

RuggedCom Inc.
CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2011

May 25, 2011

Independent Auditor's Report

To the Shareholders of RuggedCom Inc.

We have audited the accompanying consolidated financial statements of RuggedCom Inc. (the Company), which comprise the consolidated balance sheets as at March 31, 2011 and 2010 and the consolidated statements of operations and retained earnings, comprehensive income and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RuggedCom Inc. as at March 31, 2011 and 2010 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, 2011 and 2010
(in thousands of United States dollars)

	2011	2010
	\$	\$
Assets		
Current		
Cash and cash equivalents (note 5 and 16 (e))	38,106	33,140
Accounts receivable (note 6)	18,264	13,494
Prepaid expenses and other (note 7)	2,111	1,825
Inventories (note 8)	14,859	10,497
Income taxes recoverable	-	1,036
Future income taxes (note 14(a))	644	637
	73,984	60,629
Future income taxes (note 14(a))	-	431
Severance pay fund	272	520
Property and equipment (note 9)	11,188	11,372
Goodwill (note 4)	3,693	1,928
Intangible assets (note 10)	10,975	11,373
	100,112	86,253
Liabilities		
Current		
Accounts payable and accrued liabilities	8,131	7,618
Current portion of warranty liability	696	604
Income taxes payable	1,304	280
Current portion of deferred income	138	99
Current portion of lease costs	26	26
Current portion of obligations under capital leases (note 16(b))	83	105
	10,378	8,732
Future income tax liability (note 14(a))	201	-
Warranty liability	389	413
Deferred income	224	32
Severance payable	312	558
Obligations under capital leases (note 16(b))	17	95
Lease costs payable	308	265
	11,829	10,095
Shareholders' Equity		
Capital stock (note 11)	49,511	48,886
Contributed surplus (note 13)	3,844	2,538
Accumulated other comprehensive income (note 12)	8,894	4,887
Retained earnings	26,034	19,847
	34,928	24,734
	88,283	76,158
	100,112	86,253

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
For the years ended March 31, 2011 and 2010
(in thousands of United States dollars except per share information)

	2011	2010
	\$	\$
Revenue	93,967	72,739
Cost of goods sold	38,171	30,058
	<hr/>	<hr/>
Gross margin	55,796	42,681
	<hr/>	<hr/>
Operating expenses		
Research and development	12,599	9,242
Sales and marketing	18,224	14,197
General and administrative	10,216	8,721
Investment tax credits	(2,171)	(1,302)
Loss on foreign exchange	1,176	2,351
Amortization	5,363	3,068
	<hr/>	<hr/>
	45,407	36,277
	<hr/>	<hr/>
Operating income	10,389	6,404
Net interest income	247	115
	<hr/>	<hr/>
Income before income taxes	10,636	6,519
	<hr/>	<hr/>
Provision for (recovery of) income taxes (note 14(b))		
Current	3,811	2,745
Future	638	(411)
	<hr/>	<hr/>
	4,449	2,334
	<hr/>	<hr/>
Net income for the year	6,187	4,185
	<hr/>	<hr/>
Retained earnings — Beginning of year	19,847	15,662
	<hr/>	<hr/>
Retained earnings — End of year	26,034	19,847
	<hr/> <hr/>	<hr/> <hr/>
Net earnings per common share (note 18)		
Basic	\$ 0.51	\$ 0.35
Diluted	\$ 0.50	\$ 0.33
Basic weighted average number of common shares outstanding	12,167,740	12,062,547
Diluted weighted average number of common shares outstanding	12,493,120	12,577,790

See accompanying notes to consolidated financial statements.

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended March 31, 2011 and 2010
(in thousands of United States dollars except per share information)

	2011	2010
	\$	\$
Net income for the year	6,187	4,185
Unrealized foreign currency translation gain (note 12)	4,007	13,839
	<hr/>	<hr/>
Comprehensive income for the year	<u>10,194</u>	<u>18,024</u>

See accompanying notes to consolidated financial statements.

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended March 31, 2011 and 2010
(in thousands of United States dollars except per share information)

	2011	2010
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income for the year	6,187	4,185
Non-cash items		
Amortization of property and equipment	3,199	2,191
Amortization of other assets	2,164	877
Future income taxes	638	(411)
Stock-based compensation	1,541	1,175
Warranty liability	25	(136)
Lease costs	26	259
Net change in non-cash working capital (note 15(a))	(5,562)	(9,004)
	8,218	(864)
Investing activities		
Acquisition of subsidiary (note 4(b))	-	(8,138)
Acquisition of business assets (note 4(a))	(2,177)	
Additions to property and equipment	(1,955)	(8,724)
Additions to other assets	(1,172)	(1,370)
	(5,304)	(18,232)
Financing activities		
Repayment of obligations under capital leases	(105)	(194)
Issuance of common shares	388	1,875
Repayment of loan	-	(4,875)
	283	(3,194)
Effect of exchange rates on cash	1,769	10,331
Increase (decrease) in cash and cash equivalents during the year	4,966	(11,959)
Cash and cash equivalents — Beginning of year	33,140	45,099
Cash and cash equivalents — End of year (note 15(b))	38,106	33,140

See accompanying notes to consolidated financial statements.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011 and 2010

(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 provides rugged communications networking solutions designed for mission-critical applications in harsh environments.

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, RuggedCom Deutschland GmbH i. Gr., WiNetworks Ltd. and Ruggedcom Asia Pte. Ltd.). 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 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 Company's reporting currency, using the current rate method. Under this method, the financial statements have been translated as follows: the assets and liabilities were translated into United States dollars using the exchange rate in effect at balance sheet date. Revenues and expenses were translated at the average quarterly exchange rate prevailing during the quarter. Equity transactions were translated on the date the transaction occurred. All exchange rate differences resulting from translation are included in accumulated other comprehensive income.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011 and 2010

(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.

Government assistance

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.

One of the company's subsidiaries participates in programs sponsored by foreign governments for the support of research and development activities. Grants are recorded when there is a reasonable assurance that the funds 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.

Severance pay 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 Company's liability is fully provided for by monthly deposits for insurance policies and by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet.

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
Automobile	5 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

RuggedCom Inc.
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets are comprised of trademarks, patents, domain names, technological assets, customer assets, software and certain agreements.

Separately acquired trademarks, patents and domain names are shown at historical cost. Those intangibles assets acquired in a business combination are recognized at fair value at the time of acquisition. These items have a finite life and are carried at cost less accumulated amortization.

These items are amortized using the straight-line method since this is the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The estimated useful lives are as follows:

Patents, trademarks and domain names: 5 years

Software: 3 years

Customer assets: 5 years

Technological assets: 8 years

Goodwill

Goodwill represents the excess of the purchase price of an acquisition over the fair value of the net identifiable assets acquired at the date of acquisition.

Goodwill is tested annually for impairment or more often if events or changes in circumstances indicate the asset may be impaired. The asset is carried at cost less accumulated impairment losses.

Goodwill is allocated to reporting units for the purposes of impairment testing. The allocation is made to those reporting units that are expected to benefit from the business combination.

Impairment of long-lived assets

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 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.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011 and 2010

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue comprises revenue from the sale of goods and the rendering of services. Revenue is measured by reference to the fair value of consideration received or receivable by the Company for goods supplied and services provided, excluding sales tax but net of returns and trade discounts.

The Company often enters into sales transactions involving a range of the Company's products and services (multiple components), for example, for the delivery of hardware, software and related after-sales service. The Company aligns the revenue recognition criteria set out below with each separately identifiable component of the sales transaction in order to reflect the substance of the transaction. The consideration received from these transactions is allocated to the separately identifiable components using the relative selling price method, based on vendor-specific objective evidence or 3rd party evidence of selling price, if both are not available estimated selling price is used. These elements may include one or more of the following: product, 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 is recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Company's different activities has been met. These activity-specific recognition criteria are based on the goods or solutions provided to the customer and the contract conditions in each case and are described below.

Sale of goods

Sale of goods comprises the sale of Ethernet based and wireless networking products, which includes embedded software and a license to use said software, post customer support, customer services and product warranties. Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods supplied. Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken undisputed delivery of the goods.

Revenue from the sale of hardware with no significant service obligation is recognized on shipment.

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.

Sale of services

Services comprise after-sales service and maintenance and consulting. Service revenue is recognized when the services are provided by reference to the stage of completion of the contract at the reporting date.

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

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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.

Financial instruments

Financial assets are identified and classified as either available for sale, held for trading, held to maturity, or loans and receivables. Financial liabilities are classified as either held for trading or other liabilities. Initially, all financial assets and liabilities are recorded on the balance sheet at fair value with subsequent measurement determined by the classification of each financial asset and liability.

Financial instruments are purchased and acquired with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in the fair value recognized in net income.

Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading are measured at amortized cost.

Available-for-sale financial assets are measured at fair value with changes in fair value reported in other comprehensive income until the financial asset is disposed of or becomes impaired.

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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")

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

International Financial Reporting Standards

Beginning on April 1, 2011 the Company will start to apply International Financial Reporting Standards as published by the International Accounting Standards Board. Consequently, future accounting changes to Canadian GAAP are not discussed in these consolidated financial statements as they will not be applied by the Company.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Multiple deliverable revenue arrangements

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with Financial Accounting Standards Board Statement (FASB) Statement of Position (SOP) 97-2, Software Revenue Recognition as amended by Accounting Standards Update (ASU) 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption.

The Company has elected to early adopt this abstract prospectively to revenue arrangements with multiple deliverables entered into or materially modified on or after April 1, 2010. Arrangements that were entered into prior to April 1, 2010 will continue to be accounted for under the old standards.

The Company's revenue arrangements may contain multiple elements; however, to date revenue from multiple elements has not been significant. Accordingly the adoption of the new EIC 175 did not have a material impact on the Company's financial statements. The Company is still required to determine the appropriate accounting under EIC 175, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes.

In the past, for arrangements involving multiple elements, the Company allocated 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. EIC 175 has eliminated the use of the residual value method, and therefore, effective April 1, 2010, the Company has allocated revenue using the relative selling price method of the separate units of accounting. The multiple elements in an arrangement typically might include one or more of the following: hardware, software, installation, and/or other professional service offerings as described in Note 2. The Company allocates the arrangement fee, in a multiple element transaction, to the separate elements based on their relative selling prices, as indicated by vendor-specific objective evidence or third-party evidence of selling, and if both are not available, estimated selling prices is used. The allocated portion of the arrangement which is undelivered is then deferred.

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)

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.

4. ACQUISITIONS

(a) Bow Networks Inc.

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.

The acquisition has been accounted for using the purchase method of accounting and, accordingly, the operations of Bow Networks Inc. have been included in the consolidated financial statements since the date of acquisition.

The following table summarizes the preliminary estimated fair value of the assets acquired and liabilities assumed on acquisition:

<u>Assets purchased</u>	
Current assets	\$ 33
Property and equipment	19
Technological assets	491
Customer relationships	140
Goodwill	1,603
	<hr/>
	2,286
	<hr/>
<u>Liabilities assumed</u>	
Current liabilities	76
	<hr/>
Net assets acquired	\$ 2,210
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(b) WiNetworks Ltd.

On September 17, 2009 the Company completed the acquisition of 100% of the shares of WiNetworks Ltd. for cash of \$8,904, including acquisition costs of \$652.

The acquisition has been accounted for using the purchase method of accounting and, accordingly, the operations of WiNetworks have been included in the consolidated financial statements since the date of acquisition.

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

4. ACQUISITIONS (continued)

(b) WiNetworks Ltd.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed on acquisition:

<u>Assets purchased</u>	
Inventory	\$ 2,834
Other current assets	657
Property and equipment	1,208
Other assets	160
Future tax asset	1,952
Technological assets	8,228
Agreements	390
Customer list	655
Goodwill	1,628
	<hr/>
	17,712
<u>Liabilities assumed</u>	
Current liabilities	2,747
Future tax liability	1,952
Loan	4,875
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	9,574
Net non-cash assets acquired	8,138
Cash acquired	766
	<hr/>
Net assets acquired	<u>\$ 8,904</u>

5. 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, 2011 and 2010, there was no balance drawn against this facility.

6. ACCOUNTS RECEIVABLE

	2011	2010
	<u>\$</u>	<u>\$</u>
Trade receivables	18,345	13,538
Allowance for doubtful accounts	(81)	(44)
	<hr/>	<hr/>
	<u>18,264</u>	<u>13,494</u>

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011 and 2010

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

7. PREPAID EXPENSES AND OTHER

	2011	2010
	\$	\$
Deposits	688	413
Prepaid expenses	682	704
Commodity tax receivable	655	360
Grants receivable	-	214
Other	86	134
	2,111	1,825

8. INVENTORIES

	2011	2010
	\$	\$
Raw materials	13,930	10,130
Finished goods	929	367
	14,859	10,497

Included in cost of goods sold is \$122 (2010 - \$166) recognized as an expense in the year as a provision for the write-down of any losses of inventories.

9. PROPERTY AND EQUIPMENT

	2011		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Leasehold improvements	7,256	1,551	5,705
Leasehold improvements under capital lease	13	13	-
Office furniture and equipment	3,301	1,403	1,898
Computer hardware	4,141	2,231	1,910
Furniture and equipment under capital lease	1,040	933	107
Computer hardware under capital lease	274	273	1
Evaluation units	2,703	1,508	1,195
Automobile	25	5	20
Tooling	971	619	352
	19,724	8,536	11,188

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

9. PROPERTY AND EQUIPMENT (continued)

	2010		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Leasehold improvements	6,886	731	6,155
Leasehold improvements under capital lease	13	13	-
Office furniture and equipment	4,027	2,038	1,989
Computer hardware	2,024	765	1,259
Furniture and equipment under capital lease	1,091	285	806
Computer hardware under capital lease	261	259	2
Evaluation units	1,770	959	811
Tooling	808	458	350
	<u>16,880</u>	<u>5,508</u>	<u>11,372</u>

10. INTANGIBLE ASSETS

	2011		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Patents	307	121	186
Trademarks	920	387	533
Computer software	4,521	2,934	1,587
Computer software under capital lease	12	12	-
Agreements	427	131	296
Customer assets	863	252	611
Technological assets	9,518	1,792	7,726
Other	36	-	36
	<u>16,604</u>	<u>5,629</u>	<u>10,975</u>

	2010		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Patents	196	72	124
Trademarks	610	228	382
Computer software	3,546	1,744	1,802
Computer software under capital lease	12	12	-
Agreements	408	26	382
Customer assets	684	46	638
Technological assets	8,596	580	8,016
Other	29	-	29
	<u>14,081</u>	<u>2,708</u>	<u>11,373</u>

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11. CAPITAL STOCK

Authorized

Unlimited number of Class A shares

Unlimited number of common shares

Issued

	2011		2010	
	Number of shares	Amount \$	Number of shares	Amount \$
Common shares balance - Beginning of year	12,144,458	48,886	11,812,608	46,820
Issued for warrants exercised (a)	-	-	250,000	1,499
Issued for options exercised (b)	97,037	625	81,850	567
Common shares balance - End of year	<u>12,241,495</u>	<u>49,511</u>	<u>12,144,458</u>	<u>48,886</u>

(a) Common shares issued for warrants exercised in the year were nil (2010 - 250,000) at a weighted average share price of \$nil (\$nil Canadian) (2010 - \$6.00 (\$6.52 Canadian)).

(b) Common shares issued for options vested and exercised in the year were 97,037 (2010 - 81,850) at a weighted average share price of \$2.48 (\$2.40 Canadian) (2010 - \$4.66 (\$5.08 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. On August 5, 2009, the plan was further amended to increase the maximum number of common shares issuable under the plan to a maximum of 1,650,000 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 vested fully at the date of grant.

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

	2011		2010	
	Number of stock options	average exercise price \$	Number of stock options	average exercise price \$
Outstanding - Beginning of year	991,590	12.83	779,019	6.30
Granted	169,240	19.55	324,625	21.81
Exercised	(97,037)	4.04	(81,850)	4.66
Forfeited	(60,708)	20.97	(30,204)	17.39
Outstanding - End of year	<u>1,003,085</u>	<u>14.51</u>	<u>991,590</u>	<u>12.83</u>
Options exercisable - End of year	<u>659,403</u>	<u>11.31</u>	<u>559,684</u>	<u>6.92</u>

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11. CAPITAL STOCK (continued)

In fiscal 2011, the Company granted an aggregate of 169,240 stock options to certain officers and employees of the Company. 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 169,240 stock options at the time of the grant was \$8.59 (\$8.33 Canadian) per option estimated using the Black-Scholes option pricing model with the following assumptions: stock price on the date of grant was between \$17.38 to \$21.86 (\$16.85 and \$21.20 Canadian) per share; 52.5% to 54.4% volatility; a five year estimated life; risk-free interest rate of 2.32% to 3.12% and expected dividend yield of nil.

In fiscal 2010, the Company granted an aggregate of 324,625 stock options to certain officers and employees of the Company. 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 324,625 stock options at the time of the grant was \$8.83 (\$10.38 Canadian) per option estimated using the Black-Scholes option pricing model with the following assumptions: stock price on the date of grant was between \$19.85 to \$23.32 (\$20.90 and \$26.20 Canadian) per share; 54% to 61% volatility; a five year estimated life; risk-free interest rate of 1.8% to 2.6% and expected dividend yield of nil.

Issue dates	Range of exercise prices \$	Number of stock options	Stock options outstanding	
			Weighted average remaining life (years)	Weighted average exercise price per stock option \$
August 18, 2004 to September 27, 2006	1.53	247,063	1.10	1.53
March 25, 2008	11.86	145,606	3.99	11.86
February 6, 2008	12.12	5,000	3.86	12.12
March 21, 2007 to April 25, 2007	12.37	86,776	2.98	12.37
November 7, 2007	13.66	2,750	3.61	13.66
May 28, 2010	15.85	5,000	6.16	15.85
November 15, 2010	17.38	53,500	6.63	17.38
February 15, 2011	20.00	3,500	6.92	20.00
February 13, 2009	21.53	85,000	4.88	21.53
February 12, 2010	21.55	78,350	5.88	21.55
April 12, 2010	21.86	97,440	6.04	21.86
May 22, 2009	25.79	5,000	5.15	25.79
April 3, 2009	26.01	188,100	5.01	26.01

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11. CAPITAL STOCK (continued)

Issue dates	Range of exercise prices \$	Number of stock options	Stock options exercisable Weighted average exercise price per stock option \$
August 18, 2004 to September 27, 2006	1.53	247,063	1.53
March 25, 2008	11.86	120,639	11.86
February 6, 2008	12.12	4,374	12.12
March 21, 2007 to April 25, 2007	12.37	86,776	12.37
November 7, 2007	13.66	2,500	13.66
May 28, 2010	15.85	-	15.85
November 15, 2010	17.38	22,450	17.38
February 15, 2011	20.00		20.00
February 13, 2009	21.53	74,375	21.53
February 12, 2010	21.55	2,500	21.55
April 12, 2010	21.86	-	21.86
May 22, 2009	25.79	-	25.79
April 3, 2009	26.01	98,726	26.01

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	2011	2010
	\$	\$
Balance - Beginning of the year	4,887	(8,952)
Unrealized foreign currency translation gain for the year	4,007	13,839
Balance - End of the year	<u>8,894</u>	<u>4,887</u>

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13. CONTRIBUTED SURPLUS

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

	2011	2010
	\$	\$
Balance - Beginning of year	2,538	1,559
Stock-based compensation	1,541	1,176
Fair value of options exercised	(235)	(197)
Balance - End of year	<u>3,844</u>	<u>2,538</u>

14. INCOME TAXES

a) Future

	2011	2010
	\$	\$
Future income tax assets		
Financing costs	269	496
Reserves	1,267	1,153
Obligation under capital lease	-	3
Tax losses carry-forward	9,441	7,668
Other	13	43
	<u>10,990</u>	<u>9,363</u>
Future income tax liabilities		
Obligation under capital lease	1	-
Property and equipment	547	395
Investment tax credits	370	296
Deferred revenue	-	414
Intangible assets	1,826	1,975
	<u>2,744</u>	<u>3,080</u>
Net income tax asset	8,246	6,283
Less: Valuation allowance	7,803	5,215
Less: Current portion future tax asset	644	637
	<u>(201)</u>	<u>431</u>

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14. INCOME TAXES (continued)

b) Expense reconciliation

	2011	2010
	\$	\$
Earnings before income taxes	10,636	6,519
Tax at statutory rate (28.28%; 2010 - 30.75%)	3,008	2,005
Subsidiaries foreign tax rates differential	154	160
Permanent differences	488	275
Effect of rate change	78	51
Allowance for tax losses carryforward	930	-
Other	(209)	(157)
	4,449	2,334

15. SUPPLEMENTAL CASH FLOW INFORMATION

a) Net change in non-cash working capital

	2011	2010
	\$	\$
Accounts receivable	(3,998)	(1,296)
Prepaid expenses and other	(194)	(241)
Inventories	(3,633)	(1,844)
Accounts payable and accrued liabilities	42	(2,762)
Income taxes payable	1,971	(2,894)
Deferred income	250	33
	(5,562)	(9,004)

b) Cash and cash equivalents

	2011	2010
	\$	\$
Cash	38,106	3,889
Cash equivalents	-	29,251
	38,106	33,140

c) Supplemental disclosures

	2011	2010
	\$	\$
Interest paid	13	53
Income taxes paid	593	4,811
Addition to assets under capital lease	-	186

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16. COMMITMENTS

a) As at March 31, 2011, the Company has annual commitments for office premises and equipment operating leases as follows:

	\$
2012	1,981
2013	1,772
2014	1,344
2015	1,372
2016	1,381
Thereafter	4,485
	12,335

b) The Company has entered into capital leases, collateralized by certain property and equipment. These leases carry an interest charged at rates between 1% and 15%, maturing in 2013.

Included in interest expense is an amount of \$7 (2010 - \$18) of interest on obligations under capital leases.

Future minimum lease payments under capital leases are as follows:

	\$
2012	84
2013	18
Total minimum lease payments	102
Less: Amount representing interest	2
Balance of obligation	100
Less: Current portion	83
	17

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.

d) WiNetworks' participated in programs sponsored by foreign governments for the support of research and development activities. The subsidiary is obligated to pay royalties, amounting to 3% to 5% of revenues generated from the sale of its products up to the amount granted plus interest. WiNetworks obligation to pay these royalties is contingent on actual sales of its products, and in the absence of such sales, no payment is required. As of March 31, 2011, the subsidiary has received cumulative grants of \$4,128 (2010 - \$3,083) and has accrued \$135 (2010 - \$nil) in royalties under the programs.

e) The company has guaranteed \$124 of the rents owing under one of its office leases by having restricted access to \$124 its cash and cash equivalents until November, 2011.

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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 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:

	2011	2010
Net income and dilutive net income attributable to common	<u>\$ 6,187</u>	<u>\$ 4,185</u>
Common shares outstanding — Beginning of year	12,062,547	11,771,439
Weighted average number of common shares issued in the year	<u>105,193</u>	<u>291,108</u>
Basic weighted average number of common shares	12,167,740	12,062,547
Effect of dilutive securities, stock options and warrants	<u>325,380</u>	<u>515,243</u>
Diluted weighted average common shares outstanding — End of year	<u><u>12,493,120</u></u>	<u><u>12,577,790</u></u>

19. SEGMENTED INFORMATION

The Company has determined that it has two reportable segments: RuggedCom and WiNetworks. Each business segment assumes responsibility for its operating results.

The RuggedCom segment derives its revenue mainly from the sale of Ethernet based equipment and the software and services that are associated with the products.

The WiNetwork segment derives its revenues mainly from the sale of RuggedMAX equipment and services that are associated with the products.

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

For the year ended March 31, 2011, WiNetworks revenue includes \$ 2,408 of wired product sales. There were no sales of wired product by WiNetworks in the prior year.

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19. SEGMENTED INFORMATION (continued)

a) By business segment

	2011		
	RuggedCom	WiNetworks	Consolidated
	\$	\$	\$
Revenue	87,960	6,007	93,967
Cost of goods sold	34,885	3,286	38,171
Gross margin	53,075	2,721	55,796
Operating expenses:			
Research and development	8,540	4,059	12,599
Sales and marketing	18,209	15	18,224
General and administrative	8,522	1,694	10,216
Investment tax credits	(1,211)	(960)	(2,171)
Foreign exchange loss (gain)	1,326	(150)	1,176
Amortization	4,722	641	5,363
Total operating expenses	40,108	5,299	45,407
Interest income (expense)	249	(2)	247
Income before income taxes	13,216	(2,580)	10,636
Provision for income taxes - current	3,811	-	3,811
Provision for income taxes - future	638	-	638
Net income (loss)	8,767	(2,580)	6,187
Assets	92,731	7,381	100,112

	2010		
	RuggedCom	WiNetworks	Consolidated
	\$	\$	\$
Revenue	71,188	1,551	72,739
Cost of goods sold	29,254	804	30,058
Gross margin	41,934	747	42,681
Operating expenses:			
Research and development	7,129	2,113	9,242
Sales and marketing	13,960	237	14,197
General and administrative	8,100	621	8,721
Investment tax credits	(1,031)	(271)	(1,302)
Foreign exchange loss	2,318	33	2,351
Amortization	2,755	313	3,068
Total operating expenses	33,231	3,046	36,277
Interest income (expense)	160	(45)	115
Income before income taxes	8,863	(2,344)	6,519
Provision for income taxes - current	2,745	-	2,745
Provision for income taxes - future	(411)	-	(411)
Net income (loss)	6,529	(2,344)	4,185
Assets	70,657	15,596	86,253

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19. SEGMENTED INFORMATION (continued)

b) By geographic region

	2011		
	RuggedCom	WiNetworks	Consolidated
Sales	\$	\$	\$
North America	33,952	5,118	39,070
Latin America	6,853	289	7,142
Asia Pacific	22,614	2	22,616
Europe, Middle East and Africa	24,541	598	25,139
Total	87,960	6,007	93,967

	2010		
	RuggedCom	WiNetworks	Consolidated
Sales	\$	\$	\$
North America	32,189	910	33,099
Latin America	6,322	70	6,392
Asia Pacific	15,109	18	15,127
Europe, Middle East and Africa	17,568	553	18,121
Total	71,188	1,551	72,739

c) By industry

	2011		
	RuggedCom	WiNetworks	Consolidated
Sales	\$	\$	\$
Electric Power (Utilities)	60,349	4,012	64,361
Transportation Systems	17,027	30	17,057
Industrial Processes	6,362	1,187	7,549
Military	4,206	192	4,398
Other	16	586	602
Total	87,960	6,007	93,967

	2010		
	RuggedCom	WiNetworks	Consolidated
Sales	\$	\$	\$
Electric Power (Utilities)	45,406	781	46,187
Transportation Systems	11,458	2	11,460
Industrial Processes	8,905	116	9,021
Military	5,289	189	5,478
Other	130	463	593
Total	71,188	1,551	72,739

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19. SEGMENTED INFORMATION (continued)

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

	2011		
	RuggedCom	WiNetworks	Consolidated
USA	33.5%	27.4%	34.8%
China	9.4%	0.0%	9.4%

	2010		
	RuggedCom	WiNetworks	Consolidated
USA	36.9%	44.0%	36.9%
China	10.8%	0.0%	10.8%

20. 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.

21. FINANCIAL INSTRUMENTS

a) Classification

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.

	2011	2010
	\$	\$
Loans and receivables (1)	18,264	13,494
Other financial liabilities (2)	9,216	8,635

(1) Includes accounts receivable

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

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21. FINANCIAL INSTRUMENTS (continued)

b) Fair value

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

The financial instruments of the company are recorded at fair value and have been classified into levels using a fair value hierarchy.

Level 1 valuation is determined by unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2 valuation is based upon inputs other than quoted prices included in level 1 that are observable for the instrument either directly or indirectly.

Level 3 valuation is for assets or liabilities that are not based on observable market data.

c) Embedded derivatives

Derivatives may be embedded in other financial and non-financial instruments (the "host instrument"). 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 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.

d) Risk arising from financial instruments and risk management

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates.

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash equivalents. The Company is also exposed to interest rate fluctuations with respect to the use of its revolving credit facility, which bears interest at floating rates. Management does not believe the impact from the interest rate risk would be significant. Recognized interest income for the Company's cash equivalents and short-term investments for the year ended March 31, 2011 was \$270 (2010 - \$194).

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21. FINANCIAL INSTRUMENTS (continued)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss being incurred by the Company. Recent events in the global financial markets continue to have an impact on the global economic environment. These events are not directly related to the Company or the industry in which it operates, however, there may be an impact on the Company over the course of time. It is possible that reduced economic activity may adversely affect the Company's operating results and financial condition through, among others, increased credit risk surrounding the Company's financial instruments.

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 terms with customers normally range between 30 to 120 days. As at March 31, 2011, \$984 was over 90 days old and of this amount, \$81 was allowed for, \$652 was collected after the year-end and \$82 was not yet due. None of the amounts outstanding has been challenged by the customers and the Company continues to conduct business with those customers. Accordingly, management has no reason to believe that this balance is not fully collectible in the future. At March 31, 2011 the company had 31% of its receivable outstanding owing from two customers (22% at prior year end).

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. From time to time the company does enter into foreign exchange hedging contracts to mitigate its risk.

If the Canadian dollar had depreciated 5 percent against the United States dollar at March 31, 2011, 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 \$355 for the year ended March 31, 2011. If the Canadian dollar had appreciated 5 percent against the United States dollar at March 31, 2011, 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 \$355 for the year ended March 31, 2011.

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21. FINANCIAL INSTRUMENTS (continued)

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.

22. COMPARATIVE FIGURES

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