

RuggedCom Inc.
CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2009

May 20, 2009

Auditors' Report

To the Shareholders of
RuggedCom Inc.

We have audited the consolidated balance sheets of **RuggedCom Inc.** as at March 31, 2009 and 2008 and the consolidated statements of operations and retained earnings (deficit), comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

RuggedCom Inc.
CONSOLIDATED BALANCE SHEETS
As at March 31, 2009 and 2008
(in thousands of United States dollars)

	2009	2008
	\$	\$
Assets		
Current		
Cash and cash equivalents (note 4)	45,099	8,037
Short-term investments (note 5)	-	34,194
Accounts receivable (note 6)	9,780	6,602
Prepaid expenses and other (note 7)	1,025	2,188
Inventories (note 8)	4,555	3,446
Income taxes recoverable	-	166
Future income taxes (note 14(a))	283	579
	60,742	55,212
Future income taxes (note 14(a))	246	737
Property and equipment (note 9)	2,929	2,022
Other assets (note 10)	313	239
	64,230	58,210
Liabilities		
Current		
Accounts payable and accrued liabilities	5,793	4,196
Current portion of warranty liability	482	569
Income taxes payable	2,268	-
Current portion of deferred income	50	-
Current portion of obligations under capital leases (note 16(b))	126	269
	8,719	5,034
Warranty liability	347	504
Deferred income	21	-
Obligations under capital leases (note 16(b))	48	213
Leasehold inducements	6	39
	9,141	5,790
Shareholders' Equity		
Capital stock (note 11)	46,820	46,384
Contributed surplus (note 13)	1,559	684
Accumulated other comprehensive income (loss) (note 12)	(8,952)	2,018
Retained earnings	15,662	3,334
	6,710	5,352
	55,089	52,420
	64,230	58,210

Commitments (note 16)

Contingent liabilities (note 17)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

"Peter Crombie"

Peter Crombie, Director

"J. Ian Giffen"

J. Ian Giffen, Director

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS (DEFICIT)
For the years ended March 31, 2009 and 2008
(in thousands of United States dollars except per share information)

	2009	2008
	\$	\$
Revenue	60,373	39,179
Cost of goods sold	22,268	16,468
	<hr/>	<hr/>
Gross margin	38,105	22,711
	<hr/>	<hr/>
Operating expenses		
Research and development — net of scientific research and experimental development tax credits of \$1,048 (2008 - \$722)	3,919	2,924
Sales and marketing	10,765	7,611
General and administrative	5,561	4,664
Foreign currency loss (gain)	(742)	85
Amortization	1,166	823
	<hr/>	<hr/>
	20,669	16,107
	<hr/>	<hr/>
Operating income	17,436	6,604
Net interest income	1,273	1,234
	<hr/>	<hr/>
Earnings before income taxes	18,709	7,838
	<hr/>	<hr/>
Provision for income taxes (note 14(b))		
Current	5,827	2,785
Future	554	189
	<hr/>	<hr/>
	6,381	2,974
	<hr/>	<hr/>
Net earnings for the year	12,328	4,864
	<hr/>	<hr/>
Retained earnings (deficit) — Beginning of year	3,334	(1,530)
	<hr/>	<hr/>
Retained earnings — End of year	15,662	3,334
	<hr/> <hr/>	<hr/> <hr/>
Net earnings per common share (note 18)		
Basic	\$ 1.05	\$ 0.48
Diluted	\$ 1.00	\$ 0.46
Basic weighted average number of common shares	11,771,439	10,127,253
Diluted weighted average number of common shares	12,326,514	10,935,387

See accompanying notes to consolidated financial statements.

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended March 31, 2009 and 2008
(in thousands of United States dollars)

	2009	2008
	<u>\$</u>	<u>\$</u>
Net earnings for the year	12,328	4,864
Unrealized foreign currency translation gain (loss) (note 12)	(10,970)	2,072
	<hr/>	<hr/>
Comprehensive income for the year	<u>1,358</u>	<u>6,936</u>

See accompanying notes to consolidated financial statements.

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended March 31, 2009 and 2008
(in thousands of United States dollars)

	2009	2008
	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings for the year	12,328	4,864
Non-cash items		
Amortization of property and equipment	1,097	746
Amortization of other assets	69	77
Gain on disposal of property and equipment	-	(19)
Future income taxes	554	189
Accretion and cumulative dividends on preferred shares	-	148
Stock-based compensation	1,082	432
Warranty liability	(8)	185
Leasehold inducements	(29)	4
Net change in non-cash working capital (note 15(a))	(574)	(4,442)
	14,519	2,184
Investing activities		
Disposal of (additions to) short-term investments	34,787	(33,361)
Proceeds from disposal of property and equipment	-	40
Additions to property and equipment	(2,486)	(959)
Additions to other assets	(203)	(145)
	32,098	(34,425)
Financing activities		
Repayment of obligations under capital leases	(247)	(253)
Issuance of common shares	228	39,965
Effect of exchange rates on preferred shares	-	335
Share issuance costs	-	(3,802)
	(19)	36,245
Effect of foreign currency exchange rates on cash and cash equivalents	(9,536)	717
Increase in cash and cash equivalents during the year	37,062	4,721
Cash and cash equivalents — Beginning of year	8,037	3,316
Cash and cash equivalents — End of year (note 15(b))	45,099	8,037

See accompanying notes to consolidated financial statements.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009 and 2008

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

1. THE COMPANY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP).

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries (RuggedCom (USA) Inc. and RuggedCom Deutschland GmbH i. Gr.). All material intercompany balances and transactions have been eliminated.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The significant areas requiring management's estimates include the allowance for doubtful accounts, allowance for inventory obsolescence, the estimated useful lives of long-lived assets, the value of future income tax assets and liabilities, accruals for warranty and employee-related liabilities, and assumptions relating to the fair value of stock-based compensation, warrants and financial instruments.

Foreign currency translation

For foreign currency balances and integrated subsidiaries, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet dates and non-monetary assets and liabilities are translated at the rate of exchange in effect when the assets are acquired or obligations incurred. Revenues and expenses are translated into Canadian dollars, the company's functional currency, at the monthly average exchange rates. Provisions for amortization are translated at the same rate as the related items.

Reporting currency translation

The financial statements for all years presented have been translated into United States dollars, the reporting currency, using the current rate method. Under this method, the financial statements have been translated as follows: For fiscal years subsequent to March 31, 2006, the assets and liabilities were translated into United States dollars using the exchange rate in effect at each quarter end. revenue and expenses were translated using the average quarterly exchange rate in effect during these periods. Equity transactions were translated on the date the transaction occurred. All exchange rate differences resulting from translation are included in the accumulated other comprehensive income.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009 and 2008

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand 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.

Inventories

Inventories are recorded at the lower of cost or fair value, cost being determined on an average cost basis. The cost of finished goods and work-in-process comprise material, labour and manufacturing overhead.

Investment tax credits

The Company is entitled to certain Canadian federal and provincial tax incentives for qualified scientific research and experimental development expenditures. Tax incentives refundable to the Company are recorded when the qualifying expenditure is incurred and there is a reasonable assurance that the refund will be received.

Research and development costs

Research and development costs incurred prior to establishing the technological feasibility of products are expensed as incurred. Once the technological feasibility is established, direct costs incurred to develop the product, net of investment tax credits received, are capitalized until the product is available for general release. To date, products developed have had a very short time frame between technological feasibility and commercialization. As a result, the Company has expensed all related costs as incurred.

Property and equipment

Property and equipment are recorded at cost, less accumulated amortization. Amortization is provided over the estimated useful lives as follows:

Leasehold improvements	straight-line over the term of the lease
Office furniture and equipment	5 years straight-line
Computer hardware	5 years straight-line
Computer software	3 years straight-line
Furniture and equipment, computer hardware and software, and leasehold improvements under capital lease	straight-line over the term of the lease
Evaluation units	3 years straight-line
Tooling	5 years straight-line

Intangible assets

Intangible assets comprise trademarks, patents and other intangibles and are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful life of five years.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009 and 2008

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-lived asset impairment

Management reviews the carrying amount of its long-lived assets if events or circumstances indicate that the carrying amount may not be recoverable. Recoverability is measured by comparing the carrying amounts of the assets to the future undiscounted net cash flows expected to be generated by those assets. If the carrying amount is not recoverable, the Company would recognize an impairment loss equal to the amount that the carrying amount of the assets exceeds their fair value.

Financing fees

Financing fees consist of costs incurred in connection with the issuance of financial liabilities and are added to the carrying amount of the related financial instrument and amortized using the effective interest method.

Related party transactions

Related party transactions have been recorded at their exchange amount, which is the amount of consideration agreed to by both parties, unless otherwise indicated.

Stock-based compensation

The Company reports and records all stock-based transactions following the guidelines of The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. The guidelines use a fair value methodology for recording all stock-based awards to employees issued or altered in the year. The Black-Scholes option pricing model is used to determine the fair value. The fair value of stock options and warrants are determined at the date of grant and charged to operations over the period of vesting.

Revenue recognition

The Company derives revenue from the sale of Ethernet based networking products, which includes embedded software and a license to use said software, post contract customer support, customer services and product warranties. Software is considered to be incidental to the product. Post contract customer support consists of on-site support. Services range from installation and training to basic consulting. Revenue is recognized when persuasive evidence of an arrangement exists, shipment has occurred, there are no significant remaining vendor obligations, collection of receivables is probable and the fee is fixed and determinable. The Company's business agreements contain multiple elements, however to date revenue from multiple elements has not been significant. Accordingly, the Company is required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, the fair value of these separate units of accounting and when to recognize revenue for each element.

For arrangements involving multiple elements, the Company allocates revenue to each component of the arrangement using the residual value method, based on vendor-specific objective evidence of the fair value of the undelivered elements. These elements may include one or more of the following: advanced replacement, training and installation. The Company first allocates the arrangement fee, in a multiple element transaction, to the undelivered elements based on the total fair value of those undelivered elements, as indicated by vendor-specific objective evidence. This portion of the arrangement fee is deferred. Then the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. In some instances, a group of contracts or agreements with the same customer may be so closely related that they are, in effect, part of a single multiple element arrangement and, therefore, the Company will allocate the corresponding revenue among the various components, as described above.

Revenue from engineering services or development agreements is recognized according to the specific terms and acceptance criteria, as services are rendered.

Shipping and handling costs borne by the Company are recorded in costs of goods sold. Shipping and handling costs charged to customers are recorded as revenue.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Warranty costs

The Company's products have an associated five-year product warranty. A liability for the expected cost of warranty related claims is established when products are sold and the related revenue is recognized. The amount of the warranty liability accrued reflects an estimate of the expected future costs of honouring obligations under the warranty. In estimating the warranty liability, anticipated replacement costs and associated labour to correct the product's failure are considered. Should future product failure rates and/or replacement costs differ from these estimated levels, revisions to the warranty liability may be required.

Income taxes

The Company accounts for income taxes under the liability method and records future income tax assets and liabilities that reflect the net income tax effects of temporary differences between carrying amounts for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are established to the extent that it is more likely than not that they will not be realized.

Share issuance costs

Costs incurred in connection with the issuance of capital stock are netted against the proceeds received.

Per share amounts

Basic net earnings per common share is computed by dividing the net income by the weighted average number of common shares outstanding for the year. Diluted net earnings per common share is computed by dividing dilutive net earnings by the diluted weighted average number of common shares outstanding for the year. In the calculation of diluted per common share amounts, options under the stock-based compensation plan are assumed to have been converted or exercised on the later of the beginning of the year and the date granted. Diluted per common share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares. In net loss per common share situations, the diluted loss per common share amount is the same as that for basic, as all factors are anti-dilutive.

Accounting changes

In July 2006, the CICA issued revised handbook Section 1506, Accounting Changes. This new standard establishes criteria for the changes in the accounting policies along with the accounting treatment and disclosures required on adoption of the new accounting policies, estimates and corrections of errors. The standard was applied prospectively for the Company's 2008 fiscal year. On the adoption of this standard, there was no material impact on the Company's consolidated financial statements.

Financial instruments

On April 1, 2007, the Company adopted the recommendations of the CICA Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3865, Hedges. Under the new standards, policies followed for years prior to the effective date generally were not reversed.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009 and 2008

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net earnings calculated in accordance with Canadian GAAP. On adoption, foreign translation adjustments were recorded in the consolidated statements of comprehensive income.

Section 3862 and 3863 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the consolidated balance sheets and at what amount, requiring fair value or cost-based measures under different circumstances. Under the new standard, financial assets and financial liabilities are initially recognized at fair value and are subsequently measured based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Generally the classification cannot be changed subsequent to designation at initial recognition of the instruments.

Asset/Liability	Classification	Measurement
Cash equivalents and short term investments	Held-to-maturity	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Warranty	Other financial liabilities	Amortized cost
Obligation under capital leases	Other financial liabilities	Amortized cost

Held-for-trading

These instruments are accounted for at fair value with the change in fair value recognized in net earnings during the year.

Held-to-maturity

When the Company has positive intention and the ability to hold to maturity a short-term investment, it is classified as held-to-maturity and accounted for at amortized cost, using the effective interest rate method.

Loans and receivables

On the adoption of the new standard, accounts receivable were classified as loans and receivables and are carried at amortized cost. This classification is consistent with the classification under the prior accounting standard.

Available-for-sale

Financial assets designated to be available-for-sale or not designated as one of the above categories are classified as available-for-sale. These assets are accounted for at fair value, with changes in fair value recognized in other comprehensive income.

Other financial liabilities

Accounts payable, accrued liabilities and warranty have been classified as other financial liabilities on the adoption of the new recommendations. Financial liabilities are initially recognized at fair value and are subsequently measured at amortized cost.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009 and 2008

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Embedded derivatives

Derivatives may be embedded in other financial and non-financial instruments (the "host instrument"). Prior to the adoption of the new standards, embedded derivatives were not accounted for separately from the host instrument. Under the new standard, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument. The terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in the statement of earnings and retained earnings (deficit) as an element of general and administrative expenses. During the fiscal year, the Company reviewed its contracts for embedded derivatives and did not identify any embedded features that required separate presentation from the related host contract. From time to time, the Company entered into certain contracts for the purchase or sale of non-financial items that are denominated in currencies other than the Canadian dollar.

In cases where the foreign exchange component is not leveraged and does not contain an option feature and the contract is denominated in the functional currency of the counter party, the embedded derivative is considered to be closely related and is not accounted for separately.

Credit risk

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

Credit risk associated with cash equivalents and short-term investments is minimized substantially by ensuring that these financial assets are placed with governments, well-capitalized institutions and other credit worthy counterparties. Ongoing review is performed to evaluate changes in the status of counterparties.

Credit risk associated with accounts receivable is minimized by the Company's large customer base, which is engaged in various industry segments and geographical regions as outlined in note 19. These specific industry segments and geographical regions may be affected by economic factors, which may impact accounts receivable. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. Management does not believe that any single industry segment or geographical region represents significant credit risk. Provisions against losses from bad debts are estimated according to credit risk, historical trends and other information. Credit risk concentration is disclosed in note 22.

Fair value

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

Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash equivalents and short-term investments. The Company is also exposed to interest rate fluctuations with respect to the use of its revolving credit facility, which bears interest at floating rates. Management does not believe the impact from the interest rate risk will be significant.

Currency risk

The Company enters into transactions in multiple currencies and is subject to gains and losses due to fluctuations between those currencies. A substantial portion of the Company's revenue is earned in US dollars, but a substantial portion of its operating expenses are incurred in Canadian dollars. Fluctuations in the exchange rate between the US dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on the Company's business, financial condition and operating results. The Company intends to continue to expand operations internationally, so it may be subject to additional gains and losses against additional currencies. The Company does not currently have a foreign exchange hedging program in place.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009 and 2008

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Transaction costs

Transaction costs that are directly attributable to the acquisition of a financial asset or the issuance of a financial liability are added to the value of the instrument.

New accounting pronouncements

The CICA has issued Section handbook 3064, Goodwill and Intangible Assets, to replace Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets to converge with international financial reporting. This standard was effective for fiscal years beginning on or after October 1, 2008 and will be adopted by the Company effective April 1, 2009. The Company is in the process of evaluating the impact of the adoption of this standard on its consolidated financial statements.

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

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

International Financial Reporting Standards

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

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Inventories

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

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

3. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)

Capital Disclosures

Effective April 1, 2008, the Company has adopted CICA Handbook Section 1535, Capital Disclosures. This new guidance establishes standards for disclosing information about an entity's capital and how it is managed. This standard requires the disclosure of an Company's objectives, policies and processes for managing capital and information regarding an Company's compliance or non-compliance with any capital requirements. This standard affects disclosure only. Refer to note 21, Capital Disclosures.

Financial Instruments

Effective April 1, 2008, the Company has adopted CICA Handbook Sections 3862, Financial Instruments: Disclosures, and 3863, Financial Instruments: Presentation. These new standards establish additional presentation and disclosure requirements including the significance of financial instruments to the Company's position and performance and discussion regarding the nature and extent of risks surrounding the Company's financial instruments. This standard affects disclosure only. Refer to note 22, Financial Instruments.

4. REVOLVING DEMAND FACILITY

The Company has a \$1,000 Canadian dollar revolving demand facility with a major Canadian financial institution. Funds drawn against this facility bear interest at prime rate. The use of the revolving demand facility has been restricted by \$139 United States dollars as security for guarantees. The bank has a first ranking on \$1,000 Canadian of term deposits and bank balances. As at March 31, 2009 and 2008, there was no balance drawn against this facility.

5. SHORT TERM INVESTMENTS

As at March 31, 2009, there were no short-term investments held by the Company. At March 31, 2008 the short-term investments consisted of guaranteed investment certificates. The guaranteed investment certificates were invested in Canadian dollars, and earned interest at a rate of 4.48% and matured during the year.

6. ACCOUNTS RECEIVABLE

	2009	2008
	\$	\$
Trade receivables	9,816	6,659
Allowance for doubtful accounts	(36)	(57)
	9,780	6,602
	9,780	6,602

7. PREPAID EXPENSES AND OTHER

	2009	2008
	\$	\$
Investment tax credits	-	513
Deposits	393	290
Prepaid expenses	376	104
Interest receivable	17	1,125
Other	239	156
	1,025	2,188
	1,025	2,188

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009 and 2008

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

8. INVENTORIES

	2009	2008
	\$	\$
Raw materials	4,437	3,371
Finished goods	118	75
	4,555	3,446

Included in cost of goods sold is \$247 (2008 - \$398) recognized as an expense in the year as a provision for the writedown of any losses of inventories.

9. PROPERTY AND EQUIPMENT

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Leasehold improvements under capital lease	10	9	1
Leasehold improvements	229	174	55
Office furniture and equipment	851	386	465
Computer hardware	843	147	696
Computer software	1,376	466	910
Furniture and equipment under capital lease	650	506	144
Computer hardware and software under capital lease	220	195	25
Evaluation units	880	506	374
Tooling	507	248	259
	5,566	2,637	2,929

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Leasehold improvements under capital lease	13	5	8
Leasehold improvements	86	23	63
Office furniture and equipment	615	375	240
Computer hardware	327	89	238
Computer software	666	374	292
Furniture and equipment under capital lease	798	435	363
Computer hardware and software under capital lease	271	175	96
Evaluation units	775	367	408
Tooling	510	196	314
	4,061	2,039	2,022

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

10. OTHER ASSETS

	2009		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Intangible assets			
Patent	90	31	59
Trademarks	343	103	240
Other	14	-	14
	447	134	313
	447	134	313
	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Intangible assets			
Patent	75	22	53
Trademarks	251	65	186
Financing fees	312	312	-
	638	399	239
	638	399	239

11. CAPITAL STOCK

Authorized

Unlimited number of Class A Shares

Unlimited number of common shares

Issued

	2009		2008	
	Number of shares	Amount \$	Number of shares	Amount \$
Common shares balance - Beginning of year	11,717,268	46,384	5,345,717	3,211
Issued from treasury on initial public offering and overallotment (a)	-	-	3,229,401	36,715
Conversion of Preferred shares	-	-	2,703,432	5,476
Issued for options exercised (b)	95,340	436	438,718	982
	11,812,608	46,820	11,717,268	46,384
	11,812,608	46,820	11,717,268	46,384

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11. CAPITAL STOCK (continued)

(a) On June 21, 2007, the Company issued and sold by initial public offering 2,808,175 common shares from treasury at \$12.12 (\$13.00 Canadian) per common share, for \$34,024 (\$36,506 Canadian). Offering expenses before future income taxes were \$3,517 (\$3,807 Canadian). A future income tax asset of \$1,180 (\$1,291 Canadian), relating to a timing difference on the treatment of the offering expenses for accounting versus tax was realized. The net adjustment to equity after accounting for the future tax asset is \$2,337 (\$2,516 Canadian).

On June 21, 2007, a secondary offering by existing shareholders of the Company was offered for 271,825 common shares at \$12.12 (\$13.00 Canadian) per common share for \$3,294 (\$3,534 Canadian). The proceeds were attributed to the existing shareholders; therefore, the Company did not receive any of the proceeds. Offering expenses of \$66 (\$72 Canadian) were borne by the Company on behalf of the exiting shareholders and expensed in the year.

On July 16, 2007, the underwriters of the initial public offering exercised their option to purchase common shares. The Company issued 421,226 common shares from treasury at \$12.46 (\$13.00 Canadian) per common share and received \$5,250 (\$5,476 Canadian). Offering expenses before future income taxes were \$341 (\$356 Canadian). A future income tax asset of \$118 (\$123 Canadian) relating to a timing difference on the treatment of the offering expenses for accounting versus tax has been realized. The net adjustment to equity after accounting for the future tax asset is \$222 (\$233 Canadian).

(b) Common shares issued for options vested and exercised in the year were 95,340 (2008 - 438,718) at a weighted average share price of \$2.44 (\$2.75 Canadian) (2008 - \$1.57 (\$1.61 Canadian)).

Employee stock options

Stock options have been granted since inception to employees and other individuals on a case-by-case basis to attract the right professionals and reward them for their efforts. In 2004, the Company established the 2004 Stock Option Plan, which authorized 750,000 common shares to be available for grants to directors, officers and employees of the Company. The plan also allows for share appreciation rights. To date, there have been no share appreciation rights granted. On March 21, 2007, this plan was amended to increase the maximum number of common shares issuable under the plan to a maximum of 1,200,000 common shares. Stock options granted under the plan to date have a seven-year term and, other than in respect of grants to directors, contain vesting provisions of 25% on the first anniversary date of the grant, with the remainder vesting monthly on a straight-line basis over the next 30 months. Grants to directors vest fully at the date of grant.

The following table summarizes the stock options outstanding as at March 31:

	2009		2008	
	Number of stock options	Weighted average exercise price \$	Number of stock options	Weighted average exercise price \$
Outstanding - Beginning of year	803,772	5.73	1,047,183	2.54
Granted	97,500	16.79	206,550	11.26
Exercised	(95,340)	2.44	(438,718)	1.57
Forfeited	(26,913)	7.60	(11,243)	2.36
Outstanding - End of year	<u>779,019</u>	6.30	<u>803,772</u>	5.73
Options exercisable - End of year	<u><u>516,534</u></u>	4.68	<u><u>393,152</u></u>	2.29

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11. CAPITAL STOCK (continued)

In fiscal 2009, the Company granted an aggregate of 97,500 stock options to certain directors, officers and employees of the Company. Sixty thousand of these stock options vested immediately upon grant. The remainder of these stock options vest on the first anniversary date of the grant, followed by monthly vesting on a straight-line basis over 30 months following the first anniversary date of the grant.

The average fair value assigned to the 97,500 stock options at the time of the grant was \$7.75 (\$9.64 Canadian) per option estimated using the Black Scholes option pricing model with the following assumptions: stock price on the date of grant was between \$15.89 to 17.69 (\$19.75 and \$22.00 Canadian) per share; 63% volatility; a five year estimated life; risk-free interest rate of 2.00%; and expected dividend yield of nil.

In fiscal 2008, the Company granted an aggregate of 206,550 stock options to certain directors, officers and employees of the Company. One quarter of these stock options vest on the first anniversary date of the grant, and the remainder vest monthly on a straight-line basis over 30 months following the first anniversary date of the grant.

The average fair value assigned to the 206,550 stock options at the time of the grant was \$5.68 (\$5.83 Canadian) per option estimated using the Black Scholes option pricing model, with the following assumptions: stock price on the date of grant was between \$11.20 to 12.90 (\$11.50 and \$13.24 Canadian) per share; 40% to 45% volatility; a five to seven year estimated life; risk-free interest rate of between 3.05% and 4.13%; and expected dividend yield of nil.

Issue dates	Stock options outstanding			
	Range of exercise prices \$	Number of stock options	Weighted average remaining life (years)	Weighted average exercise price per stock option \$
August 18, 2004 to September 27, 2006	1.17	374,006	3.15	1.17
March 25, 2008	9.12	185,050	5.98	9.12
February 6, 2008	9.32	5,000	5.85	9.32
March 21, 2007 to April 25, 2007	9.51	112,463	4.97	9.51
November 7, 2007	10.50	5,000	5.60	10.50
February 13, 2009	16.55	97,500	6.87	16.55

Issue dates	Stock options exercisable		
	Range of exercise prices \$	Number of stock options	Weighted average exercise price per stock option \$
August 18, 2004 to September 27, 2006	1.17	347,694	1.17
March 25, 2008	9.12	46,255	9.12
February 6, 2008	9.32	1,374	9.32
March 21, 2007 to April 25, 2007	9.51	59,461	9.51
November 7, 2007	10.50	1,750	10.50
February 13, 2009	16.55	60,000	16.55

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11. CAPITAL STOCK (continued)

Warrants

During the year ended March 31, 2004, the Company issued a warrant to a shareholder to purchase 250,000 common shares at an exercise price of \$6.00 per share. The warrant is exercisable until the earliest of certain events, including two years following an initial public offering of the Company's common shares. The fair value of this warrant when granted was \$nil. These warrants are still outstanding at March 31, 2009.

Warrants granted were valued using the Black-Scholes option pricing model with the following assumptions: stock price on the date of grant was \$1.50 per share; 80% volatility; a three-year estimated life; risk-free interest rate of 5%; and expected dividend yield of nil.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	2009	2008
	\$	\$
Balance - Beginning of the year	2,018	(54)
Unrealized foreign currency gain (loss) for the year	(10,970)	2,072
Balance - End of the year	<u>(8,952)</u>	<u>2,018</u>

13. CONTRIBUTED SURPLUS

The following table presents the reconciliation of contributed surplus with respect to stock-based compensation:

	2009	2008
	\$	\$
Balance - Beginning of year	684	1,344
Stock-based compensation expense (included in general and administrative)	1,082	432
Conversion of preferred shares	-	(798)
Fair value of options exercised	(207)	(294)
Balance - End of year	<u>1,559</u>	<u>684</u>

RuggedCom Inc.
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14. INCOME TAXES

(a) Future

	2009	2008
	\$	\$
Future income tax assets		
Financing costs	623	1,075
Non-deductible reserves	392	439
Obligation under capital lease	54	151
Other	60	-
	1,129	1,665
Future income tax liabilities		
Property and equipment	249	222
Investment tax credits	258	56
Intangible assets	93	71
	600	349
Net income tax asset	529	1,316
Less: Current portion	283	579
	246	737

(b) Expense reconciliation

	2009	2008
	\$	\$
Earnings before income taxes	18,709	7,838
Tax at statutory rate (31.77% ;2008 -33.77%)	5,944	2,647
Permanent differences	443	258
Scientific research and experimental development	(20)	(118)
Effect of rate change	30	128
Other	(16)	59
	6,381	2,974

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15. SUPPLEMENTAL CASH FLOW INFORMATION

a) Net change in non-cash working capital

	2009	2008
	\$	\$
Accounts receivable	(4,782)	(2,182)
Prepaid expenses and other	879	(618)
Inventories	(1,963)	(904)
Accounts payable and accrued liabilities	2,644	248
Income taxes payable	2,606	(986)
Deferred income	42	-
	(574)	(4,442)
	(574)	(4,442)

b) Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2009	2008
	\$	\$
Cash	2,946	1,541
Cash equivalents	42,153	6,496
	45,099	8,037
	45,099	8,037

(c) Supplemental disclosures

	2009	2008
	\$	\$
Interest paid	44	82
Income taxes paid	1,820	2,623

RuggedCom Inc.
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16. COMMITMENTS

a) As at March 31, 2009, the Company has annual commitments for office premises and equipment operating leases as follows:

	<u>\$</u>
2010	694
2011	776
2012	780
2013	728
2014	582
	<u>3,560</u>

b) The Company has entered into capital leases, collateralized by certain property and equipment. These leases carry an interest charged at rates between 7% and 15%, maturing between 2009 and 2012.

Included in interest expense is an amount of \$44 (2008 - \$82) of interest on obligations under capital leases.

Future minimum lease payments under capital leases are as follows:

	<u>\$</u>
2010	139
2011	39
2012	13
Total minimum lease payments	191
Less: Amount representing interest	17
Balance of obligation	174
Less: Current portion	126
	<u>48</u>

c) The Company indemnifies its current and former directors and officers, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the officers as a result of any lawsuit or any other judicial, administrative or investigative proceeding in which the officers are sued as a result of their services. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of this indemnity prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors' and officers' liability insurance. No amount has been recorded in the consolidated financial statements with respect to the indemnification of directors and officers.

RuggedCom Inc.
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17. CONTINGENT LIABILITIES

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

18. EARNINGS PER COMMON SHARE

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

	2009	2008
Net earnings attributable to common shareholders	\$ 12,328	\$ 4,864
Accretion	-	148
	<hr/>	<hr/>
Dilutive net earnings attributable to common shareholders	\$ 12,328	\$ 5,012
	<hr/> <hr/>	<hr/> <hr/>
Common shares outstanding — Beginning of year	10,127,253	5,332,898
Weighted average number of common shares issued in the year	1,644,186	4,794,355
	<hr/>	<hr/>
Basic weighted average number of common shares	11,771,439	10,127,253
Effect of dilutive securities, stock options and warrants	555,075	808,134
	<hr/>	<hr/>
Diluted weighted average diluted common shares outstanding — End of year	<hr/> <hr/> 12,326,514	<hr/> <hr/> 10,935,387

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19. SEGMENTED INFORMATION

The Company manages its operations and determines its sales segments on a geographic and industry basis. Segments are defined as components for which information is available and is regularly evaluated by the chief operating decision maker or decision making group.

Sales by region	2009	2008
	\$	\$
North America	28,203	18,856
Latin America	3,652	2,503
Asia Pacific	12,259	5,315
Europe, Middle East and Africa	16,259	12,505
Total	<u>60,373</u>	<u>39,179</u>

Sales by industry	2009	2008
	\$	\$
Electric Power (Utilities)	39,671	26,399
Transportation Systems	7,525	4,884
Industrial Processes	7,034	4,282
Military	5,996	3,295
Other	147	319
Total	<u>60,373</u>	<u>39,179</u>

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

	2009	2008
Canada	10.5%	10.7%
USA	36.0%	37.4%

All material assets are held in Canada.

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20. ECONOMIC DEPENDENCY AND CONCENTRATION OF CREDIT RISK

In fiscal 2009, the Company had sales to two customers which accounted for 20.1% of total sales (2008 — 22.0%). As at March 31, 2009 and 2008, two customers accounted for 23.2% and 28.2% of accounts receivable, respectively. The Company believes that credit risk on these financial instruments is negligible.

21. CAPITAL DISCLOSURES

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

22. FINANCIAL INSTRUMENTS

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

Classification	2009	2008
	\$	\$
Held to maturity (1)	42,153	40,690
Loans and receivables (2)	9,780	6,602
Other financial liabilities (3)	6,622	5,269

(1) Includes cash equivalents and short term investments

(2) Includes accounts receivable

(3) Includes accounts payable and accrued liabilities

Fair value

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

Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash equivalents and short-term investments. The Company is also exposed to interest rate fluctuations with respect to the use of its revolving credit facility, which bears interest at floating rates. Management does not believe the impact from the interest rate risk would be significant. Recognized interest income for the Company's cash equivalents and short-term investments for the year ended March 31, 2009 was \$1,279 (2008 - \$1,476).

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22. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

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

Credit risk associated with accounts receivable is minimized by the Company's program of credit evaluations of customers with limits on the amount of credit extended. Credit risk is further minimized through the large diversified customer base, which is engaged in various industry segments and geographical regions as outlined in note 19. These specific industry segments and geographical regions may be affected by economic factors, which may impact accounts receivable. Management does not believe that any single industry segment or geographical region represents significant credit risk. Provisions against losses from bad debts are estimated according to credit risk, historical trends and other information. Credit risk concentration is disclosed in note 20. Credit terms with customers normally range between 30 to 90 days. As at March 31, 2009, \$504 was over 90 days and of this amount, \$34 was allowed for and \$455 was collected after the year-end. None of the amounts outstanding have been challenged by the customers and the Company continues to conduct business with them. Accordingly, management has no reason to believe that this balance is not fully collectible in the future.

Currency risk

The Company enters into transactions in multiple currencies and is subject to gains and losses due to fluctuations between those currencies. A substantial portion of the Company's revenue is earned in US dollars, but a substantial portion of its operating expenses are incurred in Canadian dollars. Fluctuations in the exchange rate between the United States dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on the Company's business, financial condition and operating results. The Company intends to continue to expand operations internationally so it may be subject to additional gains and losses against additional currencies. The Company does not currently have a foreign exchange hedging program in place.

If the Canadian dollar had depreciated 5 percent against the United States dollar at March 31, 2009, with all other variables held constant, the impact of the foreign currency change on the Company's United States denominated financial instruments would lead to an additional after tax net earnings of \$272 for the year ended March 31, 2009. If the Canadian dollar had appreciated 5 percent against the United States dollar at March 31, 2009, with all other variables held constant, the impact of the foreign currency change on the Company's United States denominated financial instruments would lead to a decrease of after tax net income of \$272 for the year ended March 31, 2009.

Liquidity risk

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

23. COMPARATIVE FIGURES

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