

RUGGEDCOM INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SECOND QUARTER ENDED SEPTEMBER 30, 2011

Dated: November 8, 2011

The following is management's discussion and analysis ("MD&A") of the consolidated results of operations, financial condition and cash flows of RuggedCom Inc. ("RuggedCom" or the "Company") for the six month periods ended September 30, 2011 and September 30, 2010. This MD&A should be read in conjunction with the Company's consolidated interim financial statements for the six month periods ended September 30, 2011 and September 30, 2010 and the notes thereto, the audited annual consolidated financial statements for the fiscal years ended March 31, 2011 and March 31, 2010, the notes thereto and the auditor's report thereon.

All amounts in this MD&A are in US dollars unless otherwise indicated. The content of this MD&A has been approved by the Board of Directors, on the recommendation of its Audit Committee. This MD&A is dated November 8, 2011 and is current to that date, unless otherwise stated.

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

BASIS OF PRESENTATION

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 the first quarter of 2012's 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.

NON-IFRS MEASURES

This MD&A contains references to certain non-IFRS financial measures such as EBITDA, EBITDA Margin, Adjusted Operating Expenses, Adjusted Net Income and Adjusted Earnings Per Share (Basic and Diluted). Non-IFRS financial measures are used by management to evaluate the performance of the Company. Non-IFRS financial measures do not have any meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Non-IFRS financial measures used herein have been applied on a consistent basis. "EBITDA" means earnings before interest, income taxes, depreciation and amortization. "EBITDA Margin" means the percentage obtained by dividing "EBITDA" by revenue. "EBITDA" is a measure used by many investors to compare issuers on the basis of their ability to generate cash from operations. Adjusted Operating Expenses means operating expenses excluding the effect of foreign exchange included therein. Adjusted Net Income means net income excluding the after-tax foreign exchange effect included therein. Adjusted Earnings Per Share (Basic and Diluted) is the adjusted net income divided by the weighted average number of common shares outstanding for the period (basic or diluted). We believe that EBITDA and EBITDA Margin is useful supplemental information as they provide an indication of the results generated by the Company's main business activities before taking into consideration how they are financed or taxed. Adjusted Operating Expenses, Adjusted Net Income and Adjusted Earnings Per Share (Basic and Diluted) are useful measures of the Company's business activities and exclude the effect of foreign exchange gains and losses. Investors are cautioned that non-IFRS measures, such as those presented herein, should not be construed as an alternative to net income or loss determined in accordance with IFRS.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

RUGGEDCOM INC.

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

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

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

- Announced it has been granted ISO 14001:2004 certification. This is an Environmental Management System standard which focuses on minimizing an organization's negative impact to the environment and compliance with applicable laws, regulations and other environmentally oriented requirements;
- Announced it provided RS900 Ethernet Switches and RMC30 Media Converters to implement the communications infrastructure that connects multiple remote telecontrol units in the plant and ensures reliable operation in the extreme environmental conditions of the Egyptian desert. COLWAY was appointed to construct the power plant and to use it as a reference design for the future development of renewable energies in Egypt. The RS900 and RMC30 were selected for their ability to withstand a climate that is characterized by dramatic temperature changes and intense dust and sand storms native to the Cairo desert area;
- Announced that Siemens Energy, together with A&N Electric Cooperative and RuggedCom, Inc., has successfully deployed ultra-high-speed distribution feeder automation (DFA) system that improves service reliability for the only hospital serving the eastern shore of Virginia, Riverside Shore Memorial Hospital in Nassowadox, Virginia. The combined smart grid DFA solution allows for optimized fault detection, isolation and restoration (FDIR), minimizing the extent of power outages by quickly isolating affected areas;

- Announced that along with ABB Inc. has been selected to provide communication solutions for the Eastern Nebraska Public Power District Consortium's (ENPPDC) Smart Grid Initiative project. The ENPPDC consortium is comprised of Cuming County and Stanton County Public Power Districts. The ENPPDC project includes procurement of wireless communications, supervisory control and data acquisition software (SCADA), distribution automation software, intelligent reclosers and controls, automated regulator controls and irrigation load control devices. The idea is to connect redundant operation centers to substations and downline devices over a two county, 1000 square mile area, increasing system visibility for customer outages and reducing the time required to restore services;
- Announced it has been selected as a key partner of the National Rural Electric Cooperative Association (NRECA), participating in the organization's regional Smart Grid Demonstration Project (SGDP). The project aims to demonstrate the reliability, efficiency and cost benefits of a smarter grid to cooperative members. Participating cooperatives will deploy more than 250,000 pieces of equipment across 12 states, including communication infrastructure and SCADA.

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SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following tables set out selected consolidated financial information for the three and six month periods ended September 30, 2011 and September 30, 2010, respectively. The information in these tables has been derived from the unaudited consolidated interim financial statements and accompanying notes for the three and six month periods ended September 30, 2011 and September 30, 2010, as well as the March 31, 2011 audited consolidated financial statements. Investors should read the following information in conjunction with those statements and related notes. The financial information for the three and six months ended September 30, 2011 and September 30, 2010 has been prepared by management in accordance with IFRS.

The table below shows selected quarterly financial information based on IFRS guidelines.

Selected Consolidated Quarterly Financial Information	Three months ended September 30 (unaudited)		Six months ended September 30 (unaudited)	
	2011	2010	2011	2010
In thousands, except share amounts, data expressed as percentages and per share data				
Revenue	\$ 28,624	21,692	\$55,186	41,682
Cost of goods sold	<u>12,098</u>	<u>8,833</u>	<u>23,389</u>	<u>17,085</u>
Gross margin	16,526	12,859	31,797	24,597
Gross margin %	57.7%	59.3%	57.6%	59.0%
Operating expenses:				
Sales and marketing	6,134	4,326	12,022	8,638
Research and development	3,830	3,197	7,477	6,101
General and administrative	<u>3,853</u>	<u>1,630</u>	<u>6,994</u>	<u>5,834</u>
Total operating expenses	<u>13,817</u>	<u>9,153</u>	<u>26,493</u>	<u>20,573</u>
Income from operations	2,709	3,706	5,304	4,024
Finance income (expenses), net	<u>373</u>	<u>(187)</u>	<u>170</u>	<u>(79)</u>
Income before income taxes	3,082	3,519	5,474	3,945
Income tax expense	<u>1,196</u>	<u>747</u>	<u>2,317</u>	<u>1,928</u>
Net income and comprehensive income	<u>1,886</u>	<u>2,772</u>	<u>3,157</u>	<u>2,017</u>
Net Income Per Common Share:				
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:				
Basic	12,372,887	12,157,529	12,325,883	12,152,367
Diluted	12,580,533	12,474,096	12,603,377	12,437,070

	Three months ended		Six months ended	
	September 30		September 30	
	(unaudited)		(unaudited)	
	2011	2010	2011	2010
Other data:				
EBITDA ⁽¹⁾	\$4,151	\$4,942	\$8,044	\$6,464
EBITDA Margin % ⁽¹⁾	14.5%	22.8%	14.6%	15.5%
Adjusted Operating Expenses ⁽¹⁾	\$13,310	\$10,170	\$26,086	\$20,058
Adjusted Net Income ⁽¹⁾	\$2,262	\$1,755	\$3,449	\$2,532
Adjusted Earnings Per Share:				
Basic	\$0.18	\$0.14	\$0.28	\$0.21
Diluted	\$0.18	\$0.14	\$0.27	\$0.20

Notes:

(1) For an explanation of how EBITDA, EBITDA Margin, Adjusted Operating Expenses, Adjusted Net Income, and Adjusted Earnings Per Share are calculated, please see "Non-IFRS Measures".

	Three months ended		Six months ended	
	September 30		September 30	
	(unaudited)		(unaudited)	
	2011	2010	2011	2010
<u>Net Income to EBITDA Reconciliation</u>				
Net income and comprehensive income	\$1,886	\$ 2,772	\$3,157	\$2,017
Finance (income) expenses, net	(373)	187	(170)	79
Taxes	1,196	747	2,317	1,928
Amortization	<u>1,442</u>	<u>1,234</u>	<u>2,740</u>	<u>2,440</u>
EBITDA ⁽¹⁾	<u>\$4,151</u>	<u>\$4,940</u>	<u>\$8,044</u>	<u>\$6,464</u>

Notes:

(1) See "Non-IFRS measures"

	Three months ended		Six months ended	
	September 30		September 30	
	(unaudited)		(unaudited)	
	2011	2010	2011	2010
<u>Adjusted Operating Expenses Reconciliation</u>				
Operating Expenses	\$13,817	\$9,153	\$26,493	\$20,573
Foreign exchange loss (gain)	<u>507</u>	<u>(1,017)</u>	<u>407</u>	<u>515</u>
Adjusted Operating Expenses ⁽¹⁾	<u>\$13,310</u>	<u>\$10,170</u>	<u>\$26,086</u>	<u>\$20,058</u>

Notes:

(1) See "Non-IFRS measures"

	Three months ended		Six months ended	
	September 30		September 30	
	(unaudited)		(unaudited)	
	2011	2010	2011	2010
<u>Adjusted Net Income Reconciliation</u>				
Net income and comprehensive income	\$1,886	\$2,772	\$3,157	\$2,017
Foreign exchange loss (gain), net of income tax	<u>376</u>	<u>(1,017)</u>	<u>292</u>	<u>515</u>
Adjusted Net Income ⁽¹⁾	<u>\$2,262</u>	<u>\$1,755</u>	<u>\$3,449</u>	<u>\$2,532</u>

Notes:

(1) See "Non-IFRS measures"

	As at September 30 (unaudited) 2011	As at March 31 (unaudited) 2011
	In thousands	
<u>Consolidated Balance Sheet Data</u>		
Cash and cash equivalents	\$39,045	\$38,106
Working capital ⁽¹⁾	67,045	62,658
Total assets	101,123	97,755
Total liabilities	13,197	14,324
Total shareholders' equity	87,926	83,431

Notes:

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

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Financial Highlights

Achieved record purchase orders of \$30.6 million in the second quarter, an increase of 38% over the same quarter a year ago.

Achieved record revenues of \$28.6 million in the second quarter, representing an increase of 32% over the same quarter a year ago.

Gross margin came in at 57.7%, a decrease of 160 bps over the same quarter a year ago.

Net income of \$1.9 million compared to \$2.8 million for the same quarter a year ago.

OVERALL PERFORMANCE

Revenue and Expenses

Revenue

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

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

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

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

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

Cost of Goods Sold

Cost of goods sold consists primarily of costs of manufacturing and assembly of products. A significant portion of these costs is represented by components and compensation costs (including stock compensation costs) for the manufacture and assembly of products. Cost of goods sold also includes related overhead, final assembly, quality assurance, inventory management, amortization on property and equipment and payments to local third-party subcontract manufacturers that perform outsourced manufacturing and assembly for the Company. Cost of goods sold also includes the cost of providing

services to customers, primarily the cost of service-related personnel used for training and professional services.

Operating Expenses

The Company's operating expenses consist of (i) research and development expenditures and related investment tax credits, (ii) sales and marketing expenses and (iii) general and administrative expenses.

Research and development expenses consist primarily of personnel and related costs (including stock compensation costs) associated with the Company's research and development efforts, including the development of new products, enhancements to existing products, quality assurance activities, software development, tools and equipment and amortization on property and equipment. The Company is entitled to certain scientific research and experimental development ("SR&ED") Canadian tax credits for qualifying research and development activities performed in Canada, as well as certain funding from the Officer of the Chief Scientist ("OCS") for qualifying research and development activities performed in Israel. Expenses are shown net of applicable SR&ED tax credits and OCS credits.

Sales and marketing expenses consist primarily of costs relating to personnel (including stock compensation costs) and to the Company's sales and marketing activities, including the salaries and commissions paid to the Company's sales force, commissions paid to independent industry sales representatives, advertising, trade shows, other promotional expenses and amortization on property and equipment as well as intangibles.

General and administrative expenses are comprised primarily of costs relating to personnel and related costs (including stock compensation costs) associated with the administration of the Company's business, including, information technology, finance and customer support functions, legal and other professional fees, rental of office space, insurance and other corporate, overhead expenses and amortization on property and equipment as well as intangible assets.

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INTERIM PERIOD OPERATING RESULTS

Revenue

The Company's reporting currency is in US dollars. For the three month period ending September 30, 2011 ("Q2-F12") approximately 92% of the Company's sales revenues were in US dollars.

Highlights (for Q2-F12):

Achieved record sales revenues of \$28.6 million

- Increase of 32.0% from same period prior year
- Increase of 7.8 % from prior quarter

Achieved record purchase orders totaling \$30.6 million

- Increase of 37.7% from same period prior year
- Increase of 19.9% from prior quarter

Achieved record sales revenues in the following regions and sectors:

- Electric Power sector – up 44.8% year-over-year
- North America region – up 17.2% year-over-year
- APAC (Asia-Pacific) region - up 36.7% year-over-year

Added 125 new customers

- Increase of 15.7% from same period prior year

Sales for Q2-F12 were \$28.6 million, a new Company record, compared to \$21.7 million for the same period in the last fiscal year, representing an increase of 32.0%. Sales for the first six months of F12 were \$55.2 million compared to \$41.7 million for the same period in the last fiscal year representing an increase of 32.4%. Sales revenues for Q2-F12 were also 7.8% above the prior quarter.

Customer purchase orders for Q2-F12 totaled \$30.6 million, a new Company record, compared to \$22.2 million for the same period last year, representing an increase of 37.7%. Purchase orders for the first six months of F12 totaled \$56.1 million compared to \$43.4 million for the same period last year, representing an increase of 29.1%. Purchase orders for Q2-F12 were also 19.9% above the prior quarter.

Sales by Market

Electric Power

Sales in the electric power market for Q2-F12 totaled \$20.9 million compared to \$14.5 million for the same period in the prior fiscal year, representing an increase of 44.8%. Sales in the electric power market for Q2-F12 comprised 73.2% of total Company sales for the quarter compared to 66.7% for the same period in the prior fiscal year. In addition, Q2-F12 sales in the electric power market represented a new Company record for sales in this market. Sales in the electric power market for the six month period ended September 30th, 2011 totaled \$38.1 million compared to \$27.9 million for the same period the prior fiscal year, representing an increase of 36.7%. Sales in the electric power market for the six month period ended September 30th, 2011 comprised 69.1% of total Company sales compared to 66.9% over the same period the prior fiscal year. Growth in the electric power market continues to be led by the deployment of the Company's rugged communications networking solutions for use in substation automation as part of the transmission and distribution infrastructure across all geographic regions with especially strong growth coming from Latin America, Asia-Pacific, and North America.

Transportation

Sales in the transportation market for Q2-F12 totaled \$4.1 million compared to \$4.3 million for the same period in the prior fiscal year, representing a decrease of 4.4%. Sales in the transportation market for Q2-F12 comprised 14.4% of total Company sales for the quarter compared to 19.9% for the same period in the prior fiscal year. Sales in the transportation market for the six month period ended September 30th, 2011 totaled \$9.7 million compared to \$8.2 million for the same period the prior fiscal year, representing an increase of 18.7%. Sales in the transportation market for the six month period ended September 30th, 2011 comprised 17.5% of total Company sales compared to 19.6% over the same period the prior fiscal year. Growth for the six month period ended September 30th, 2011 was impacted primarily by sales from the USA region, which has historically been the largest contributor, and represented approximately 64% of sales in the sector. The Company expects that revenues from the transportation market could experience quarterly volatility for the remainder of fiscal 2012 depending on project activity in the USA and the Company's ability to generate sales in other geographic regions. For the six month period ended September 30th, 2011 APAC and EMEA regions accounted for 15% of sales each in the transportation market and experienced transportation market growth of approximately 18% and 59% respectively.

Industrial

Sales in the industrial process market for Q2-F12 totaled \$2.1 million compared to \$1.9 million for the same period in the prior fiscal year, representing an increase of 10.8%. Sales in the industrial process market for Q2-F12 comprised 7.4% of total Company sales for the quarter compared to 8.8% for the same period in the prior fiscal year. Sales in the industrial process market for the six month period ended September 30th, 2011 totaled \$3.9 million compared to \$3.6 million for the same period the prior fiscal year, representing an increase of 9.8%. Sales in the industrial process market for the six month period ended September 30th, 2011 comprised 7.1% of total Company sales compared to 8.6% over the same period the prior fiscal year. The Company expects that revenues in this sector could experience quarterly volatility depending on global spending on process automation in the Oil and Gas, Mining and Metals, and Chemical sectors.

Military

Sales in the military market for Q2-F12 totaled \$1.0 million compared to \$0.9 million for the same period in the prior fiscal year, representing an increase of 7.7%. Sales in the military market for Q2-F12 comprised 3.5% of total Company sales for the quarter compared to 4.3% for the same period in the prior fiscal year. Sales in the military market for the six month period ended September 30th, 2011 totaled \$2.3 million compared to \$1.9 million for the same period the prior fiscal year, representing an increase of 22.4%. Sales in the military market for the six month period ended September 30th, 2011 comprised 4.2% of total Company sales compared to 4.5% over the same period the prior fiscal year. The Company's experience indicates that sales by the Company in the military sector have quarterly variability due the nature of sales in this sector which are characterized by long sales cycles and a relatively small number of large scale projects and a relatively small customer base.

(Unaudited) MARKET/SECTOR	Three months ended September 30 (as percentage of total)		Three months ended September 30 (\$ thousands)		Change
	2011	2010	2011	2010	%
Electric Power (Utilities)	73.2%	66.7%	\$20,945	\$14,464	+44.8%
Transportation.....	14.4%	19.9%	\$4,129	\$4,319	-4.4%
Industrial.....	7.4%	8.8%	\$2,123	\$1,916	+10.8%
Military.....	3.5%	4.3%	\$999	\$928	+7.7%
Other.....	<u>1.5%</u>	<u>0.3%</u>	<u>\$428</u>	<u>\$65</u>	<u>+558.5%</u>
See note (1)	<u>100.0%</u>	<u>100.0%</u>	<u>\$28,624</u>	<u>\$21,692</u>	<u>+32.0%</u>

(Unaudited) MARKET/SECTOR	Six months ended September 30 (as percentage of total)		Six months ended September 30 (\$ thousands)		Change
	2011	2010	2011	2010	%
Electric Power (Utilities)	69.1%	66.9%	\$38,147	\$27,900	+36.7%
Transportation.....	17.5%	19.6%	\$9,682	\$8,155	+18.7%
Industrial.....	7.1%	8.6%	\$3,930	\$3,579	+9.8%
Military.....	4.2%	4.5%	\$2,302	\$1,881	+22.4%
Other.....	<u>2.0%</u>	<u>0.4%</u>	<u>\$1,125</u>	<u>\$167</u>	<u>+573.7%</u>
See note (1)	<u>100.0%</u>	<u>100.0%</u>	<u>\$55,186</u>	<u>\$41,682</u>	<u>+32.4%</u>

Sales by Region

North America

North America sales for Q2-F12 totaled \$11.8 million, a 4th consecutive Company record for the region, compared to \$10.0 million for the same period in the prior fiscal year, representing an increase of 17.2%. Sales in North America for Q2-F12 comprised 41.1% of total Company sales for the quarter compared to 46.3% for the same period in the prior fiscal year. Q2-F12 North America sales were driven primarily by sales in the electric power and transportation sectors. North American sales for the six month period ended September 30th, 2011 totaled \$23.4 million compared to \$18.6 million for the same period the prior fiscal year, representing an increase of 25.6%. Sales in North America for the six month period ended September 30th, 2011 comprised 42.4% of total Company sales compared to 44.6% over the same period the prior fiscal year. Sales in North America for the six month period ended September 30th, 2011 were primarily driven by sales in the electric power and transportation sectors.

Europe, Middle-East and Africa (EMEA)

EMEA sales for Q2-F12 totaled \$6.8 million compared to \$4.8 million for the same period in the prior fiscal year, representing an increase of 40.6%. Sales in EMEA for Q2-F12 comprised 23.6% of total Company sales for the quarter compared to 22.2% for the same period in the prior fiscal year. Q2-F12 EMEA sales were driven primarily by sales in the electric power sector. EMEA sales for the six month period ended September 30th, 2011 totaled \$12.7 million compared to \$10.1 million for the same period the prior fiscal year, representing an increase of 25.2%. Sales in EMEA for the six month period ended September 30th, 2011 comprised 23.0% of total Company sales compared to 24.3% over the same period the prior fiscal year. Sales in EMEA for the six month period ended September 30th, 2011 were primarily driven by sales in the electric power sector.

Asia-Pacific (APAC)

APAC sales for Q2-F12 totaled \$7.0 million, a new Company record, compared to \$5.1 million for the same period in the prior fiscal year, representing an increase of 36.7%. Sales in APAC for Q2-F12 comprised 24.5% of total Company sales for the quarter compared to 23.7% for the same period in the prior fiscal year. Q2-F12 APAC sales were driven primarily by sales in the electric power sector. APAC sales for the six month period ended September 30th, 2011 totaled \$12.9 million compared to \$9.5 million for the same period the prior fiscal year, representing an increase of 35.4%. Sales in APAC for the six month period ended September 30th, 2011 comprised 23.3% of total Company sales compared to 22.8% over the same period the prior fiscal year. Sales in APAC for the six month period ended September 30th, 2011 were primarily driven by sales in the electric power sector.

Latin America

Latin America sales for Q2-F12 totaled \$3.1 million compared to \$1.7 million for the same period in the prior fiscal year, representing an increase of 80.3%. Sales in Latin America for Q2-F12 comprised 10.7% of total Company sales for the quarter compared to 7.9% for the same period in the prior fiscal year. Q2-F12 Latin America sales were driven primarily by sales in the electric power sector. Latin America sales for the six month period ended September 30th, 2011 totaled \$6.2 million compared to \$3.4 million for the same period the prior fiscal year, representing an increase of 81.9%. Sales in Latin America for the six month period ended September 30th, 2011 comprised 11.3% of total Company sales compared to 8.2% over the same period the prior fiscal year. Sales in Latin America for the six month ended September 30th, 2011 were primarily driven by sales in the electric power sector.

(Unaudited) REGION	Three months ended September 30 (as percentage of total)		Three months ended September 30 (\$ thousands)		Change
	2011	2010	2011	2010	%
North America	41.1%	46.3%	\$11,765	\$10,039	+17.2%
Latin America	10.7%	7.9%	\$3,072	\$1,704	+80.3%
Asia Pacific	24.5%	23.7%	\$7,025	\$5,139	+36.7%
Europe, Middle East & Africa	<u>23.6%</u>	<u>22.2%</u>	<u>\$6,762</u>	<u>\$4,810</u>	<u>+40.6%</u>
See note (1)	<u>100.0%</u>	<u>100.0%</u>	<u>\$28,624</u>	<u>\$21,692</u>	<u>+32.0%</u>

(Unaudited) REGION	Six months ended September 30 (as percentage of total)		Six months ended September 30 (\$ thousands)		Change
	2011	2010	2011	2010	%
North America	42.4%	44.6%	\$23,374	\$18,605	+25.6%
Latin America	11.3%	8.2%	\$6,242	\$3,431	+81.9%
Asia Pacific	23.3%	22.8%	\$12,878	\$9,512	+35.4%
Europe, Middle East & Africa	<u>23.0%</u>	<u>24.3%</u>	<u>\$12,692</u>	<u>\$10,134</u>	<u>+25.2%</u>
See note (1)	<u>100.0%</u>	<u>100.0%</u>	<u>\$55,186</u>	<u>\$41,682</u>	<u>+32.4%</u>

Sales by Customer

The total number of customers who placed orders in Q2-F12 was 560 as compared to 476 for the same period in the previous financial year, an increase of 17.6%. In Q2-F12 the Company also added 125 new customers as compared to 108 for the same period in the prior fiscal year, representing an increase of 15.7%. In Q2-F12 the electric power sector contributed the largest number of new customers (64 out of the 125) accounting for 51.2%. For the six month period ended September 30, 2011 the company added 230 new customers as compared to 200 for the same period in the prior fiscal year, representing an increase of 15.0%. For the six month period ended September 30, 2011 the electric power sector contributed the largest number of new customers (116 out of 230) accounting for 50.4%.

In Q2-F12 the Company's top ten customers accounted for 39.5% of sales revenues. For the six month period ended September 30, 2011 the Company's top ten customers accounted for 37.2% of sales revenues. There were no customers that accounted for more than 10% of the Company's sales revenues in Q2-F12 or the same period in the prior year. There were no customers that accounted for more than 10% of the Company's sales revenues in the six month period ended September 30, 2011 or in the same period in the prior year.

Gross Margin

Gross margin for Q2-F12 increased 28.5% to \$16.5 million, compared to \$12.9 million in the same period in the last fiscal year, but as a percentage of revenue, decreased to 57.7% from 59.3% for the same period in the last fiscal year. The decrease in gross margin percentage was due to an unfavourable sector mix and material cost increases partially offset by a labour and overhead decrease.

YTD gross margin increased 29.3% to \$31.8 million, compared to \$24.6 million for the prior year, but decreased as a percentage of revenue from 59.0% in the prior year to 57.6% in F11. The unfavourable sector mix is the main reason for the decrease.

As a result of the Company's conversion to IFRS, the Q2-F11 gross margin of \$13.2 million, or 61.0% of revenue, as reported under Canadian GAAP, was recalculated to \$12.9 million or 59.3% of revenue as described above. The decrease in gross margin as recalculated under IFRS was partly due to reallocation of a portion of amortization expense (\$250,000; 1.2% of revenue) and stock compensation expense (\$61,000; 0.3% of revenue) to cost of sales from operating expenses. This was partially offset by foreign exchange gains (\$137,000; 0.6% of revenue) realized as a result of the Company's switch to a US dollar functional currency. These gains were largely the result of cheaper Canadian dollar denominated material, labour and overhead expenditures in the period, the result of a strengthening of the Canadian dollar relative to the US dollar during FY11Q2.

Operating Expenses

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

Expenses as a Percentage of Revenue

	Three months ended September 30 (unaudited)		Six months ended September 30 (unaudited)	
	2011	2010	2011	2010
	\$	\$	\$	\$
Revenue	<u>28,624</u>	<u>21,692</u>	<u>55,186</u>	<u>41,682</u>
Sales and marketing	6,134	4,326	12,022	8,638
% of revenue	21.4%	19.9%	21.8%	20.7%
Research and development	3,830	3,197	7,477	6,101
% of revenue	13.4%	14.7%	13.5%	14.6%
General and administrative	3,853	1,630	6,994	5,834
% of revenue	13.5%	7.5%	12.7%	14.0%
Total operating expenses	<u>13,817</u>	<u>9,153</u>	<u>26,493</u>	<u>20,573</u>
% of revenue	48.3%	42.2%	48.0%	49.4%

Sales and Marketing Expenses

Sales and marketing expenses for Q2-F12 increased 41.8% to \$6.1 million, compared to \$4.3 million for the same period in the previous fiscal year, representing 21.4% and 19.9% of total revenues for each period, respectively. For the first six months of F12, sales and marketing expenses increased 39.2% to \$12.0 million compared to \$8.6 million in the same period in the last fiscal year, representing 21.8% and 20.7% of total revenues for each period, respectively. The increase in dollar amounts for both Q2-F12 and the first six months compared to the corresponding prior period was partially attributable to an increase in marketing activities, including higher levels of advertising, trade show and related promotional expenses. A 31% increase in the Company's sales personnel over the past 12 months from 55 to 72 and an increase in their total compensation, a portion of which is performance based, also contributed to the increase is a major contributing factor. The Company expects that selling and marketing expenses will continue to increase in dollar amounts in future periods as amounts paid out to its sales force and to industry sales representatives increase commensurate with the growth in the Company's sales and its overall presence in the world market, as overall marketing activities and efforts increase, and as the Company continues to invest in marketing activities to promote its products.

As a result of the Company's conversion to IFRS, the Q2-F11 sales and marketing expense of \$3.9 million, or 18.2% of revenue, as reported under Canadian GAAP, was recalculated to \$4.3 million or 19.9% of revenue as described above. The increase in sales and marketing expense as recalculated under IFRS was mostly due to reallocation of a portion of amortization expense (\$187,000; 0.9% of revenue) and stock compensation expense (\$148,000; 0.7% of revenue) to sales and marketing from amortization and general and administrative expense, respectively. There was a negligible effect on FY11Q2 sales and marketing expense as a result of the Company's switch to a US dollar functional currency as the majority of the Company's sales and marketing expenses are originally denominated in US dollars.

Research and Development Expenses

Research and development expenses for Q2-F12 increased 19.8% to \$3.8 million, or 13.4% of revenue, compared to \$3.2 million, or 14.7% of revenue, for the same period in the previous fiscal year. For the first six months of F12, research and development expenses increased 22.6% to \$7.5 million compared to \$6.1 million in the same period in the last fiscal year, representing 13.5% and 14.6% of total revenues for each period respectively. The increase in absolute dollar expense for Q2-F12 compared to the corresponding prior period was mainly attributable to increased research and development personnel costs resulting from an increase in the number of employees over the past 12 months from 100 to 121 (including additional headcount as a result of the acquisition of the Bow Networks substation business), and to the continued development of new products and the enhancement of existing products.

As reported under Canadian GAAP, the Company's Q2-F11 research and development expense was \$2.9 million or 13.2% of revenue and did not include investment tax credits. If the investment tax credits of \$0.1 million are taken into account, the net research and development expense reported under Canadian GAAP for Q2-F11 was \$2.8 million, or 12.9% of revenue. This compares to the Q2-F11 R&D expense as recalculated under IFRS of \$3.2 million, as described above, which is net of investment tax credits. The increased research and development expense as recalculated under IFRS is due to the following factors: 1) reallocation of a portion of amortization expense (\$113,000; 0.5% of revenue) to R&D; 2) reallocation of a portion of stock compensation expense (\$155,000; 0.7% of revenue) to R&D from general and administrative expense; and 3) inability to deduct R&D grants received during Q1-F11 from research and development expense (\$134,000; 0.6% of revenue).

General and Administrative Expenses

General and administrative expenses for Q2-F12 increased 136.4% to \$3.9 million, compared to \$1.6 million for the same period in the last fiscal year, representing 13.5% and 7.5% of total revenues for each period, respectively. The significant increase is largely due to foreign exchange losses incurred in Q2-F12 in combination with foreign exchange gains recorded in the comparable period a year ago, as reported under IFRS.

In Q2-F12, the Company incurred a \$0.5 million foreign exchange loss due to the weakening of the Canadian dollar near the end of the quarter and the effect this had on the Company's Canadian dollar denominated net assets. The foreign exchange gain increase in Q2-F11 was directly attributable to the change in the Company's functional currency to US dollars and the effect this had on the year ago period. The adoption of a US dollar functional currency created a foreign exchange gain of approximately \$1.0 million for Q2-F11 due to the foreign exchange effect on the Company's significant Canadian dollar denominated cash balances at that time. For F12, in order to minimize the foreign exchange effect on the Company's cash balances, the Company converted most of its Canadian dollars to US dollars at the beginning of Q1-F12. The combined effect of Q2-F12's foreign exchange loss and the year ago period's foreign exchange gain of \$1.0 million equates to a total effect of \$1.5 million. If the total foreign exchange effect is excluded, general and administrative expense would have been \$3.3 million and \$2.6 million for Q2-F12 and Q2-F11, respectively, an increase of approximately 26%. On a percentage of

revenue basis, this equates to 11.7% for Q2-F12 compared to 12.2% for the year ago period, a decrease of 50 basis points.

The remainder of the increase in Q2-F12 general and administrative expense from the year ago period was due principally to an increase in G&A personnel necessary to accommodate the normal growth of the Company's business.

The foreign exchange effect as described above is also the major factor for the difference between general and administrative expense in Q2-F11 as reported under Canadian GAAP (\$2.4 million) and general and administrative expense for Q2-F12 as recalculated under IFRS (\$3.9 million). Other factors attributable to the difference were: 1) inclusion of a portion of amortization in G&A under IFRS (\$0.2 million) and 2) a reversal of stock compensation expense of approximately \$0.4 million which was allocated to cost of goods sold and other operating expense categories.

For the first six months of F12, general and administrative expense was \$7.0 million, or 12.7% of revenue, compared to \$5.8 million, or 14.0% of revenue in the comparable period a year ago.

Finance income (expenses), net

Finance income or expense is comprised of three elements: interest income, interest expense and financing gains or losses. With the implementation of IFRS, certain research and development grants by the Company are treated as loans and incur interest expense. In addition, the balances of the loans can fluctuate from quarter to quarter as the probabilities of having to repay the loans change. Fluctuations in loan balances are recognized as finance gains or losses. Both the interest expense and the finance gains and losses are recorded in finance income or expense. The Company also earns interest income on its cash and cash equivalent balances and incurs interest expense with regard to outstanding capital lease obligations.

The Company had net finance income of \$373,000 relating mainly to OCS grants in Q2-F12 compared to net finance expense of \$187,000 for Q2-F11. For the first six months of F12, the Company had finance income of \$170,000 relating mainly to the OCS grants, compared to net finance expense of \$79,000 in F11.

The Company reported net interest income of \$78,000 in Q2-F11 under Canadian GAAP and this amount did not include any interest expense or finance expense related to grants treated as repayable loans, as this treatment was not required under Canadian GAAP.

Income Tax Expense

The Company recorded a tax provision of \$1.2 million in Q2-F12 compared to a tax provision of \$0.7 million for Q2-F11. Q2-F11 experienced a relatively low effective tax rate due to the inclusion of a larger foreign exchange gain which was not tax effected. This resulted in the Company showing an effective tax rate of 21.2% in F11 compared to an effective tax rate of 38.8% in F12.

For the first six months of F12 the Company recorded a tax provision of \$2.3 million with an effective tax rate of 42.3%, compared to \$1.9 million with an effective tax rate of 48.9% in F11.

Income tax expense for Q2-F11 as reported under Canadian GAAP was \$1.0 million. Income tax expense was not materially affected by the implementation of IFRS.

Net Income

Net income before taxes for Q2-F12 was \$3.1 million compared to \$3.5 million for the same period in the last fiscal year, representing 10.8% and 16.2% respectively, of total revenues for each period. For the first six months of F12 net income before taxes was \$5.5 million compared to \$3.9 million for the last fiscal year, representing 9.9% and 9.5% respectively, of total revenues. (See “General and Administrative Expenses”).

Under Canadian GAAP, for Q2-F11 the Company reported net income before taxes of \$2.4 million, or 11.1% of revenue.

Net income after tax for Q2-F11 was \$1.9 million, compared to \$2.8 million in the comparable period a year ago, representing 6.6% and 12.8% of revenue respectively, as reported under IFRS. When the \$1.4 million after-tax effect of foreign exchange is eliminated, “adjusted” net income shows an increase from the year ago period, to \$2.3 million from \$1.8 million, or 7.7% and 8.1% of revenue respectively. For the first six months of F12 net income after tax was \$3.2 million, compared to \$2.1 million in the comparable period a year ago, representing 5.7% and 4.8% of revenue respectively, as reported under IFRS.

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Outlook

In the long term, we believe we are well positioned to take advantage of the planned global infrastructure spending, specifically in the Electric Power and Transportation sectors. The growth in Smart Grid momentum continues as demand for substation communication networks remains strong. Recently announced results of a Newton-Evans Global CAPEX/OPEX Tracking Study reveal that electric power utilities have increased 2011 CAPEX and O&M budgets for transmission and distribution infrastructure development. In addition, the focus in Smart Grid could be shifting from Smart Metering to Distribution Automation, which could have the benefit of a shorter implementation cycle with little or no involvement of consumers. The large opportunities in the Smart Grid market could attract more competitors, which could result in increased competitive pricing pressure, particularly from local competitors in Asia and EMEA.

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

The sovereign debt crisis affecting certain European Union countries could impact government funded infrastructure projects in the Electric Power and Transportation sectors.

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

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

LIQUIDITY AND CAPITAL

As at September 30, **As at March 31,**
2011 **2011**

(In thousands, except Balance Sheet ratios)

Key Balance Sheet Amounts and Ratios:

Cash and cash equivalents	\$ 39,045	\$ 38,106
Working capital	67,045	62,658
Long term assets	24,321	24,691
Long term liabilities	3,440	3,918
Working capital ratio ⁽¹⁾	7.9	7.0
Days sales outstanding in accounts receivable ⁽²⁾	55 days	53 days
Inventory turnover ⁽³⁾	2.8 times	2.8 times

Notes:

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

Cash and Cash Equivalents

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

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

As at September 30, 2011, the Company had \$39.0 million of cash and cash equivalents compared to \$38.1 million as at March 31, 2011.

Working Capital

Working capital is defined as current assets less current liabilities. The Company's working capital balance increased to \$67.0 million at September 30, 2011 compared to \$62.7 million at the end of fiscal 2011. The Company's working capital ratio (current assets divided by current liabilities) increased to 7.9:1 compared to a working capital ratio of 7.0:1 as at March 31, 2011 due to an increase in inventories.

The Company's trade receivables balance increased \$0.6 million to \$18.9 million from \$18.3 million at the end of fiscal 2011. Days sales outstanding in trade receivables ("DSO") increased to 55 days at September 30, 2011 from 53 days at the end of fiscal 2011. The Company's DSO could trend upward to the extent that the Company increases its revenue base outside North America as, in the Company's experience, international receivables tend to take longer to collect. The Company's allowance for doubtful accounts increased from \$81,000 at the end of fiscal 2011 to \$276,000 as at

September 30, 2011. This was due mainly to the bankruptcy of one customer. (See “Critical Accounting Policies and Estimates – Allowance for Doubtful Accounts.”)

Inventory balances increased by \$1.8 million to \$16.3 million at the end of Q2-FY12 from \$14.5 million at the end of fiscal 2011. Inventory levels increased in anticipation of receiving future orders for both wired and wireless products, in addition to advance purchase of certain components to achieve unit cost reductions. Inventory turnover, calculated using the last 12 months' cost of sales and average inventory balances, remained the same at 2.8 times from the end of fiscal 2011 to the end of Q2-FY12. The Company would normally expect inventory turnover to increase over time as the Company continues to achieve cost productivity gains as a result of the growth in its business. However, the Company gives priority to meeting customers' request dates for delivery, which may require the stocking of additional inventory in order to meet short delivery schedules. The Company has recently reduced its delivery time on certain products from 10 business days to seven business days which has required the stocking of additional product. The Company has also started maintaining stock in China for the production of goods in that country. This has negatively impacted inventory turnover in the quarter.

Trade and other payables decreased \$0.5 million to \$7.4 million at the end of Q2-FY12 from \$7.8 million at the end of fiscal 2011.

Cash Provided by (used in) Operating Activities

The Company generated \$3.7 million cash in operating activities in Q2-F12 as compared to \$2.7 million in the same period last fiscal year. For Q2-F12, \$1.9 million was provided through operating performance. Approximately \$1.3 million cash was provided by non-cash items, and \$0.5 million cash provided through the net change in current non-cash working capital. In the same period in the last fiscal year, \$2.7 million cash was provided operating activities. The balance related to \$2.0 million provided by non-cash items, offset by \$2.0 million cash used through the net change in current non-cash working capital.

For the first six months of F12, the Company generated \$2.7 million cash in operating activities compared to \$3.4 million in the same period last fiscal year. \$3.2 million was provided through operating performance. Approximately \$3.2 million cash was provided by non-cash items, offset by \$3.7 million cash used through the net change in current non-cash working capital. In the same period in the last fiscal year, \$2.0 million cash was provided operating activities. The balance related to \$3.8 million provided by non-cash items, offset by \$2.4 million cash used through the net change in current non-cash working capital.

Investing Activities

Additions of property and equipment were \$1.1 million for Q2-F12 compared with \$0.4 million for the same period in the last fiscal year. The Company added \$2.5 million for the six month ended September 30, 2011 to property and equipment. These additions represent continued investment by the Company in hardware, software and tooling as well as office and information technology infrastructure. See “Capital Resources.”

Financing Activities

During Q2-F12 the Company issued 12,987 common shares upon exercise of employee stock options for net proceeds of approximately \$112,000. Also during Q2-F12 the Company repaid capital lease obligations of approximately \$4,000. There were no other financing activities during the quarter.

For the first six months of F12 the Company issued 141,127 common shares upon exercise of employee stock options for the net proceeds of approximately \$681,000. Also in the first six months of F12 the Company repaid capital lease obligations and returned capital leased assets of approximately \$94,000.

During Q2-F11 the Company issued 1,737 common shares upon exercise of employee stock options for net proceeds of \$19,000. For the first six month of F11 the Company issued 14,217 common shares upon exercise of employee stock options for net proceeds of approximately \$76,000. During Q2-F11 the Company repaid capital lease obligations of approximately \$26,000 and \$52,000 for the first six months of F11.

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

Outstanding Share Capital

The Company's authorized share capital is comprised of an unlimited number of common shares of which there are 12,382,622 outstanding as of the date of this MD&A.

Financial Instruments

The fair value of trade receivables, trade and other payables approximates their carrying value due to the immediate or short-term maturity of these financial instruments.

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

Contractual Obligations

The majority of the Company's contractual obligations consist of current and long-term capital and operating lease obligations. The Company accrues warranty costs regarding the five year warranty associated with the sale of its products. In addition, the Company has an obligation both current and long term to repay government grants. As at September 30, 2011 the Company had long-term liabilities of \$3.4 million. This compares to long-term liabilities of \$3.9 million as at March 31, 2011.

Capital Resources

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

The Company also has a credit facility from a chartered financial institution comprising a \$1.0 million revolving demand facility that is secured by certain of our assets. The facility is available for working capital requirements and general corporate purposes. As at June 30, 2011 there were no borrowings outstanding under the facility. During fiscal 2010, the Company issued performance guarantees in favour of a customer for a total of approximately \$139,000 and a portion of the revolving demand facility will be allocated for these guarantees. The guarantees expire in 2013 and 2014.

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

The Company did not enter into any transactions with related parties during Q2-FY12 YTD or during fiscal year 2011.

Disclosure Controls and Procedures

The Company's CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures for the Company. The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures as at September 30, 2011 and have determined that such disclosure controls and procedures are effective.

Internal Controls Over Financial Reporting

The CEO and CFO are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO have evaluated whether there were changes to the Company's internal control over financial reporting during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's internal controls over financial reporting as at September 30, 2011 and have determined that such internal controls over financial reporting are effective.

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Selected Consolidated Quarterly Information

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

(Unaudited)	Application of IFRS						Application of Canadian GAAP	
	Fiscal 2012		Fiscal 2011				Fiscal 2010	
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenue	\$28,624	\$26,562	\$26,690	\$25,595	\$21,692	\$19,990	\$19,382	\$20,600
Cost of goods sold	<u>12,098</u>	<u>11,291</u>	<u>11,327</u>	<u>11,135</u>	<u>8,833</u>	<u>8,252</u>	<u>8,023</u>	<u>8,248</u>
Gross margin	16,526	15,271	15,363	14,460	12,859	11,738	11,359	12,352
Gross margin %	57.7%	57.5%	57.6%	56.5%	59.3%	58.7%	58.6%	60.0%
Operating expenses:								
Sales and marketing	6,134	5,888	6,155	4,744	4,326	4,312	3,792	3,942
Research and development	3,830	3,647	3,183	3,082	3,197	2,904	2,901	2,536
General and administrative	3,853	3,141	1,923	1,779	1,630	4,204	2,358	2,602
Investment tax credits	-	-	-	-	-	-	(572)	(344)
Foreign exchange loss (gain)	-	-	-	-	-	-	487	335
Amortization	-	-	-	-	-	-	<u>1,165</u>	<u>1,002</u>
Total operating expenses	<u>13,817</u>	<u>12,676</u>	<u>11,261</u>	<u>9,605</u>	<u>9,153</u>	<u>11,420</u>	<u>10,131</u>	<u>10,073</u>
Income from operations	2,709	2,595	4,102	4,855	3,706	318	1,228	2,279
Finance income (expenses), net	<u>373</u>	<u>(203)</u>	<u>176</u>	<u>(48)</u>	<u>(187)</u>	<u>108</u>	<u>(11)</u>	<u>25</u>
Income before income taxes	3,082	2,392	4,278	4,807	3,519	426	1,217	2,304
Income tax expense	<u>1,196</u>	<u>1,121</u>	<u>979</u>	<u>447</u>	<u>747</u>	<u>1,181</u>	<u>115</u>	<u>1,111</u>
Net income (loss) and comprehensive income (loss)	<u>\$1,886</u>	<u>\$1,271</u>	<u>\$3,299</u>	<u>\$3,360</u>	<u>\$2,772</u>	<u>\$(755)</u>	<u>\$1,102</u>	<u>\$1,193</u>
Net Earnings Per Common Share:								
Basic	\$ 0.15	\$ 0.10	\$ 0.27	\$ 0.28	\$ 0.23	\$ (0.06)	\$ 0.09	\$ 0.10
Diluted	\$ 0.15	\$ 0.10	\$ 0.26	\$ 0.27	\$ 0.22	\$ (0.06)	\$ 0.09	\$ 0.10
Weighted Average Number of Common Shares Outstanding								
Basic	12,372,887	12,278,354	12,199,423	12,167,323	12,157,529	12,147,149	12,139,771	12,115,981
Diluted	12,580,533	12,625,616	12,581,101	12,510,324	12,474,096	12,399,988	12,553,459	12,463,263
Other data:								
EBITDA ⁽¹⁾	\$4,151	\$3,893	\$5,316	\$6,134	\$4,942	\$1,524	\$2,393	\$3,281
EBITDA Margin ⁽¹⁾ %	14.5%	14.7%	19.9%	24.0%	22.8%	7.6%	12.3%	15.9%
Adjusted Operating Expenses ⁽¹⁾	\$13,310	\$12,776	\$12,415	\$10,719	\$10,170	\$9,888	\$9,644	\$9,734
Adjusted Net Income ⁽¹⁾	\$2,262	\$1,187	\$2,145	\$2,246	\$1,755	\$777	\$1,412	\$1,410
Adjusted Earnings Per Common Share								
Basic	\$0.18	\$0.10	\$0.18	\$0.18	\$0.14	\$0.06	\$0.12	\$0.12
Diluted	\$0.18	\$0.09	\$0.17	\$0.18	\$0.14	\$0.06	\$0.11	\$0.11

(1) For an explanation of how EBITDA, EBITDA Margin, Adjusted Operating Expenses, Adjusted Net Income and Adjusted Earnings Per Common Share (Basic and Diluted) are calculated, please see "Non-IFRS Measures" above.

Net Income to EBITDA Reconciliation

(Unaudited)	Application of IFRS						Application of GAAP	
	Fiscal 2012			Fiscal 2011			Fiscal 2010	
	<u>Sep 30</u>	<u>Jun 30</u>	<u>Mar 31</u>	<u>Dec 31</u>	<u>Sep 30</u>	<u>Jun 30</u>	<u>Mar 31</u>	<u>Dec 31</u>
Net income (loss) and comprehensive income (loss)	\$1,886	\$1,271	\$3,299	\$3,360	\$2,772	(\$755)	\$1,102	\$1,193
Finance (income) expenses, net	(373)	203	(176)	48	187	(108)	11	(25)
Taxes	1,196	1,121	979	1,447	747	1,181	115	1,111
Amortization	<u>1,442</u>	<u>1,298</u>	<u>1,214</u>	<u>1,279</u>	<u>1,234</u>	<u>1,206</u>	<u>1,165</u>	<u>1,002</u>
EBITDA^{(1) (2)}	<u>\$4,151</u>	<u>\$3,893</u>	<u>\$5,316</u>	<u>\$6,134</u>	<u>\$4,940</u>	<u>\$1,524</u>	<u>\$2,393</u>	<u>\$3,281</u>

Notes:

- (1) For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-IFRS Measures" above.
- (2) EBITDA includes investment tax credits.

Adjusted Operating Expenses

(Unaudited)	Application of IFRS						Application of GAAP	
	Fiscal 2012			Fiscal 2011			Fiscal 2010	
	<u>Sep 30</u>	<u>Jun 30</u>	<u>Mar 31</u>	<u>Dec 31</u>	<u>Sep 30</u>	<u>Jun 30</u>	<u>Mar 31</u>	<u>Dec 31</u>
Operating Expenses	\$13,817	\$12,676	\$11,261	\$9,605	\$9,153	\$11,420	\$10,131	\$10,073
Foreign exchange (gain) loss	<u>507</u>	<u>(100)</u>	<u>(1,154)</u>	<u>(1,114)</u>	<u>(1,017)</u>	<u>1,532</u>	<u>487</u>	<u>339</u>
Adjusted Operating expenses	<u>\$13,310</u>	<u>\$12,776</u>	<u>\$12,415</u>	<u>\$10,719</u>	<u>\$10,170</u>	<u>\$9,888</u>	<u>\$9,644</u>	<u>\$9,734</u>

- (1) For an explanation of how Adjusted Operating Expenses is calculated, please see "Non-IFRS Measures" above.

Adjusted Net Income Reconciliation

(Unaudited)	Application of IFRS						Application of GAAP	
	Fiscal 2012			Fiscal 2011			Fiscal 2010	
	<u>Sep 30</u>	<u>Jun 30</u>	<u>Mar 31</u>	<u>Dec 31</u>	<u>Sep 30</u>	<u>Jun 30</u>	<u>Mar 31</u>	<u>Dec 31</u>
Net income	\$1,886	\$1,271	\$3,299	\$3,360	\$2,772	(\$755)	\$1,102	\$1,193
Foreign exchange (gain) loss	<u>376</u>	<u>(84)</u>	<u>(1,154)</u>	<u>(1,114)</u>	<u>(1,017)</u>	<u>1,532</u>	<u>310</u>	<u>217</u>
Adjusted net income	<u>\$2,262</u>	<u>\$1,187</u>	<u>\$2,145</u>	<u>\$2,246</u>	<u>\$1,755</u>	<u>\$777</u>	<u>\$1,412</u>	<u>\$1,410</u>

- (1) For an explanation of how Adjusted Net Income is calculated, please see "Non-IFRS Measures" above.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Basis of preparation and adoption of IFRS

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.

Our basis of presentation and accounting policies are described in detail in note 1 and note 3 of our consolidated interim financial statements.

Critical accounting estimates and judgments

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

- (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.

(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.

(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.

Revenue recognition

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

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

Sale of goods (hardware or software)

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

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

Rendering of services

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

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

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

Foreign currency translation

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

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

functional currency are recognized in the Consolidated Statements of Operations and Comprehensive Income.

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

Allowance for Doubtful Accounts

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

Inventories

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

Provisions

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

Warranty

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

Research and product development funding

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

Research and development costs

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

Employee benefits

Severance Fund

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

Stock-based compensation

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

Income taxes

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

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

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

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

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

Transition to International Financial Reporting Standards (IFRS)

We have historically prepared our consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the CICA Handbook. In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, effective April 1, 2011, we have ceased to prepare our consolidated financial statements in accordance with Canadian GAAP. On April 1, 2011, we started to apply IFRS as published by the International Accounting Standards Board.

The Company's IFRS conversion project began in 2009. A project plan and project team, including an external adviser, was established.

The IFRS conversion project consists of three discrete phases as follows:

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

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

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

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

- a) To elect to apply retrospective treatment to certain aspects of IAS 21, “The Effect of Changes in Foreign Exchange Rates” and deem the cumulative translation differences for all foreign operations to be zero at the transition date.
- b) To apply IFRS 3 “Business Combinations” prospectively from the transition date and therefore not restate business combinations that took place prior to the transition date. As such, Canadian GAAP balances relating to business combinations effected before the transition date, including goodwill, have been carried forward without adjustment.
- c) To apply the transition provisions of International Financial Reporting Interpretations Committee (“IFRIC”) 4 “Determining Whether an Arrangement Contains a Lease”, to determine if arrangements existing at the transition date contained a lease based on the circumstances existing at the transition date, rather than the historical date.

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

In addition to the above-noted impact on our consolidated interim balance sheet as at April 1, 2010, the following have impacted our April 1, 2010 transition date financial position and subsequent quarterly financials, as a result of the Company’s conversion to IFRS:

- (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.

- (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	-

- (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

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RECENT ACCOUNTING PRONOUNCEMENTS

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 relating 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*.

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 (“IAS28”). 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 require remeasurement 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.

Risk and Uncertainties

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

Competition

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

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

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

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

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

Growth in Key Markets

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

Growth Management

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

Dependence on Electric Power Industry

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

Impact of the Global Financial Crisis

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

Currency Fluctuations

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

Acquisitions

The Company acquired WiNetworks Ltd. on September 17, 2009 and certain assets of Bow Networks Inc. on October 29, 2010 and may engage in additional selective acquisitions. There is a risk that it will not be able to identify suitable acquisition candidates available for sale at reasonable prices. It is likely to face competition for acquisition candidates from other parties including those that have substantially greater available resources. Acquisitions may involve a number of other risks, including: diversion of management's attention; disruption to its ongoing business; failure to retain key acquired personnel; difficulties in integrating acquired operations, technologies, products or personnel; unanticipated expenses, events or circumstances; assumption of disclosed and undisclosed liabilities; and inappropriate valuation of the acquired in-process research and development. In addition, if the Company proceeds with an acquisition, its available cash may be used to complete the transaction, diminishing its liquidity and capital resources or shares may be issued which could cause significant dilution to existing shareholders.

Regulation

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

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

Reliance on Key Personnel

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

Reliance on Third-Party Suppliers

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

Manufacturing and Reliance on Contract Manufacturers

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

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

Reliance on Third Party Channel Partners

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

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

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

Protection of the Company's Intellectual Property

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

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

Rapid Technological Change

The markets for the Company's products are characterized by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. The introduction by competitors of products embodying new technology and the emergence of new industry standards can render RuggedCom's existing products obsolete and unmarketable and can exert price pressures on existing products. It is critical to the Company's success that it be able to anticipate and react quickly to changes in technology or in industry standards and successfully develop and introduce new, enhanced and competitive products on a timely basis. The Company cannot give assurance that it will successfully develop new products or enhance and improve its existing products, that new products and enhanced and improved existing products will achieve market acceptance or that the introduction of new products or enhanced existing products by others will not render the Company's products obsolete. The process of developing new technology is complex and uncertain, and, if RuggedCom fails to accurately predict customers' changing needs and emerging technological trends, its business could be harmed. The Company must commit significant resources to developing new products before knowing whether its investments will result in products the market will accept. To remain competitive, the Company may be required to invest significantly greater resources than currently anticipated in research and development and product enhancement efforts, and result in increased operating expenses.

Product Defects and Liability Claims

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

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

International Risk

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

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

Transfer Pricing

The Company conducts business operations in various jurisdictions and through legal entities in Canada, United States, Germany and Israel. RuggedCom and its wholly-owned subsidiaries, RuggedCom (USA) Inc., RuggedCom Deutschland GmbH i. Gr., RuggedCom Ltd. and Ruggedcom Asia Pte. Ltd., provides solutions to, and may from time to time undertake certain significant transactions with, other currently existing or new subsidiaries in different jurisdictions. The tax laws of these jurisdictions, including Canada, have detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm's length pricing principles and that contemporaneous documentation must exist to support that pricing. The taxation authorities in the jurisdictions where it carries on business could challenge RuggedCom's arm's length related party transfer pricing policies. International transfer pricing is a subjective area of taxation and generally involves a significant degree of judgment. If any of these taxation authorities were to successfully challenge the Company's transfer pricing policies, its income tax expense may be adversely affected and it could also be subjected to interest and penalty charges. Any such increase in its income tax expense and related interest and penalties could have a significant impact on its future earnings and future cash flows.

Economic and Geopolitical Uncertainty

The market for RuggedCom's solutions depends on economic and geopolitical conditions affecting the broader market. Economic conditions globally are beyond the Company's control. In addition, acts of terrorism and the outbreak of hostilities, disease, and armed conflicts between countries can create geopolitical uncertainties that may affect the global economy. Downturns in the economy or geopolitical uncertainties may cause end-users to delay or cancel projects, reduce their overall information technology budgets or reduce or cancel orders for the Company's solutions, which could have a material adverse effect on its business, results of operations and financial condition.

Fluctuations in Quarterly Results

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

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

Dependence on Certain Licensed Intellectual Property

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

Infringement of Intellectual Property Rights

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

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

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

Use of Open Source Software

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

Health and Safety

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

Other Tax Matters

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

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