

RuggedCom Inc.
CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2008

May 22, 2008

Auditors' Report

**To the Shareholders of
RuggedCom Inc.**

We have audited the balance sheets of **RuggedCom Inc.** as at March 31, 2008 and 2007 and the statements of operations and retained earnings (deficit), comprehensive income and cash flows for the years ended March 31, 2008 and 2007. 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 financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP.

Chartered Accountants, Licensed Public Accountants

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS (DEFICIT)
For the years ended March 31, 2008 and 2007
(in thousands of United States dollars except per share information)

	2008	2007
	\$	\$
Revenue	39,179	26,058
Cost of goods sold	16,468	11,986
	<hr/>	<hr/>
Gross margin	22,711	14,072
	<hr/>	<hr/>
Operating expenses		
Research and development — net of scientific research and experimental development investment tax credits of \$722 (2007 - \$1,176)	2,924	1,027
Sales and marketing	7,611	5,734
General and administrative	4,749	2,701
Amortization	823	565
	<hr/>	<hr/>
	16,107	10,027
	<hr/>	<hr/>
Operating income	6,604	4,045
Interest income (expense)	1,234	(562)
	<hr/>	<hr/>
Income before income taxes	7,838	3,483
	<hr/>	<hr/>
Provision (recovery) for income taxes		
Current	2,785	823
Future	189	(110)
	<hr/>	<hr/>
	2,974	713
	<hr/>	<hr/>
Net income for the year	4,864	2,770
Deficit — beginning of year	(1,530)	(4,300)
	<hr/>	<hr/>
Retained earnings (deficit) - end of year	3,334	(1,530)
	<hr/> <hr/>	<hr/> <hr/>
Basic earnings per share (note 18)	0.48	0.52
	<hr/> <hr/>	<hr/> <hr/>
Diluted earnings per share (note 18)	0.46	0.36
	<hr/> <hr/>	<hr/> <hr/>
Basic weighted average number of common shares outstanding (note 18)	10,127,253	5,332,898
	<hr/> <hr/>	<hr/> <hr/>
Diluted weighted average number of common shares outstanding (note 18)	10,935,387	9,197,770
	<hr/> <hr/>	<hr/> <hr/>

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended March 31, 2008 and 2007
(in thousands of United States dollars)

	2008	2007
	\$	\$
Net income for the year	4,864	2,770
Foreign currency translation adjustment (note 2)	2,072	(32)
	<hr/>	<hr/>
Comprehensive income	<u>6,936</u>	<u>2,738</u>

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended March 31, 2008 and 2007
(in thousands of United States dollars)

	2008	2007
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income for the year	4,864	2,770
Non-cash items		
Amortization of property and equipment	746	453
Amortization of other assets	77	112
Gain on disposal of property and equipment	(19)	(6)
Future income taxes	189	(110)
Accretion and cumulative dividends on preferred shares	148	555
Stock based compensation	432	203
Warranty	185	217
Leasehold inducements	4	11
Net change in non-cash working capital (note 15a)	(4,442)	(535)
	2,184	3,670
Investing activities		
Additions to short term investments	(33,361)	-
Proceeds from disposal of property and equipment	40	-
Additions to property and equipment	(959)	(736)
Additions to other assets	(145)	(101)
	(34,425)	(837)
Financing activities		
Repayment of obligations under capital lease	(253)	(88)
Issuance of common shares	39,965	(128)
Effect of exchange rates on preferred shares	335	-
Share issuance costs	(3,802)	65
	36,245	(151)
Effect of exchange rates on cash and cash equivalents	717	(37)
Increase in cash and cash equivalents during the year	4,721	2,645
Cash and cash equivalents - beginning of year	3,316	671
Cash and cash equivalents - end of year (note 15b)	8,037	3,316
Supplementary information		
Interest paid	82	60
Income taxes paid	2,623	-
Non-cash disclosure		
Additions to property and equipment under capital lease	76	493

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008 and 2007

(In thousands of United States dollars except for "Number of Common Shares", "Number of Stock Options" and "Number of Warrants")

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 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 estimates of 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 date 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.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008 and 2007

(In thousands of United States dollars except for "Number of Common Shares", "Number of Stock Options" and "Number of Warrants")

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the periods up to and including March 31, 2006, the assets and liabilities were translated into United States dollars using the exchange rate in effect at that year-end. Revenues and expenses were translated at the yearly average exchange rate during these years. Equity transactions were translated on the date the transaction occurred. For 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. Revenues and expenses were translated using the average quarterly exchange rate in effect during these periods. All exchange rate differences resulting from translation are included in the accumulated other comprehensive income.

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 3 months or less and are subject to an insignificant risk of change in value.

Inventories

Inventories are recorded at the lower of cost or market value, cost being determined on an average cost basis. The cost of finished goods and work-in-process are comprised of 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. 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.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands of United States dollars except for "Number of Common Shares", "Number of Stock Options" and "Number of Warrants")

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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
Office furniture, 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 are comprised of trademarks and patents and are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful life of five years.

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 value 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 value 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.
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 a reduction of cost of goods sold.

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.

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(In thousands of United States dollars except for "Number of Common Shares", "Number of Stock Options" and "Number of Warrants")

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income per common share is computed by dividing the net income by the weighted average number of common shares outstanding for the year. Diluted net income per common share is computed by dividing dilutive net income 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 per common share amount is the same as that for basic, as all factors are anti-dilutive.

Accounting changes

In July 2006, the Canadian Institute of Chartered Accountants ("CICA") issued revised Section 1506, Accounting Changes. This new section establishes criteria for the changes in the accounting policies along with the accounting treatment and disclosures required upon 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 are not reversed and, therefore, the comparative amounts for prior years have not been restated.

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 is excluded from net income calculated in accordance with Canadian generally accepted accounting principles. Upon adoption, foreign translation adjustments are recorded in the consolidated statements of comprehensive income.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them.

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March 31, 2008 and 2007

(In thousands of United States dollars except for "Number of Common Shares", "Number of Stock Options" and "Number of Warrants")

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under the new standards, 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. The classification generally 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
Preferred shares	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 income during the period.

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 recommendation, 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. When a decline in fair value is determined to be other than temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net income. No investments were classified as available-for-sale during the year.

Other financial liabilities

Accounts payable and accrued liabilities 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.

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(In thousands of United States dollars except for "Number of Common Shares", "Number of Stock Options" and "Number of Warrants")

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. At the beginning of the fiscal year, the Company conducted a search for embedded derivatives in its contractual arrangements 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 20.

Fair value

The carrying value of cash and cash equivalents, short term investments, accounts receivable and accounts payable approximates 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 bank revolving credit facility which bear interest at floating rates. Management does not believe the impact from the interest rate risk will be significant.

RuggeCom Inc.
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(In thousands of United States dollars except for "Number of Common Shares", "Number of Stock Options" and "Number of Warrants")

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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.

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

In June 2007, the CICA issued Section 3031, Inventories. This new section established that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of the cost, including the requirement to allocate overhead costs based on normal production levels. The standard will be applied retroactively without restatement with an adjustment to opening retained earnings commencing in the Company's 2009 fiscal year. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

The CICA has issued Section 1535, Capital Disclosures and Section 3862, Financial Instruments: Disclosure. These new sections establish additional disclosure requirements including the significance of financial instruments to the Company's financial position and performance, discussion regarding the Company's objectives, policies and process for managing capital and what the Company regards as capital. The standard will be effective for interim and annual statements commencing in the Company's 2009 fiscal year. The company is in the process of evaluating the impact of the standard.

The CICA has issued Section 3064, Goodwill and Intangible Assets, to replace Section 3062. It establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets to converge with international financial reporting. This standard is effective for the Company for interim and annual financial statements beginning on April 1, 2009. The Company is in the process of evaluating the impact of the adoption of this standard on its financial statements.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(In thousands of United States dollars except for "Number of Common Shares", "Number of Stock Options" and "Number of Warrants")

3. REVOLVING DEMAND FACILITY

The Company has a \$1,000 Canadian dollar revolving demand facility with a major Canadian financial institution. Funds drawn against the facility bear interest at prime rate. The bank has a first ranking on \$1,000 Canadian of term deposits and bank balances. As at March 31, 2008 there is no balance drawn against the facility.

4. SHORT TERM INVESTMENTS

As at March 31, 2008 short term investments consist of guaranteed investment certificates (2007 - nil). The investment certificates are invested in Canadian dollars and earn interest at a rate of 4.48% (2007-nil) and mature between July 10, 2008 and July 15, 2008.

5. ACCOUNTS RECEIVABLE

	2008	2007
	\$	\$
Trade receivable	6,659	4,052
Allowance for doubtful accounts	(57)	(50)
	6,602	4,002
	6,602	4,002

6. PREPAID EXPENSES AND OTHER

	2008	2007
	\$	\$
Investment tax credits	513	968
Deposits	290	170
Prepaid expenses	104	127
Interest receivable	1,125	38
Other	156	117
	2,188	1,420
	2,188	1,420

7. INVENTORIES

	2008	2007
	\$	\$
Raw materials	3,371	2,114
Finished goods	75	145
	3,446	2,259
	3,446	2,259

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(In thousands of United States dollars except for "Number of Common Shares", "Number of Stock Options" and "Number of Warrants")

8. PROPERTY AND EQUIPMENT

	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
	4,061	2,039	2,022
	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Leasehold improvements under capital lease	11	2	9
Leasehold improvements	48	14	34
Office furniture and equipment	397	288	109
Computer hardware	141	39	102
Computer software	485	224	261
Furniture and equipment under capital lease	637	217	420
Computer hardware and software under capital lease	240	94	146
Evaluation units	423	183	240
Tooling	335	96	239
	2,717	1,157	1,560
	2,717	1,157	1,560

RuggedCom Inc.
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(In thousands of United States dollars except for "Number of Common Shares", "Number of Stock Options" and "Number of Warrants")

9. OTHER ASSETS

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Intangible assets			
Patent	75	22	53
Trademarks	251	65	186
Financing fees	312	312	-
	<u>638</u>	<u>399</u>	<u>239</u>
	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Intangible assets			
Patent	49	10	39
Trademarks	115	29	86
Financing fees	312	281	31
	<u>476</u>	<u>320</u>	<u>156</u>

10. PREFERRED SHARES

Class A Shares issued and outstanding are as follows:

	2008		2007	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance - Beginning of year	10,813,734	4,195	10,813,734	3,606
Conversion to Common shares (note 11)	(10,813,734)	(4,678)	-	-
Effect of exchange rates	-	335	-	34
Accretion including cumulative dividends	-	148	-	555
Balance - End of year	<u>-</u>	<u>-</u>	<u>10,813,734</u>	<u>4,195</u>

In accordance with the Company's accounting policy on financial instruments, the Class A Shares had been accounted for as a liability, as a result of the mandatory redemption feature. The value of the conversion feature on the Class A Shares was allocated to contributed surplus and the liability was being accreted to the redemption amount of the liability.

On June 21, 2007 the Class A Shares were converted into common shares on a four-for-one common share basis. The Class A Shares were entitled to 8% cumulative dividends payable on redemption and were redeemable for \$5,516 (\$5,877 Canadian) at the option of the holder after five years from the date of issuance, July 25, 2003. When the conversion was exercised, the cumulative dividends of \$1,710 (\$1,821 Canadian) on the Class A shares and \$798 (\$967 Canadian), representing the value of the conversion feature originally credited to contributed surplus, was transferred to share capital (note 11).

Included in interest expense is an amount of \$148 (2007 — \$555), which represents the accretion including cumulative dividends on the Class A Shares.

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11. CAPITAL STOCK

Authorized

Unlimited number of Class A Shares
 Unlimited number of common shares

Issued

	2008		2007	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance - Beginning of year	5,345,717	3,211	5,295,717	3,109
Issued from treasury on initial public offering and overallotment (a)	3,229,401	36,715	-	-
Conversion of Preferred shares (note 10)	2,703,432	5,476	-	-
Issued for options exercised (b)	438,718	982	50,000	102
Balance - End of year	<u>11,717,268</u>	<u>46,384</u>	<u>5,345,717</u>	<u>3,211</u>

(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 has been 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 period.

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 438,718 at a weighted average share price of \$1.57 (\$1.61 Canadian) (2007-nil).

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.

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11. CAPITAL STOCK (continued)

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

	2008		2007	
	Number of stock options	Weighted average exercise price \$	Number of stock options	Weighted average exercise price \$
Outstanding - Beginning of year	1,047,183	2.54	883,183	1.34
Granted	206,550	11.26	167,250	8.83
Exercised	(438,718)	1.57	-	-
Forfeited	(11,243)	2.36	(3,250)	1.28
Outstanding - End of year	803,772	5.73	1,047,183	2.54
Options exercisable - End of year	393,152	2.29	668,790	1.37

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 seven year estimated life; risk-free interest rate of between 3.05% and 4.13%; and expected dividend yield of nil%.

In fiscal 2007, the Company granted an aggregate of 167,250 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 167,250 stock options at the time of the grant was \$5.33 (\$6.09 Canadian) per option estimated using the Black Scholes option pricing model with the following assumptions: stock price on the date of grant was between \$7.02 to \$10.54 (\$8.00 and \$12.00 Canadian) per share; 40% volatility; a seven year estimated life; risk-free interest rate of between 4% and 5%; 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	1.44	467,597	4.15	1.44
March 25, 2008	11.20	194,050	6.99	11.20
February 6, 2008	11.45	5,000	6.61	11.45
March 21, 2007 to April 25, 2007	11.69	132,125	5.98	11.69
November 7, 2007	12.90	5,000	6.07	12.90

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11. CAPITAL STOCK (continued)

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	1.44	360,746	1.44
March 21, 2007 to April 25, 2007	11.69	32,406	11.69

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, 2008.

During the year ended March 31, 2004, the Company issued a warrant to a third party to purchase 50,000 common shares at an exercise price of \$1.48 for services rendered in connection with the Class A Preferred Share financing (note 9). The fair value of this warrant when granted was \$41. During the year ended March 31, 2007, this warrant was exercised.

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

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

	\$
Balance, March 31, 2006	(22)
Unrealized foreign currency adjustment	<u>(32)</u>
Balance, March 31, 2007	(54)
Unrealized foreign currency adjustment	<u>2,072</u>
Balance, March 31, 2008	<u><u>2,018</u></u>

13. CONTRIBUTED SURPLUS

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

	2008	2007
	\$	\$
Balance - Beginning of year	<u>1,344</u>	<u>1,141</u>
Stock-based compensation expense	432	203
Conversion of preferred shares	(798)	-
Fair value of options exercised	<u>(294)</u>	-
Balance - End of year	<u><u>684</u></u>	<u><u>1,344</u></u>

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14. INCOME TAXES

(a) Future

	2008	2007
	\$	\$
Future income tax assets		
Financing costs	1,075	18
Non-deductible reserves	439	344
Obligation under capital lease	151	204
	1,665	566
Future income tax liabilities		
Property and equipment	222	265
Investment tax credits	56	130
Intangible assets	71	42
Other	-	17
	349	454
Net income tax asset	1,316	112
Less: current portion	579	70
	737	42

(b) Expense reconciliation

	2008	2007
	\$	\$
Income before income taxes	7,838	3,483
Tax at statutory rate (35.47% (2007 -36.12%))	2,780	1,258
Manufacturing and processing deduction	(133)	-
Permanent differences	258	307
Scientific research and experimental development incentive	(118)	(169)
Effect of rate change	128	-
Change in valuation allowance	-	(726)
Other	59	43
	2,974	713

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15. SUPPLEMENTAL CASH FLOW INFORMATION

a) Net change in non-cash working capital

	2008	2007
	<u>\$</u>	<u>\$</u>
Accounts receivable	(2,182)	(1,413)
Prepaid expenses and other	(618)	(1,069)
Inventories	(904)	250
Accounts payable and accrued liabilities	248	874
Income taxes payable	(986)	823
	<u>(4,442)</u>	<u>(535)</u>

b) Cash and cash equivalents

Cash and cash equivalents is comprised of the following:

	2008	2007
	<u>\$</u>	<u>\$</u>
Cash	1,541	718
Cash equivalents	6,496	2,598
	<u>8,037</u>	<u>3,316</u>

16. COMMITMENTS

a) As at March 31, 2008, the Company has annual commitments for office premises and equipment operating leases as follows:

		<u>\$</u>
2009		336
2010		215
2011		208
2012		215
2013		179
		<u>1,153</u>

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16. COMMITMENTS (continued)

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

Included in interest expense is an amount of \$83 (2007 - \$56) of interest on obligations under capital leases.

Future minimum lease payments under capital leases are as follows:

	<u>\$</u>
2009	<u>317</u>
2010	171
2011	48
2012	<u>16</u>
Total minimum lease payments	552
Less: Amount representing interest	<u>70</u>
Balance of obligation	<u>482</u>
Less: Current portion	<u>269</u>
	<u>213</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 service. 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.

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 financial position of the Company. Accordingly, no provision has been made for a loss in these consolidated financial statements. Losses, if any, will be recorded in the consolidated statement of operations and retained earnings (deficit) in the year such losses are determinable.

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18. EARNINGS PER SHARE

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

	2008	2007
	\$	\$
Net income available attributable to common shareholders	4,864	2,770
Accretion on preferred shares	148	555
	<hr/>	<hr/>
Dilutive net income available attributable to common shareholders	5,012	3,325
	<hr/>	<hr/>
Weighted average common shares outstanding - Beginning of year	5,332,898	5,294,494
Weighted average number of common shares issued in the year	4,794,355	38,404
	<hr/>	<hr/>
Weighted average number of common shares	10,127,253	5,332,898
Effect of dilutive securities and stock options and warrants	808,134	3,864,872
	<hr/>	<hr/>
Weighted average diluted common shares outstanding - End of year	10,935,387	9,197,770
	<hr/>	<hr/>

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.

	2008	2007
	\$	\$
Sales by region		
North America	18,856	14,505
Latin America	2,503	1,240
Asia Pacific	5,315	3,430
Europe, Middle East and Africa	12,505	6,883
Total	<hr/>	<hr/>
	39,179	26,058
	<hr/>	<hr/>
Sales by industry		
Electric Power (Utilities)	26,399	16,881
Transportation	4,884	4,714
Industrial	4,282	2,539
Military	3,295	1,754
Other	319	170
Total	<hr/>	<hr/>
	39,179	26,058
	<hr/>	<hr/>

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

	2008	2007
Canada	10.7%	11.8%
USA	37.4%	43.9%

All material assets are held in Canada.

The industry segments are determined by the Company and may not be similar to classifications used by others.

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20. ECONOMIC DEPENDENCY AND CONCENTRATION OF CREDIT RISK

In fiscal 2008, the Company had sales to two customers which accounted for 22.0% of total sales (2007 — 21.1%). As at March 31, 2008 and 2007, two customers accounted for 28.2% and 26.9% of accounts receivable, respectively. The Company believes that credit risk on these financial instruments is negligible.

21. SUBSEQUENT EVENT

On April 28, 2008 the Company signed a binding offer to lease a new office and manufacturing facility. The Company has agreed to rent 101,326 square feet for 10 years commencing May 1, 2009 at rates between \$6.67 (\$6.85 Canadian) and \$8.04 (\$8.25 Canadian) per square foot per annum.