	(34)	(4)	(58)	(30)
Other finance income (expenses)	385	(239)	170	(144)
Finance income (expenses), net	373	(187)	170	(79)
Income before income taxes	3,082	3,519	5,474	3,945
Income tax expense	1,196	747	2,317	1,928
Net income and comprehensive income for the period	1,886	2,772	3,157	2,017
Income per common share (note 16)				
Basic	0.15	0.23	0.26	0.17
Diluted	0.15	0.22	0.25	0.16

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	Amount \$	Contributed surplus \$	Retained earnings \$	Total equity \$
Balance at April 1, 2010	12,144,458	48,963	3,695	20,033	72,691
Comprehensive income for the period		-	-	2,017	2,017
Employee stock options exercised	14,217	116	(39)	-	77
Stock option expense for the period		-	890	-	890
Balance at September 30, 2010	12,158,675	49,079	4,546	22,050	75,675
Balance at April 1, 2011	12,241,495	49,574	5,147	28,710	83,431
Comprehensive income for the period		-	-	3,157	3,157
Employee stock options exercised	141,127	1,017	(336)	-	681
Stock option expense for the period		-	657	-	657
Balance at September 30, 2011	12,382,622	50,591	5,468	31,867	87,926

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 September 30		Six months ended September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cash and cash equivalents provided by (used in)				
Operating activities				
Net income for the period	1,886	2,772	3,157	2,017
Items not affecting cash				
Amortization and depreciation	1,442	1,234	2,740	2,440
Unrealized finance (gain) loss	(385)	239	(170)	144
Stock-based compensation	311	444	657	890
Gain on disposal of property and equipment	(58)	-	(58)	-
Deferred income tax expense	36	43	(6)	286
Net change in non-cash working capital (note 18(a))	452	(2,046)	(3,662)	(2,381)
Cash provided by operating activities	3,684	2,686	2,658	3,396
Investing activities				
Purchase of property and equipment	(992)	(306)	(2,060)	(1,135)
Proceeds from disposal of property and equipment	88	-	88	20
Purchase of intangibles	(116)	(135)	(428)	(359)
Cash used in investing activities	(1,020)	(441)	(2,400)	(1,474)
Financing activities				
Common shares issued for options exercised	112	21	681	77
Cash provided by financing activities	112	21	681	77
Increase in cash and cash equivalents during the period	2,776	2,266	939	1,999
Cash and cash equivalents - Beginning of period	36,269	32,878	38,106	33,145
Cash and cash equivalents - End of period	39,045	35,144	39,045	35,144

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 November 8, 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 consolidated interim financial statements for the three months ended June 30, 2011 and the Canadian GAAP annual financial statements for the year ended March 31, 2011. Note 5 of the Company’s consolidated interim financial statements for the three months ended June 30, 2011 discloses IFRS information for the year ended March 31, 2011 that is material to an understanding of these consolidated interim financial statements.

The accounting policies used in the preparation of these interim consolidated financial statements should be read in conjunction with the consolidated interim financial statements and notes thereto for the three months ended June 30, 2011 as these interim consolidated financial statements follow the same accounting policies and methods of application.

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 judgments and estimation uncertainties

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:

(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 CGU ("Cash Generating Unit"): 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.

RuggedCom Inc.
Notes to Consolidated Interim Financial Statements
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Note 3. Summary of significant judgments and estimation uncertainties (Continued)

(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.

(iii) Warranty provision

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 the value of the financial liability have been 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.

(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.

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Notes to Consolidated Interim Financial Statements
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Note 3. Summary of significant judgments and estimation uncertainties (Continued)

(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 7 – Financial Instruments Disclosure (“IFRS 7”) was amended in October 2010 and relates to the disclosure requirements involving the transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011.

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*.

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*.

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

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.

IAS 12, Income taxes (“IAS 12”) was amended in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012.

In addition to the issuance of the new standards, there have been amendments to existing standards, including IAS 1, “Presentation of Financial Statements” (“IAS 1”), IAS 19, “Employee Benefits” (“IAS 19”), IAS 27, Separate Financial Statements (“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. Amendments to IAS 27 and IAS 28 are applicable to annual periods beginning on or after January 1, 2013, with early adoption permitted. The amendments to IAS 1 will require that entities group items presented in other comprehensive income (“OCI”) based on an assessment of whether such items may, or may not, be reclassified to earnings at a subsequent date. Amendments to IAS 1 are applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted. Amendments to IAS 19 eliminate an entity’s option to defer the recognition of certain gains and losses related to post-employment benefits and requires measurement of associated assets and liabilities in OCI. Amendments to IAS 19 are applicable on a modified retrospective basis to annual periods beginning on or after January 1, 2013, with early adoption permitted.

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; and (iv) adjustments to the consolidated interim statements of cash flows.

(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 transition elections used in the preparation of these interim consolidated financial statements are the same transition elections as disclosed in the consolidated interim financial statements and notes thereto for the three months ended June 30, 2011. Refer to the consolidated interim financial statements and notes thereto for the three months ended June 30, 2011 for details of the transitional exceptions and exemptions to full retrospective application of IFRS applied by the Corporation in its preparation of the opening IFRS consolidated balance sheet as at April 1, 2010, the Company’s “transition date”.

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*

	September 30, 2010		
	Canadian GAAP	Adjustment	IFRS
	\$	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents (g)	35,157	-	35,157
Trade receivables (g)	13,600	(5)	13,595
Inventories (g)	13,210	26	13,236
Prepaid expenses (g)	1,629	139	1,768
Deferred income taxes (g)(h)	622	(622)	-
	64,218	(462)	63,756
Non-current assets			
Prepaid expenses (b)	-	527	527
Deferred income taxes (g)(h)	-	912	912
Property and equipment (g)	11,015	(250)	10,765
Intangible assets (g)	10,368	(313)	10,055
Goodwill (f) (g)	1,903	(263)	1,640
Severance fund (b)	527	(527)	-
	23,813	86	23,899
Total assets	88,031	(376)	87,655
LIABILITIES			
Current liabilities			
Trade and other payables (a)(g)	6,911	(329)	6,582
Current portion of warranty liability (c)(g)	434	(434)	-
Provisions (a)(g)	-	612	612
Deferred income (b)(g)	25	(25)	-
Income taxes payable (g)	466	(1)	465
Other liabilities (a)(g)(d)(b)	-	528	528
Current lease costs (b)(g)	45	(45)	-
Current obligation under finance lease (b)(g)	92	(92)	-
	7,973	214	8,187
Non-current liabilities			
Provisions (a)(g)	-	684	684
Deferred income taxes (g)	76	(76)	-
Warranty liabilities (c)(g)	408	(408)	-
Deferred income (b)(g)	40	(40)	-
Severance payable (b)(g)	566	(566)	-
Obligations under capital leases (b)(f)	52	(52)	-
Lease cost payables (c)(g)	276	(276)	-
Other liabilities (a)(g)(d)	-	3,109	3,109
	1,418	2,375	3,793
	9,391	2,589	11,980
EQUITY			
Share capital (e)(g)	49,004	75	49,079
Contributed surplus (e)(g)	3,296	1,250	4,546
Accumulated other comprehensive income (g)(j)	3,924	(3,924)	-
Retained earnings (d)(k)	22,416	(366)	22,050
Total equity	78,640	(2,965)	75,675
Total equity and liabilities	88,031	(376)	87,655

RuggedCom Inc.
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 (Unaudited)

Note 5. Transition to IFRS (continued)

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

	Three month ended September 30, 2010			Six months ended September 30, 2010		
	Canadian GAAP \$	Adjust- ment \$	IFRS \$	Canadian GAAP \$	Adjust- ment \$	IFRS \$
Revenues	21,692	-	21,692	41,682	-	41,682
Cost of sales (b)(e)(g)(i)	8,470	363	8,833	16,534	551	17,085
Gross profit	13,222	(363)	12,859	25,148	(551)	24,597
Sales and marketing (e)(g)(i)	3,945	381	4,326	7,934	704	8,638
Research and product development (d)(e)(g)(i)	2,865	332	3,197	5,783	318	6,101
General and administrative (e)(g)(i)(f)	2,425	(795)	1,630	4,826	1,008	5,834
Investment tax credit (g)	(82)	82	-	(581)	581	-
Loss on foreign currency exchange (g)	541	(541)	-	8	(8)	-
Amortization (g)(i)	1,266	(1,266)	-	2,553	(2,553)	-
	10,960	(1,807)	9,153	20,523	50	20,573
Income from operations	2,262	1,444	3,706	4,625	(601)	4,024
Net interest income (d)	78	(26)	52	109	(44)	65
Other finance losses (d)	-	(239)	(239)	-	(144)	(144)
Finance income, net	78	(265)	(187)	109	(188)	(79)
Net income before taxes	2,340	1,179	3,519	4,734	(789)	3,945
Income tax expense (f)	976	(229)	747	2,165	(237)	1,928
Net income for the period	1,364	1,408	2,772	2,569	(552)	2,017
Unrealized foreign currency translation gain (loss) (g)	2,585	(2,585)	-	(963)	963	-
Comprehensive income for the period	3,949	(1,177)	2,772	1,606	411	2,017

(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.

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 (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, September 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 September 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 to \$1,674 (three months ended September 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.
- (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.
- (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:

	September 30 2010
	\$
Accumulated other comprehensive income, as reported under Canadian GAAP	3,924
Functional currency change	(3,924)
Accumulated other comprehensive income, as reported under IFRS	-

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Note 5. Transition to IFRS (continued)

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

	September 30 2010
	\$
Retained earnings	22,416
Government contributions	(2,519)
Stock-based compensation	(1,405)
Deferred income taxes	236
Functional currency change	3,322
Retained earnings	22,050

- (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.

Note 6. Guarantees

At September 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

	September 30 2011	March 31 2011
	\$	\$
Trade receivables	19,169	18,346
Allowance for doubtful accounts	(276)	(81)
	18,893	18,265

Note 8. Inventories

	September 30 2011	March 31 2011
	\$	\$
Raw materials	14,676	13,261
Work-in-progress	171	524
Finished goods	1,477	724
	16,324	14,509

During the three and six months ended September 30, 2011, the Company recorded provisions of \$268 and \$337, respectively (September 30, 2010 - \$72 and \$121, respectively) and reversed previously accrued net realizable value provisions for inventory totaling \$nil and \$nil (September 30, 2010 - \$nil and \$237 respectively). During the three and six month periods ended September 30, 2011, approximately \$8,959 and \$20,446, respectively of inventories were expensed in cost of sales (September 30, 2010 - \$8,198 and \$15,474, respectively).

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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
Period ended September 30, 2010						
Opening net book value	5,953	2,074	1,811	777	337	10,952
Additions	31	284	383	363	74	1,135
Disposals	-	(3)	(1)	(16)	-	(20)
Depreciation for the period	(365)	(338)	(321)	(218)	(60)	(1,302)
Closing net book value	5,619	2,017	1,872	906	351	10,765
At September 30, 2010						
Cost	6,691	3,881	3,826	2,033	850	17,281
Accumulated depreciation	1,072	1,864	1,954	1,127	499	6,516
Net book value	5,619	2,017	1,872	906	351	10,765
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 September 30, 2011						
Opening net book value	5,258	1,823	1,740	1,131	347	10,299
Additions	9	295	937	535	284	2,060
Disposals	-	(73)	(4)	(30)	-	(107)
Depreciation for the period	(336)	(308)	(380)	(325)	(72)	(1,421)
Closing net book value	4,931	1,737	2,293	1,311	559	10,831
At September 30, 2011						
Cost	6,703	4,072	4,972	2,989	1,196	19,932
Accumulated depreciation	1,772	2,335	2,679	1,678	637	9,101
Net book value	4,931	1,737	2,293	1,311	559	10,831

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Note 9. Property and equipment and intangible 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
Period ended September 30, 2010						
Opening net book value	7,675	1,719	509	584	349	10,836
Additions		138	220			358
Amortization	(514)	(439)	(81)	(66)	(39)	(1,139)
Closing net book value	7,161	1,418	648	518	310	10,055
At September 30, 2011						
Cost	8,229	3,494	1,013	654	390	13,780
Accumulated amortization	1,068	2,076	364	136	81	3,725
Net book value	7,161	1,418	649	518	309	10,055
At April 1, 2011						
Cost	8,716	4,171	1,165	795	391	15,238
Accumulated amortization	1,607	2,523	461	216	120	4,927
Net book value	7,109	1,648	704	579	271	10,311
Period ended September 30, 2011						
Opening net book value	7,109	1,648	704	579	271	10,311
Additions	-	309	119	-	-	428
Amortization	(545)	(531)	(125)	(79)	(39)	(1,319)
Closing net book value	6,564	1,426	698	500	232	9,420
At September 30, 2011						
Cost	8,716	4,480	1,284	795	391	15,666
Accumulated amortization	2,152	3,054	586	295	159	6,246
Net book value	6,564	1,426	698	500	232	9,420

Note 10. Trade and other payables

	September 30 2011 \$	March 31 2011 \$
Trade accounts payable	3,019	3,158
Accrued expenses	2,236	1,863
Accrued payroll and related compensation	2,045	2,762
Sales tax payable	47	39
Other	17	13
	7,364	7,835

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Note 11. Provisions

	Warranties \$	Lease costs \$	Sales returns & allowances \$	Total \$
At April 1, 2011				
Current	696	26	199	921
Long-term	389	308	-	697
Total	1,085	334	199	1,618
Additional provisions	616	-	229	845
Utilized during the period	(683)	(26)	(184)	(893)
	1,018	308	244	1,570
At September 30, 2011				
Current	725	24	244	993
Long-term	293	284	-	577
Total	1,018	308	244	1,570
At April 1, 2010				
Current	605	25	89	719
Long-term	413	265	-	678
Total	1,018	290	89	1,397
Additional provisions	115	26	226	367
Utilized during the period	(284)	(12)	(162)	(458)
Foreign currency exchange differences	(7)	(3)	-	(10)
	842	301	153	1,296
At September 30, 2010				
Current	434	25	153	612
Long-term	408	276	-	684
Total	842	301	153	1,296

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.

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Note 12. Other liabilities

	Current		Long-term	
	September 30 2011 \$	March 31 2011 \$	September 30 2011 \$	March 31 2011 \$
Obligation on government grant	154	100	2,393	2,668
Severance fund	-	-	293	312
Deferred income	145	169	177	224
Obligation under finance lease	7	82	-	17
	306	351	2,863	3,221

Note 13. Stock-based compensation

During the six months ended September 30, 2011, 108,800 (September 30, 2010 – 99,740) stock options with a weighted average fair value of \$8.99 per stock option (\$8.78 per stock option in Canadian dollars) at the date of grant (September 30, 2010 – \$7.11 (\$7.12 per stock option in Canadian dollars)) 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:

	September 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 and six months ended September 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 September 30		Six months ended September 30	
	2011 \$	2010 \$	2011 \$	2010 \$
Research and product development expenses	3,998	3,452	7,900	6,644
Research and non-repayable product development funding	168	255	423	543
Net research and product development expenses	3,830	3,197	7,477	6,101

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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 ended		Six months ended	
	September 30		September 30	
	2011	2010	2011	2010
	\$	\$	\$	\$
Consolidated net income	1,886	2,772	3,157	2,017
Weighted average number of common shares in issue during the period	12,372,887	12,157,529	12,325,883	12,152,367
Basic income per common share	0.15	0.23	0.26	0.17

(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.

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Note 16. Income per common share (continued)

	Three months ended September 30		Six months ended September 30	
	2011 \$	2010 \$	2011 \$	2010 \$
Consolidated net income	1,886	2,772	3,157	2,017
Weighted average number of common shares in issue	12,372,887	12,157,529	12,325,883	12,152,367
Adjustments for:				
Stock options	207,646	316,567	277,454	284,703
Weighted average number of common shares for diluted income per common share	12,580,533	12,474,096	12,603,377	12,437,070
Diluted income per common share	0.15	0.22	0.25	0.16

Note 17. Income taxes

	Three months ended September 30		Six months ended September 30	
	2011 \$	2010 \$	2011 \$	2010 \$
Earnings before income taxes	3,082	3,519	5,474	3,945
Tax at statutory rate	872	996	1,548	1,116
Subsidiaries foreign tax rates differential	65	46	112	88
Permanent differences	156	127	275	452
Effect of rate change	20	(21)	(9)	68
Unrecognized future tax asset	(85)	(139)	148	219
Other	168	(262)	243	(15)
	1,196	747	2,317	1,928

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 September 30		Six months ended September 30	
	2011 \$	2010 \$	2011 \$	2010 \$
Trade receivables	(187)	(1,613)	(628)	(101)
Inventories	446	(1,552)	(1,815)	(2,935)
Prepaid expenses	1,737	28	(339)	37
Income taxes payable	746	615	(205)	1,228
Trade and other payables	(1,360)	59	(471)	(912)
Other liabilities	(713)	347	(156)	403
Provisions	(213)	70	(48)	(101)
	452	(2,046)	(3,662)	(2,381)

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Note 18. Consolidated interim statements of cash flows (continued)

(b) Supplemental disclosure

	Three months ended September 30		Six months ended September 30	
	2011 \$	2010 \$	2011 \$	2010 \$
Interest paid	1	2	3	5
Income taxes paid	319	7	2,064	106

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.

Included in WiNetworks' revenues below is \$3,543 of revenues from transactions with the RuggedCom segment, of which \$1,200 is for wired products and \$995 is for product and services, of which \$355 remains in inventory, leaving \$1,348 of wireless product which was sold to external customers through the RuggedCom segment for the quarter ended September 30, 2011. For the six months ended September 30, 2011 there is \$5,793 of revenues from transactions with the RuggedCom segment, of which \$1,759 is for wired products and \$995 was product and services, of which \$355 remains in inventory, leaving \$3,039 of wireless product which was sold to external customers through the RuggedCom segment.

	Three months ended September 30, 2011		
	RuggedCom \$	WiNetworks \$	Consolidated \$
Revenues	25,081	3,543	28,624
Cost of sales	10,237	1,861	12,098
Gross profit	14,844	1,682	16,526
Operating expenses			
Sales and marketing	6,127	7	6,134
Research and product development	2,782	1,048	3,830
General and administrative	3,275	578	3,853
	12,184	1,633	13,817
Income from operations	2,660	49	2,709
Finance income (expenses), net			
Interest income	22	-	22
Interest expense	(4)	(30)	(34)
Other finance income	-	385	385
Finance income, net	18	355	373
Income before income taxes	2,678	404	3,082
Income tax expense	1,196	-	1,196
Net Income and comprehensive income for the period	1,482	404	1,886

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Note 19. Segmented financial information (continued)

	Three months ended September 30, 2010		
	RuggedCom \$	WiNetworks \$	Consolidated \$
Revenues	20,439	1,253	21,692
Cost of sales	8,273	560	8,833
Gross profit	12,166	693	12,859
Operating expenses			
Sales and marketing	4,308	18	4,326
Research and product development	2,132	1,065	3,197
General and administrative	1,257	373	1,630
	7,697	1,456	9,153
Income (loss) from operations	4,469	(763)	3,706
Finance income (expenses), net			
Interest income	56	-	56
Interest expense	(3)	(1)	(4)
Other finance income	-	(239)	(239)
Finance income (expenses), net	53	(240)	(187)
Income (loss) before income taxes	4,522	(1,003)	3,519
Income tax expense	747	-	747
Net income (loss) and comprehensive income (loss) for the period	3,775	(1,003)	2,772

	Six months ended September 30, 2011		
	RuggedCom \$	WiNetworks \$	Consolidated \$
Revenues	49,393	5,793	55,186
Cost of sales	20,298	3,091	23,389
Gross profit	29,095	2,702	31,797
Operating expenses			
Sales and marketing	12,009	13	12,022
Research and product development	5,470	2,007	7,477
General and administrative	6,223	771	6,994
	23,702	2,791	26,493
Income(loss) from operations	5,393	(89)	5,304
Finance income (expenses), net			
Interest income	58	-	58
Interest expense	(5)	(53)	(58)
Other finance income	-	170	170
Finance income, net	53	117	170
Income before income taxes	5,446	28	5,474
Income tax expense	2,317	-	2,317
Net Income and comprehensive income for the period	3,129	28	3,157

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Note 19. Segmented financial information (continued)

	Six months ended September 30, 2010		
	RuggedCom	WiNetworks	Consolidated
	\$	\$	\$
Revenues	39,787	1,895	41,682
Cost of sales	16,085	1,000	17,085
Gross profit	23,702	895	24,597
Operating expenses			
Sales and marketing	8,534	104	8,638
Research and product development	3,825	2,276	6,101
General and administrative	5,045	789	5,834
	17,404	3,169	20,573
Income (loss) from operations	6,298	(2,274)	4,024
Finance income (expenses), net			
Interest income	95	-	95
Interest expense	(12)	(18)	(30)
Other finance income	-	(144)	(144)
Finance income (expenses), net	83	(162)	(79)
Income (loss) before income taxes	6,381	(2,436)	3,945
Income tax expense	1,928	-	1,928
Net income (loss) and comprehensive income (loss) for the period	4,453	(2,436)	2,017

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

	Three months ended September 30, 2011		
	RuggedCom	WiNetworks	Consolidated
	\$	\$	\$
North America	8,593	3,172	11,765
Latin America	2,812	260	3,072
Asia Pacific	7,022	3	7,025
Europe, Middle East and Africa	6,654	108	6,762
	25,081	3,543	28,624

	Three months ended September 30, 2010		
	RuggedCom	WiNetworks	Consolidated
	\$	\$	\$
North America	9,085	954	10,039
Latin America	1,602	102	1,704
Asia Pacific	5,139	-	5,139
Europe, Middle East and Africa	4,613	197	4,810
	20,439	1,253	21,692

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Note 19. Segmented financial information (continued)

	Six months ended September 30, 2011		
	RuggedCom	WiNetworks	Consolidated
	\$	\$	\$
North America	18,666	4,708	23,374
Latin America	5,508	734	6,242
Asia Pacific	12,875	3	12,878
Europe, Middle East and Africa	12,344	348	12,692
	49,393	5,793	55,186

	Six months ended September 30, 2010		
	RuggedCom	WiNetworks	Consolidated
	\$	\$	\$
North America	17,377	1,228	18,605
Latin America	3,294	137	3,431
Asia Pacific	9,504	8	9,512
Europe, Middle East and Africa	9,612	522	10,134
	39,787	1,895	41,682

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

	Three months ended September 30, 2011		
	RuggedCom	WiNetworks	Consolidated
	\$	\$	\$
Electric Power (Utilities)	20,330	615	20,945
Transportation Systems	4,129	-	4,129
Industrial Processes	(398)	2,521	2,123
Military	993	6	999
Other	27	401	428
	25,081	3,543	28,624

	Three months ended September 30, 2010		
	RuggedCom	WiNetworks	Consolidated
	\$	\$	\$
Electric Power (Utilities)	13,871	593	14,464
Transportation Systems	3,864	455	4,319
Industrial Processes	1,908	8	1,916
Military	926	2	928
Other	(130)	195	65
	20,439	1,253	21,692

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Note 19. Segmented financial information (continued)

	Six months ended September 30, 2011		
	RuggedCom	WiNetworks	Consolidated
	\$	\$	\$
Electric Power (Utilities)	37,475	672	38,147
Transportation Systems	9,676	6	9,682
Industrial Processes	(105)	4,035	3,930
Military	2,289	13	2,302
Other	58	1,067	1,125
	49,393	5,793	55,186

	Six months ended September 30, 2010		
	RuggedCom	WiNetworks	Consolidated
	\$	\$	\$
Electric Power (Utilities)	26,923	977	27,900
Transportation Systems	7,700	455	8,155
Industrial Processes	3,486	93	3,579
Military	1,778	103	1,881
Other	(100)	267	167
	39,787	1,895	41,682

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

	Three months ended September 30		Six months ended September 30	
	2011	2010	2011	2010
	China	11.1%	9.2%	9.4%
USA	35.5%	39.1%	35.9%	35.8%