

## **RUGGEDCOM INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FOURTH QUARTER AND YEAR ENDED MARCH 31, 2008**

**Dated: May 22, 2008**

The following is management's discussion and analysis ("MD&A") of the consolidated results of operations, financial condition and cash flows of RuggedCom Inc. ("RuggedCom" or the "Company") for the three month period and fiscal year ended March 31, 2008 compared with the three month period and fiscal year ended March 31, 2007. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the fiscal years ended March 31, 2008 and March 31, 2007 and the notes thereto.

Commencing in the second quarter of the 2008 fiscal year, the Company began reporting its financial results of operations and financial condition in US dollars. All amounts in this MD&A are in US dollars unless otherwise indicated. For further information in relation to the change of our reporting currency, please see "Critical Accounting Estimates – Change in Reporting Currency". The content of this MD&A has been approved by the Board of Directors, on the recommendation of its Audit Committee. This MD&A is dated May 22, 2008 and is current to that date, unless otherwise stated.

Additional information relating to the Company, including the Company's Annual Information Form (when available), is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

#### **NON-GAAP MEASURES**

The Company reports its financial results in accordance with Canadian generally accepted accounting principles ("GAAP"). However, this MD&A contains references to certain non-GAAP financial measures such as EBITDA and EBITDA Margin. Non-GAAP financial measures are used by management to evaluate the performance of the Company. Non-GAAP financial measures do not have any meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers. Non-GAAP financial measures used herein have been applied on a consistent basis. "EBITDA" means earnings before interest, income taxes, depreciation and amortization. "EBITDA Margin" means the percentage obtained by dividing "EBITDA" by revenue. "EBITDA" is a measure used by many investors to compare issuers on the basis of their ability to generate cash from operations. We believe that EBITDA and EBITDA Margin is useful supplemental information as it provides an indication of the results generated by the Company's main business activities before taking into consideration how these activities are financed and taxed and also prior to taking into consideration asset depreciation. Investors are cautioned that non-GAAP measures, such as those presented herein, should not be construed as an alternative to net income or loss determined in accordance with GAAP as indicators of the Company's performance or to cash flows from operating and investing activities as measures of liquidity and cash flow.

## **CAUTION REGARDING FORWARD-LOOKING INFORMATION**

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

Although management believes that the expectations reflected in such forward-looking statements are reasonable, all forward-looking statements address matters that involve known and unknown risks, uncertainties and other factors and should not be read as guarantees of future performance or results. Accordingly, there are or will be a number of significant factors which could cause the Company's actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements, including, but not limited to risks associated with: growth management; reliance on key personnel; growth in key markets; dependence on the electric power industry; competition; reliance on third-party suppliers; manufacturing and reliance on contract manufacturers; reliance on channel partners; fluctuations in quarterly results; dependence on certain licensed intellectual property; infringement of intellectual property rights; use of open-source software; protection of the Company's intellectual property; rapid technological change; product defects and liability claims; currency fluctuations; international risk; regulation; health and safety; economic and geopolitical uncertainty; acquisitions; transfer pricing; other tax matters; fluctuating share price; no dividends; and future sales of common shares by current shareholders.

Additional risk factor discussion can be found in this MD&A, in the section entitled "Risk Factors" and in the Company's continuous disclosure filings, reports and other filings with securities commissions and regulatory authorities in Canada and filed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## **RUGGEDCOM INC.**

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

RuggedCom's solutions facilitate the extension of Internet Protocol ("IP") based communications networks from benign office environments to harsh non-office environments. IP-based communications networks are faster, more flexible and offer greater functionality than the legacy, serial, low-speed communications systems currently used in most harsh environments. The extension of IP-based communications networks enables the seamless flow of information between an enterprise's non-office

environment and its office environment. Moreover, the implementation of a common networking technology and infrastructure across an entire enterprise improves overall efficiency, increases the ability to monitor and secure operational assets and reduces costs associated with installation, integration, maintenance, parts and training.

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

The following highlights occurred during the year:

- introduced several new wireless and Ethernet over VDSL products
- released RuggedCom Gauntlet cyber security solution for the Electric Power market
- received two patents for its environmentally hardened Ethernet switches
- received hazardous location certification for several products
- introduced new services and support packages for its growing customer base
- introduced RuggedNMS, a fully-featured enterprise grade network management software platform designed specifically for the rugged communications industry, which provides a comprehensive platform for monitoring, configuring, and maintaining mission-critical IP-based communications networks;
- introduced a new compact RuggedSwitch™ (RS940G) – an all gigabit Ethernet switch to address the needs for high bandwidth applications found in substation automation for electric utilities, video over IP in intelligent transportation systems, and advanced control and automation for industrial processes;
- released an upgraded version of the RuggedRouter™ network router that provides significant performance improvements and new features to address the specific needs of mission critical applications;
- announcement of a strategic partnership with Industrial Defender, Inc., a global leader in Cyber Risk Protection™, to jointly provide a comprehensive cyber security solution that addresses the needs of many industrial applications including those found in the electric power, transportation, oil and gas, water and chemical markets. This partnership enables RuggedCom to deliver its technology with an increased level of cyber security, providing customers with a comprehensive and complete cyber security solution specifically tailored to their unique needs;
- received purchase orders totaling approximately \$1 million dollars from naval defense contractors for communications networking equipment to be used to overhaul legacy ship-board communications;
- received a purchase order totaling approximately \$1 million for an electric power application in India. This order represented the single largest purchase order ever received by RuggedCom and was obtained in a high growth region that RuggedCom is specifically targeting.

## SELECTED CONSOLIDATED INTERIM AND ANNUAL FINANCIAL INFORMATION

The following tables set out selected consolidated financial information for the three month periods and fiscal years ended March 31, 2008 and March 31, 2007, respectively. The selected financial information set out below as at, and for the fiscal years ended, March 31, 2008 and 2007 has been derived from the audited consolidated financial statements and accompanying notes for the fiscal years ended March 31, 2008 and 2007. The financial information for the three month periods ended March 31, 2008 and 2007 has been prepared by management in accordance with Canadian GAAP in a manner consistent with its audited annual financial statements and has not been subject to a review engagement by the Company's auditors. Investors should read the following information in conjunction with those statements and related notes.

<b>Selected Consolidated Financial Information</b>	<b>Three months ended March 31 (unaudited)</b>		<b>Fiscal year ended March 31</b>		
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
(In thousands, except share amounts, data expressed as percentages and per share data)					
<b>Revenue</b> .....	\$ 11,466	\$ 6,863	\$ 39,179	\$ 26,058	\$ 13,358
Cost of goods sold.....	<u>4,078</u>	<u>3,153</u>	<u>16,468</u>	<u>11,986</u>	<u>5,867</u>
Gross margin .....	7,388	3,710	22,711	14,072	7,491
Gross margin % .....	64.4%	54.1%	58.0%	54.0%	56.1%
<b>Operating expenses:</b>					
Research and development.....	883	(497)	2,924	1,027	1,035
Sales and marketing.....	2,244	1,932	7,611	5,734	3,009
General and administrative.....	1,093	874	4,749	2,701	1,241
Amortization.....	<u>225</u>	<u>172</u>	<u>823</u>	<u>565</u>	<u>302</u>
Total operating expenses.....	<u>4,445</u>	<u>2,281</u>	<u>16,107</u>	<u>10,027</u>	<u>5,587</u>
Interest income (expense) .....	<u>461</u>	<u>(127)</u>	<u>1,234</u>	<u>(562)</u>	<u>(470)</u>
Income before income taxes .....	3,404	1,102	7,838	3,483	1,434
Provision for income taxes – current .....	1,004	10	2,785	713	-
Provision for income taxes – future .....	<u>111</u>	<u>-</u>	<u>189</u>	<u>-</u>	<u>-</u>
Net income .....	<u>2,289</u>	<u>1,092</u>	<u>4,864</u>	<u>2,770</u>	<u>1,434</u>
<b>Net Income Per Share:</b>					
Basic .....	\$ 0.20	\$ 0.20	\$ 0.48	\$ 0.52	\$ 0.27
Diluted .....	\$ 0.19	\$ 0.13	\$ 0.46	\$ 0.36	\$ 0.21
<b>Weighted Average Number of Common Shares Outstanding:</b>					
Basic .....	11,520,092	5,345,717	10,127,253	5,332,898	5,294,494
Diluted .....	12,191,377	9,223,222	10,935,387	9,197,770	9,036,830
<b>Other data:</b>					
<b>EBITDA</b> <sup>(1)</sup> .....	\$ 3,168	\$ 1,401	\$ 7,427	\$ 4,610	\$ 2,206
<b>EBITDA Margin %</b> <sup>(1)</sup> .....	27.6%	20.4%	19.0%	17.7%	16.5%

Notes:

(1) For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-GAAP Measures".

<b>Net Income to EBITDA Reconciliation</b>	<b>Three months ended March 31 (unaudited)</b>		<b>Fiscal year ended March 31</b>		
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	(In thousands)		(In thousands)		
Net income .....	\$ 2,289	\$ 1,092	\$ 4,864	\$ 2,770	\$ 1,434
Interest .....	(461)	127	(1,234)	562	470
Taxes.....	1,115	10	2,974	713	-
Amortization.....	<u>225</u>	<u>172</u>	<u>823</u>	<u>565</u>	<u>302</u>
<b>EBIDTA</b> <sup>(1)</sup> .....	\$ <u>3,168</u>	\$ <u>1,401</u>	\$ <u>7,427</u>	\$ <u>4,610</u>	\$ <u>2,206</u>

Notes:

(1) See "Non-GAAP measures"

	<b>As at March 31, 2008</b>	<b>As at March 31, 2007</b>	<b>As at March 31, 2006</b>
<b>Consolidated Balance Sheet Data:</b>	(In thousands)		
Cash and cash equivalents	\$ 8,037	\$ 3,316	\$ 671
Short term investments	34,194	-	-
Working capital (1)	50,178	6,169	3,285
Total assets	58,210	12,825	6,946
Total liabilities	5,790	9,854	6,985
Total shareholders' equity	52,420	2,971	(39)

Notes:

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

## Financial Highlights

- Achieved record revenues of \$11.5 million in the fourth quarter, the Company's 15<sup>th</sup> consecutive record quarter, representing an increase of 67% over the same quarter a year ago. For the full F08 year, recorded revenues of \$39.2 million, up 50% over prior year.
- Booked record orders of \$13.4 million in the fourth quarter, an increase of 86% over the same quarter a year ago. For the full F08 year, booked orders of \$42.4 million, up 63% year over year.
- Gross margin of \$7.4 million in the fourth quarter, up 99% from the same quarter a year ago. For the full F08 year, realized gross margins of \$22.7 million, up 61% over prior year.
- Achieved 12<sup>th</sup> consecutive quarter of profitability with net income of \$2.3 million compared to \$1.1 million for the same quarter a year ago, an increase of 110%. For the full FY08 year, net income was \$4.9 million, up 76% over prior year.

## **OVERALL PERFORMANCE**

### **Revenue and Expenses**

#### ***Revenue***

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

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

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

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

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

#### ***Cost of Goods Sold***

Cost of goods sold consists primarily of costs of manufacturing and assembly of products. A significant portion of these costs is represented by components and compensation costs for the manufacture and assembly of products. Cost of goods sold also includes related overhead, final assembly, quality assurance, inventory management and payments to local third-party subcontract manufacturers that perform outsourced manufacturing and assembly for the Company. Cost of goods sold also includes the cost of providing services to customers, primarily the cost of service-related personnel used for training and professional services.

#### ***Operating Expenses***

The Company's operating expenses consist of (i) research and development expenditures, (ii) sales and marketing expenses, (iii) general and administrative expenses and (iv) amortization.

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

Sales and marketing expenses consist primarily of costs relating to personnel and to the Company's sales and marketing activities, including the salaries and commissions paid to the Company's sales force, commissions paid to independent industry sales representatives, advertising, trade shows and other promotional expenses.

General and administrative expenses are comprised primarily of costs relating to personnel and related costs associated with the administration of the Company's business, including, information technology, finance and customer support functions, legal and other professional fees, rental of office and manufacturing space, insurance and other corporate and overhead expenses.

Amortization of property and equipment and intangible assets is recorded over the estimated useful lives of the assets on a straight-line basis. Intangible assets consist primarily of intellectual property including issued patents, and patents for which applications have been filed and trademarks.

## **CURRENT PERIOD AND ANNUAL OPERATING RESULTS**

### **Revenue**

The Company's reporting currency is in US dollars. A significant portion of the Company's sales are, and have historically been, in US dollars. As such, the Company believes that a more accurate picture of revenue performance is provided by performing comparative analysis in US dollars. For the twelve month period ending March 31, 2008 approximately 85% of the Company's revenues were in US dollars.

### **Highlights - Annual**

- Achieved revenues of \$39.2 million
  - 6<sup>th</sup> consecutive record year
  - Increase of 50.4% from prior fiscal year
- Achieved purchase orders totaling \$42.4 million
  - 6<sup>th</sup> consecutive record year
  - Increase of 62.9% from prior fiscal year
- Added 329 new customers
  - Increase of 21.9% from prior fiscal year

### **Highlights – Fourth Quarter**

- Achieved revenues of \$11.5 million
  - 15<sup>th</sup> consecutive record quarter
  - Increase of 67.1% from same period prior year
- Achieved purchase orders totaling \$13.4 million
  - A new Company record; the 5<sup>th</sup> consecutive record quarter
  - Increase of 85.7% from same period prior year
- Added 85 new customers
  - Increase of 26.9% from same period prior year

Sales for Q4-F08 were \$11.5 million compared to \$6.9 million for the same period in the last fiscal year, representing an increase of 67.1%. Sales for the twelve months ending March 31<sup>st</sup>, 2008 were \$39.2 million compared to \$26.1 million for the same period in the last fiscal year representing an increase of 50.4%. Sales for Q4-F08 were also 11.2% above the previous three month period ending December 31, 2007 and represented the Company's 15th consecutive record quarter.

Customer purchase orders for Q4-F08 totaled \$13.4 million compared to a \$7.2 million for the same period last year, representing an increase of 85.7%. Also, Q4-F08 purchase orders were up sequentially 20.8% from the prior quarter. Purchase orders for the twelve months ending March 31<sup>st</sup>, 2008 totaled \$42.4 million compared to \$26.0 million for the same period last year, representing an increase of 62.9%.

In general, sales for Q4-F08 and for the twelve months ending March 31<sup>st</sup>, 2008 were driven by the continued deployment of IP-based rugged communications networking solutions across all of the Company's target markets and regions to both existing and new customers.

## **Sales by Market**

### **Electric Power (Utilities)**

The increase in sales was led by growth in the electric power market. Sales in the electric power market for Q4-F08 totaled \$7.7 million compared to \$4.8 million for the same period in the prior fiscal year, representing an increase of 61.3%. Sales in the electric power market for Q4-F08 comprised 66.9% of total Company sales for the quarter compared to 69.3% for the same period in the prior fiscal year. In addition, Q4-F08 sales in the electric power market represented the Company's eighth consecutive record quarter for sales in this market. Sales in the electric power market for the twelve month period ended March 31<sup>st</sup>, 2008 totaled \$26.4 million compared to \$16.9 million for the same period the prior fiscal year, representing an increase of 56.2%. Sales in the electric power market for the twelve month period ended March 31<sup>st</sup>, 2008 comprised 67.4% of total Company sales compared to 64.8% over the same period the prior fiscal year. Growth in the electric power market continues to be led by the deployment of the Company's rugged communications networking solutions for use in substation automation as part of the transmission and distribution infrastructure across all geographic regions.

### **Transportation**

Sales in the transportation market for Q4-F08 totaled \$1.0 million compared to \$1.1 million for the same period in the prior fiscal year, representing a decrease of 13.0%. Sales in the transportation market for Q4-F08 comprised 8.3% of total Company sales for the quarter compared to 16.0% for the same period in the prior fiscal year. Sales in the transportation market for the twelve month period ended March 31<sup>st</sup>, 2008 totaled \$4.9 million compared to \$4.7 million for the same period the prior fiscal year, representing an increase of 3.6%. Sales in the transportation market for the twelve month period ended March 31<sup>st</sup>, 2008 comprised 12.5% of total Company sales compared to 18.1% over the same period the prior fiscal year. Historically, the majority of sales in this sector have come from the USA with sporadic contributions from other regions. It is the Company's belief that the modest growth in the transportation sector was attributable to two factors: 1) relatively modest growth in the USA which grew approximately 15% in fiscal 2008, and 2) several projects from Canada and Australia that contributed to sales in fiscal 2007 which were not recurring in fiscal 2008. The Company believes that the modest growth in the USA was the result of modest growth in the number of ITS (intelligent transportation systems) projects in fiscal 2008 for the region. In order to grow sales in this sector the Company believes that it will be necessary to

gain additional customers outside of the USA in order to increase and diversify the Company's opportunities pipeline.

## Industrial

Sales in the industrial process market for Q4-F08 totaled \$1.3 million compared to \$0.4 million for the same period in the prior fiscal year, representing an increase of 202.7%. Sales in the industrial process market for Q4-F08 comprised 11.5% of total Company sales for the quarter compared to 6.4% for the same period in the prior fiscal year. Sales in the industrial process market for the twelve month period ended March 31<sup>st</sup>, 2008 totaled \$4.3 million compared to \$2.6 million for the same period the prior fiscal year, representing an increase of 68.1%. Sales in the industrial process market for the twelve month period ended March 31<sup>st</sup>, 2008 comprised 10.9% of total Company sales compared to 9.8% over the same period the prior fiscal year. Sales in this sector were driven primarily by sales of the Company's RuggedSwitch™ family of industrial Ethernet switches for use in factory and process automation applications across all geographic regions.

## Military

Sales in the military market for Q4-F08 totaled \$1.4 million compared to \$0.5 million for the same period in the prior fiscal year, representing an increase of 211.2%. Sales in the military market for Q4-F08 comprised 12.5% of total Company sales for the quarter compared to 6.7% for the same period in the prior fiscal year. Sales in the military market for the twelve month period ended March 31<sup>st</sup>, 2008 totaled \$3.3 million compared to \$1.7 million for the same period the prior fiscal year, representing an increase of 89.9%. Sales in the military market for the twelve month period ended March 31<sup>st</sup>, 2008 comprised 8.4% of total Company sales compared to 6.7% over the same period the prior fiscal year. The large growth in Q4-F08 was attributable to major orders for the Company's RuggedSwitch™ family of Ethernet switches totaling nearly \$1.0 million from naval defense contractors. The Company's experience indicates that sales by the Company in the military sector have quarterly variability due the nature of sales in this sector, which are characterized by long sales cycles and a relatively small number of large scale projects and a relatively small customer base.

(Unaudited) MARKET/SECTOR	Three months ended March 31 (as percentage of total)		Three months ended March 31 (\$ millions)		Change
	2008	2007	2008	2007	%
	Electric Power (Utilities) .....	66.9%	69.3%	\$7.7	\$4.8
Transportation .....	8.3%	16.0%	\$1.0	\$1.1	-13.0%
Industrial.....	11.5%	6.4%	\$1.3	\$0.4	202.7%
Military .....	12.5%	6.7%	\$1.4	\$0.5	211.2%
Other .....	<u>0.7%</u>	<u>1.7%</u>	<u>\$0.1</u>	<u>\$0.1</u>	---
	<u>100.0%</u>	<u>100.0%</u>	<u>\$11.5</u>	<u>\$6.9</u>	<u>67.1%</u>

MARKET/SECTOR	Twelve months ended March 31 (as percentage of total)		Twelve months ended March 31 (\$ millions)		Change
	2008	2007	2008	2007	%
	Electric Power (Utilities) .....	67.4%	64.8%	\$26.4	\$16.9
Transportation .....	12.5%	18.1%	\$4.9	\$4.7	3.6%
Industrial.....	10.9%	9.8%	\$4.3	\$2.6	68.1%
Military .....	8.4%	6.7%	\$3.3	\$1.7	89.9%
Other .....	<u>0.8%</u>	<u>0.6%</u>	<u>\$0.3</u>	<u>\$0.2</u>	<u>77.4%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>\$39.2</u>	<u>\$26.1</u>	<u>50.4%</u>

## **Sales by Region**

### **North America**

North America sales for Q4-F08 totaled \$6.3 million compared to \$3.9 million for the same period in the prior fiscal year, representing an increase of 58.0%. Sales in North America for Q4-F08 comprised 54.3% of total Company sales for the quarter compared to 57.3% for the same period in the prior fiscal year. Q4-F08 North America sales were driven primarily by sales in the electric power and transportation sectors. North American sales for the twelve month period ended March 31<sup>st</sup>, 2008 totaled \$18.9 million compared to \$14.5 million for the same period the prior fiscal year, representing an increase of 29.9%. Sales in North America for the twelve month period ended March 31<sup>st</sup>, 2008 comprised 48.1% of total Company sales compared to 55.7% over the same period the prior fiscal year. Sales in North America for the twelve month period ended March 31<sup>st</sup>, 2008 were primarily driven by sales in the electric power, transportation and military sectors.

### **Europe, Middle-East and Africa (EMEA)**

EMEA sales for Q4-F08 totaled \$2.9 million compared to \$1.7 million for the same period in the prior fiscal year, representing an increase of 72.6%. Sales in EMEA for Q4-F08 comprised 25.3% of total Company sales for the quarter compared to 24.5% for the same period in the prior fiscal year. Q4-F08 EMEA sales were driven primarily by sales in the electric power sector. EMEA sales for the twelve month period ended March 31<sup>st</sup>, 2008 totaled \$12.5 million compared to \$6.9 million for the same period the prior fiscal year, representing an increase of 81.9%. Sales in EMEA for the twelve month period ended March 31<sup>st</sup>, 2008 comprised 32.0% of total Company sales compared to 26.4% over the same period the prior fiscal year. Sales in EMEA for the twelve month period ended March 31<sup>st</sup>, 2008 were primarily driven by sales in the electric power sector.

### **Asia-Pacific (APAC)**

APAC sales for Q4-F08 totaled \$1.7 million compared to \$1.0 million for the same period in the prior fiscal year, representing an increase of 74.0%. Sales in APAC for Q4-F08 comprised 14.9% of total Company sales for the quarter compared to 14.3% for the same period in the prior fiscal year. Q4-F08 APAC sales were driven primarily by sales in the electric power sector. APAC sales for the twelve month period ended March 31<sup>st</sup>, 2008 totaled \$5.3 million compared to \$3.4 million for the same period the prior fiscal year, representing an increase of 54.8%. Sales in APAC for the twelve month period ended March 31<sup>st</sup>, 2008 comprised 13.5% of total Company sales compared to 13.1% over the same period the prior fiscal year. Sales in APAC for the twelve month period ended March 31<sup>st</sup>, 2008 were primarily driven by sales in the electric power sector.

### **Latin America**

Latin America sales for Q4-F08 totaled \$0.6 million compared to \$0.3 million for the same period in the prior fiscal year, representing an increase of 137.4%. Sales in Latin America for Q4-F08 comprised 5.5% of total Company sales for the quarter compared to 3.9% for the same period in the prior fiscal year. Q4-F08 Latin America sales were driven primarily by sales in the electric power sector. Latin America sales for the twelve month period ended March 31<sup>st</sup>, 2008 totaled \$2.5 million compared to \$1.3 million for the same period the prior fiscal year, representing an increase of 99.4%. Sales in Latin America for the twelve month period ended March 31<sup>st</sup>, 2008 comprised 6.4% of total Company sales compared to 4.8% over the same period the prior fiscal year. Sales in Latin America for the twelve month period ended March 31<sup>st</sup>, 2008 were primarily driven by sales in the electric power sector.

<b>(Unaudited)</b> <b>REGION</b>	<b>Three months ended</b> <b>March 31</b> (as percentage of total)		<b>Three months ended</b> <b>March 31</b> (\$ millions)		<b>Change</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>%</b>
	North America.....	54.3%	57.3%	\$6.3	\$3.9
Latin America.....	5.5%	3.9%	\$0.6	\$0.3	137.4%
Asia Pacific.....	14.9%	14.3%	\$1.7	\$1.0	74.0%
Europe, Middle East & Africa ...	<u>25.3%</u>	<u>24.5%</u>	<u>\$2.9</u>	<u>\$1.7</u>	<u>72.6%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>\$11.5</u>	<u>\$6.9</u>	<u>67.1%</u>

<b>REGION</b>	<b>Twelve months ended</b> <b>March 31</b> (as percentage of total)		<b>Twelve months ended</b> <b>March 31</b> (\$ millions)		<b>Change</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>%</b>
	North America.....	48.1%	55.7%	\$18.9	\$14.5
Latin America.....	6.4%	4.8%	\$2.5	\$1.3	99.4%
Asia Pacific.....	13.5%	13.1%	\$5.3	\$3.4	54.8%
Europe, Middle East & Africa ...	<u>32.0%</u>	<u>26.4%</u>	<u>\$12.5</u>	<u>\$6.9</u>	<u>81.9%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>\$39.2</u>	<u>\$26.1</u>	<u>50.4%</u>

## Sales by Customer

The total number of customers who placed orders in Q4-F08 was 328 as compared to 237 for the same period in the previous fiscal year, an increase of 38.4%. In Q4-F08 the Company also added 85 new customers as compared to 67 for the same period in the prior fiscal year, representing an increase of 26.9%. In Q4-F08 the electric power sector contributed the largest number of new customers (47 out of the 85) accounting for 55.3%. For the twelve month period ended March 31<sup>st</sup>, 2008 the company added 329 new customers as compared to 270 for the same period in the prior fiscal year, representing an increase of 21.9%. For the twelve month period ended March 31<sup>st</sup>, 2008 the electric power sector contributed the largest number of new customers (153 out of 329) accounting for 46.5%.

In Q4-F08 the Company's top ten customers accounted for 51.7% of revenues. For the twelve month period ended March 31<sup>st</sup>, 2008 the Company's top ten customers accounted for 44.0% of revenues. The following table outlines the revenue generated from the Company's customers which represented more than 10% of the Company's revenues for a given period.

<b>Customers comprising greater than 10% of revenues for a given period</b>				
	<b>% of total revenues for</b> <b>Three months ended</b> <b>March 31, 2008</b>	<b>% of total revenues for</b> <b>Three months ended</b> <b>March 31, 2007</b>	<b>% of total revenues for</b> <b>Twelve months ended</b> <b>March 31, 2008</b>	<b>% of total revenues for</b> <b>Twelve months ended</b> <b>March 31, 2007</b>
Customer A	9.8%	11.3%	11.9%	9.7%
Customer B	9.6%	9.8%	10.1%	11.4%
Total	19.4%	21.1%	22.0%	21.1%

## ***Gross Margin***

Gross margin for Q4-F08 increased 99% to \$7.4 million, compared to \$3.7 million in the same period in the last fiscal year, and as a percentage of revenue, increased to 64.4% from 54.1% for the same period in the last fiscal year. For the full fiscal year 2008, gross margin increased 61% to \$22.7 million, compared to \$14.1 million compared to fiscal year 2007, and as a percentage of revenue, increased to 58.0% from 54.0% for the same period in the last fiscal year.

The significant increase in gross margin percentage experienced in the fourth quarter was due to a combination of favourable product and customer mix in addition to continuing efforts to reduce product unit costs. Military sales which typically have higher margins accounted for 12.5% of fourth quarter revenue compared to 6.7% of revenue for fiscal year 2007. Cost productivity gains continue to be realized as the Company's revenue base grows. The increase in fiscal year 2008 gross margin of 4.0 points, from 54.0% to 58.0%, was largely the result of the significant increase in gross margin percentage realized in the fourth quarter.

## ***Operating Expenses***

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

### **Expenses as a Percentage of Revenue**

	<b>Three months ended March 31 (unaudited)</b>		<b>Fiscal year ended March 31</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	\$	\$	\$	\$
<b>Revenue</b> .....	<u>11,466</u>	<u>6,863</u>	<u>39,179</u>	<u>26,058</u>
Research and development.....	883	(497)	2,924	1,027
<b>% of revenue</b> .....	<b>7.7%</b>	<b>-7.2%</b>	<b>7.5%</b>	<b>3.9%</b>
Sales and marketing .....	2,244	1,932	7,611	5,734
<b>% of revenue</b> .....	<b>19.6%</b>	<b>28.2%</b>	<b>19.4%</b>	<b>22.0%</b>
General and administrative .....	1,093	874	4,749	2,701
<b>% of revenue</b> .....	<b>9.5%</b>	<b>12.7%</b>	<b>12.1%</b>	<b>10.4%</b>
Amortization.....	225	172	823	565
<b>% of revenue</b> .....	<b>2.0%</b>	<b>2.5%</b>	<b>2.1%</b>	<b>2.2%</b>
Total operating expenses.....	<u>4,445</u>	<u>2,481</u>	<u>16,107</u>	<u>10,027</u>
<b>% of revenue</b> .....	<b>38.8%</b>	<b>36.2%</b>	<b>41.1%</b>	<b>38.5%</b>

### ***Research and Development Expenses***

Research and development expenses for Q4-F08 (net of \$0.2 million of accrued SR&ED tax credits) were \$0.9 million, or 7.7% of revenue, compared to a recovery of \$0.5 million for the same period in the previous fiscal year. In the fourth quarter of fiscal 2007, the Company began to accrue SR&ED tax credits as eligible expenditures were incurred. Prior to this the Company only recorded SR&ED refunds after the related filing had been assessed. As a result, the Q4-F07 recovery is net of \$1.2 million in SR&ED tax credits relating to fiscal years 2005, 2006 and 2007. Removing the effect of SR&ED tax credits accrued in Q4-F07, the Company's gross research and development expenditures were \$0.7 million, or 9.9% of revenue compared to \$1.1 million in Q4-F08, or 9.3% of revenue.

For the full fiscal year 2008, research and development expenses (including \$0.8 million of accrued SR&ED tax credits) increased 185% to \$2.9 million compared to \$1.0 million in the prior fiscal year, representing 7.5% and 3.9% of total revenues for each period, respectively. In Q2-F08 the Company recorded SR&ED tax credits of \$0.3 million relating to prior fiscal years. Removing the effect of all SR&ED tax credits accrued in both fiscal years 2008 and 2007, the Company's gross research and development expenditures were 9.4% and 8.5% of revenue, respectively. The increases in absolute dollar expense for both Q4-F08 and the full fiscal 2008 year compared to their corresponding prior periods were mainly attributable to increased research and development personnel costs resulting from an increase in the number of employees over the past fiscal year from 27 to 36, and to the continued development of new products and the enhancement of existing products.

### ***Sales and Marketing Expenses***

Sales and marketing expenses for Q4-F08 increased 16% to \$2.2 million, compared to \$1.9 million for the same period in the previous fiscal year, representing 19.6% and 28.2% of total revenues for each period, respectively. The relatively high sales and marketing expense expressed as a percentage of revenue for Q4-FY07 was mainly attributable to a higher level of sales commissions for that period. For the full fiscal year 2008, sales and marketing expenses increased 33% to \$7.6 million compared to \$5.7 million in the prior fiscal year, representing 19.4% and 22.0% of total revenues for each period, respectively. The increases in dollar amounts for both Q4-F08 and the full fiscal year 2008 compared to their corresponding prior periods was partially attributable to an increase in the Company's sales personnel over the past year from 23 to 30 and an increase in their total compensation, a portion of which is performance based. The expansion of the Company's marketing group from four to six personnel also contributed to the increase. An increase in marketing activities, including higher levels of advertising, trade show and related promotional expenses, resulted in a 56% increase for the full year fiscal 2008 over fiscal 2007. The Company expects that selling and marketing expenses will continue to increase in dollar amount in future periods as amounts paid out to its sales force and to industry sales representatives increase commensurate with the growth in the Company's sales, as overall marketing activities and efforts increase, and as the Company continues to invest in marketing activities to promote its products.

### ***General and Administrative Expenses***

General and administrative expenses for Q4-F08 increased 25% to \$1.1 million, compared to \$0.9 million the same period in the last fiscal year, representing 9.5% and 12.7% of total revenues for each period, respectively. For the full fiscal year 2008, general and administrative expenses increased 76% to \$4.7 million compared to \$2.7 million in the same period in the last fiscal year, representing 12.1% and 10.4% of total revenues for each period, respectively. The increases in dollar amounts for both Q4-F08 and the full fiscal year 2008 compared to their corresponding prior periods were partially attributable to

an increase in the Company's general and administrative staff over the past year from 19 to 23. This increase was needed to support the Company's staffing requirements in finance, administration and customer support due to the growth in the Company's business as well as the increased administrative demands associated with being a public company. For the full fiscal year 2008, the Company incurred approximately \$0.5 million in unusual costs, which included a \$0.1 million foreign exchange loss, approximately \$0.4 million of unusual professional fees and other costs regarding tax related work and expenses allocated to the selling shareholders in the Company's initial public offering. If the effect of these unusual costs is excluded, general and administrative expenses would have been 10.8% of revenue for the full fiscal year 2008.

### ***Interest and Other Income***

The Company earned \$461,000 of interest income in Q4-F08. This compares to \$127,000 of interest expense incurred in the same period last fiscal year. Net interest income for Q4-F08 was comprised of \$481,000 of interest income earned on the Company's cash, cash equivalents, and short term investments, less \$20,000 of interest expense incurred by the Company related principally to capital leases. Interest expense of the same period a year ago was due mainly to interest accreted on the Company's Class A preferred shares, which were accounted for as a liability, in accordance with the accounting guidelines on financial instruments. The Class A preferred shares were converted to common shares on completion of the Company's initial public offering on June 21, 2007, and the Company no longer records interest expense with regard to these securities.

For the full fiscal year 2008, the Company earned net interest income of \$1.2 million. This compares to \$562,000 of interest expense incurred in the same period last fiscal year. The net interest income for fiscal 2008 was comprised of \$1.5 million of interest income earned on the Company's cash, cash equivalents, and short term investments, less \$270,000 of interest expense incurred by the Company related to accretion of the Company's Series A preferred shares, as described earlier, capital leases and various tax related interest and penalties.

### ***Income Tax Expense***

The Company recorded a tax provision for Q4-F08 of \$1.1 million which equates to an effective tax rate of 32.8%. This rate is lower than the statutory rate of 35.5% due to the recording of certain foreign tax credits of prior periods. This compares to a \$10,000 income tax expense for the same period in the prior year. The nominal amount of income tax expense for Q4-FY07 occurred primarily as a result of the reversal of a valuation allowance recorded in fiscal 2006 against future income tax assets as the Company, at that time, determined that it was more likely than not that sufficient taxable income would not be realized to utilize the asset. The Company also received the benefit of SR&ED tax credits which further reduced the effective rate.

For the full fiscal year 2008, the Company incurred income tax expense of \$3.0 million which is calculated at an effective rate of 37.9%. The Company's effective rate for fiscal 2008 was higher than the statutory rate due to certain expenses not deductible for tax purposes, including stock compensation expense, which are expected to continue in the future. This compares to \$0.7 million income tax expense for fiscal year 2007 and an effective tax rate of 20.5%. The Company was not fully taxable in fiscal 2007 due to the reversal of the valuation allowance recorded in fiscal 2006 against future income tax assets and the utilization of SR&ED tax credits accumulated from prior fiscal years, as described earlier.

## ***Net Income***

Net income before taxes for Q4-F08 was \$3.4 million compared to \$1.1 million for the same period in the last fiscal year, representing 29.7% and 16.1%, respectively, of total revenues for each period. Net income before taxes for Q4-F08 increased significantly compared to the same period a year ago due to increased revenues, a significantly higher gross margin percentage (64.4% compared to 54.1%), as well as the positive impact of interest income earned on funds raised from the Company's initial public offering in June 2007. Q4-F07 net income before tax of \$1.1 million included \$0.6 million of SR&ED tax credits relating to the Company's 2005 and 2006 fiscal years.

For the full fiscal year 2008, net income before taxes was \$7.8 million compared to \$3.5 million for the same period in the prior year, representing 20.0% and 13.4%, respectively, of total revenue for each period. Net income before taxes for F08 was positively affected by the factors mentioned above, in addition to the recording of approximately \$0.3 million SR&ED credits relating to the Company's 2006 and 2007 fiscal years. Offsetting these positive factors were unusual general and administrative expenses of approximately \$0.5 million incurred in the first two quarters of F08 related to higher than expected professional fees and foreign exchange losses. If the effects of the additional SR&ED tax credits and unusual general and administrative expenses are excluded, net income before taxes for the full fiscal year 2008 would have been 20.5% of revenue.

Net income after taxes for Q4-F08 was \$2.3 compared to \$1.1 million for Q4-F07, representing 20.0% and 15.9%, respectively, of total revenues for each period. This represents an increase of 110% over the last fiscal year even though Q4-F07 income tax expense was virtually nil.

For the full fiscal year 2008, net income after taxes was \$4.9 million compared to \$2.8 million for fiscal year 2007, representing 12.4% and 10.6%, respectively, of total revenues for each period. This represents an increase of 76% over the corresponding period last year. If the positive effects of prior years' SR&ED tax credits are excluded from both years, net income after tax for full fiscal year 2008 increased 99% over fiscal year 2007.

## **Outlook**

The Company expects continued annual growth and profitability. Specifically, the Company expects continued growth in each of its key target markets: electric power, transportation, industrial process and military. The Company expects to increase total dollar gross margins, however, gross margin percentages may vary depending on the mix of products and services sold and our success in winning large customer orders. Research and development will continue to be a key focus as the Company invests in new product and service development and in current product and service enhancements. Additional resources will continue to be committed to sales and marketing as the Company further develops its global sales channels and continues to promote the RuggedCom brand in its key target markets.

## LIQUIDITY AND CAPITAL

	<u>As at March 31,</u> <u>2008</u>	<u>As at March 31,</u> <u>2007</u>
	(In thousands, except Balance Sheet ratios)	
<b>Key Balance Sheet Amounts and Ratios:</b>		
Cash and cash equivalents	\$ 8,037	\$ 3,316
Short term investments	34,194	-
Working capital	50,178	6,169
Long term assets	2,998	1,758
Long term liabilities <sup>(1)</sup>	756	4,956
Working capital ratio <sup>(2)</sup>	11.0	2.3
Days sales outstanding in accounts receivable <sup>(3)</sup>	42 days	47 days
Inventory turnover <sup>(4)</sup>	5.2 times	4.5 times

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### Notes:

- (1) Long term liabilities at March 31, 2007 included \$4,844 related to the Class A preferred shares which were outstanding until June 21, 2007 when they automatically converted to common shares on the completion of the Company's initial public offering.
- (2) Current assets divided by current liabilities.
- (3) Days sales in accounts receivable represents the number of days' worth of sales uncollected as at the date indicated. It is derived by calculating the number of days required to accumulate total cumulative daily sales equal to the current trade receivable balance.
- (4) Inventory turnover is defined as the total cost of goods sold for the last 12 months' period divided by the average inventory balance over that same 12 months.

### *Cash, Cash Equivalents and Short Term Investments*

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

Investments in cash equivalents and marketable securities are governed by the Company's Cash Management & Investment Policy as approved by the Board of Directors. Excess funds are invested in accordance with sound investment management principles. The policy stipulates that investments will at all times be based on the requirements for safety, liquidity and yield in that order of importance. The Company has no exposure to non-bank asset-backed commercial paper.

As at March 31, 2008, the Company had \$42.2 million of cash, cash equivalents and short term investments compared to \$3.3 million as at March 31, 2007. This increase is attributable to the Company's receipt of its portion of proceeds from the issue and sale of common shares in the Company's initial public offering. See "Financing Activities".

### *Working Capital*

Working capital is defined as current assets less current liabilities. The Company's working capital balance increased to \$50.2 million at March 31, 2008 compared to \$6.2 million at the end of fiscal 2007. The Company's working capital ratio (current assets divided by current liabilities) increased to 11.0:1 compared to 2.3:1 at March 31, 2007. The increase in the Company's working capital ratio is

mainly attributable to net cash proceeds received by the Company in connection with the completion of its initial public offering and the exercise of the underwriters' over-allotment option.

The Company's accounts receivable balance increased \$2.6 million during fiscal 2008 to \$6.6 million from \$4.0 million at the end of fiscal 2007 due principally to the growth in the Company's business. Days sales outstanding in accounts receivable ("DSO") decreased to 42 days at March 31, 2008 from 47 days at the end of fiscal 2007. The Company's DSO could trend upward to the extent that the Company increases its revenue base in markets outside of North America as, in the Company's experience, international receivables tend to take longer to collect. The Company's allowance for doubtful accounts increased slightly from \$50,000 at the end of fiscal 2007 to \$57,000 as at March 31, 2008. (See "Critical Accounting Policies and Estimates – Allowance for Doubtful Accounts.")

Inventory balances increased by \$1.1 million to \$3.4 million at the end of fiscal 2008 from \$2.3 million at the end of fiscal 2007. Inventory levels have increased due to advance purchase of certain components to achieve unit cost reductions as well as a natural result of the general growth in business. Inventory turnover, calculated using the last 12 months' cost of sales and average inventory balances, increased from 4.5 times at the end of fiscal 2007 to 5.2 times at the end of fiscal 2008. The Company expects inventory turnover to increase as the Company continues to achieve cost productivity gains as a result of the growth in its business, however, the Company gives priority to meeting customers' request dates for delivery, which may require the stocking of additional inventory in order to meet short delivery schedules. This could negatively impact the inventory turnover.

Accounts payable and accrued liabilities increased \$0.7 million to \$4.2 million at the end of fiscal 2008 from \$3.5 million at the end of fiscal 2007. The increase was mainly due to an increase in trade payables as a result of the general growth in the Company's business. A portion of the increase was attributable to foreign exchange translation due to the differences in the US dollar exchange rate relative to the Canadian dollar between the end of fiscal 2007 and the end of fiscal 2008.

#### ***Cash Provided by (used in) Operating Activities***

The Company used \$0.7 million cash in operating activities in Q4-F08 as compared to generating \$0.9 million in the same period last fiscal year. For Q4-F08, \$2.3 million was provided through operating performance. Approximately \$0.4 million cash was provided by non-cash items, offset by \$3.4 million cash used through the net change in current non-cash working capital. The net change in current non-cash working capital was impacted by one time payments related to vendor trade discounts. In the same period in the last fiscal year, \$0.9 million cash was generated from operating activities. Approximately \$1.1 million was provided through operating performance. The balance related to \$0.4 million provided by non-cash items, offset by \$0.6 million cash used through the net change in current non-cash working capital.

For the full fiscal year 2008, the Company generated \$2.2 million cash from operating activities as compared to \$3.7 million for fiscal year 2007. Approximately \$4.9 million was provided through operating performance. The balance related to \$1.7 million cash provided by non-cash items, offset by \$4.4 million cash used through the net change in current non-cash working capital. In the last fiscal year, \$3.7 million cash was generated from operating activities. Approximately \$2.8 million was provided through operating performance. The balance related to \$1.4 million provided by non-cash items, offset by \$0.5 million cash used through the net change in current non-cash working capital.

#### ***Investing Activities***

Additions of capital assets were \$0.4 million for Q4-F08 compared with \$0.4 million for the same period in the last fiscal year. For the full fiscal year 2008, investing activities included the investment of \$33.4 million in short term investments. The source of these funds is described under "Financing

Activities”. Capital asset additions totaled \$1.2 million for fiscal year 2008 compared with \$1.3 million for fiscal year 2007. These additions represent continued investment by the Company in hardware, software and tooling as well as office and information technology infrastructure. See “Capital Resources.”

### ***Financing Activities***

During Q4-F08 the company issued 165,038 common shares upon exercise of employee stock options for net proceeds of \$271,560. Also during Q4-F08 the Company repaid capital lease obligations of approximately \$67,000. There were no other financing activities during the quarter.

For the full fiscal year 2008, financing activities generated \$36.2 million. The Company completed its initial public offering on June 21, 2007. The Company offered a total of 3,080,000 shares at \$12.12 (Cdn \$13.00) per common share, of which 2,808,175 were issued and sold from treasury and 271,825 were sold by the selling shareholders in a secondary offering. The Company received net proceeds of approximately \$32.0 million (Cdn \$34.3 million) and the selling shareholders received net proceeds of an aggregate of approximately \$3.1 million (Cdn \$3.3 million). Partially offsetting the cash proceeds from the initial public offering and exercise of the underwriters’ over-allotment were share issuance costs of \$3.8 million (Cdn \$4.1 million), including underwriter fees of an aggregate of approximately \$2.2 million (Cdn \$2.4 million).

Upon completion of the initial public offering, the 10,813,734 outstanding Class A preferred shares automatically converted to common shares on a four for one basis, resulting in the issuance of 2,703,432 common shares. Upon the conversion, the total accreted value of the Class A preferred shares, including all cumulative dividends, was credited to capital stock, along with the value of the conversion feature included in contributed surplus.

Subsequent to the Company’s completion of its initial public offering in Q1-F08, the Company’s underwriters’ exercised its over-allotment option and purchased 462,000 common shares at \$12.46 (Cdn \$13.00) per share on July 16, 2007, of which 421,226 shares were issued and sold by the Company from treasury for net proceeds of approximately \$4.9 million (Cdn \$5.1 million) to the Company, and 40,774 shares were sold by the selling shareholders, for net proceeds of an aggregate of approximately \$0.5 million (Cdn \$0.5 million) paid to the selling shareholders. The Company’s share of the net proceeds from the issue and sale of common shares in the over-allotment option will be used as disclosed in the prospectus. Partially offsetting the cash proceeds from the exercise of the underwriters’ over-allotment, the Company had share issuance costs of \$1.4 million (Cdn \$1.4 million), including underwriters’ commissions, for Q2-F08.

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

### ***Outstanding Share Capital***

The Company’s authorized share capital is comprised of an unlimited number of common shares of which there are 11,717,268 outstanding as of the date of this MD&A.

### ***Financial Instruments***

The fair value of accounts receivable, other receivables, accounts payable and accrued liabilities approximates their carrying value due to the immediate or short-term maturity of these financial instruments.

The Company is subject to financial risk related to earnings and expenses that arises from fluctuations in foreign exchange rates. The Company does not currently enter into hedging arrangements or utilize derivative financial instruments to manage its exposure to foreign exchange rate fluctuations, but may do so in the future.

### **Contractual Obligations**

The majority of the Company's contractual obligations consists of current and long-term capital and operating lease obligations. The Company also accrues warranty costs regarding the five year warranty associated with the sale of its products. As at March 31, 2008 the Company had long-term liabilities of \$0.8 million. This compares to long-term liabilities of \$5.0 million as at March 31, 2007, of which \$4.2 million was comprised of the liability portion of the Company's Class A preferred shares. This liability ceased upon the automatic conversion of the Class A preferred shares to common shares upon completion of the Company's initial public offering.

### **Capital Resources**

Future capital expenditures will continue to be funded through a combination of internally generated cash flows and capital lease financing. Capital expenditures will continue to include a mix of computer hardware, software, test equipment, tooling, leasehold improvements and office furniture as the Company continues to invest in its office and IT infrastructure. Due to the Company's rapid growth, the Company signed a binding offer to lease new, larger office and manufacturing facilities. 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. The new facilities will replace the Company's current head office and manufacturing facility for which it currently pays \$6.00 per square foot per annum for approximately 34,000 square feet. The new premises will require expenditures for certain leasehold improvements.

The Company also has a credit facility from a chartered financial institution comprising a \$1.0 million (Cdn \$1.0 million) revolving demand facility that is secured by certain of our assets. The facility is available for working capital requirements and general corporate purposes. As at March 31, 2008 there were no borrowings outstanding under the facility and the full amount available under the facility is available for future cash needs.

### **Off-Balance Sheet Arrangements**

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

### **Transactions with Related Parties**

The Company did not enter into any transactions with related parties during fiscal 2008 or fiscal 2007.

### **Disclosure Controls and Procedures**

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

Company's disclosure controls and procedures as at March 31, 2008 and have determined that such disclosure controls and procedures are effective.

### **Internal Controls Over Financial Reporting and Procedures**

The CEO and CFO are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The CEO and CFO have evaluated whether there were changes to the Company's internal control over financial reporting during the fiscal year ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

## Selected Consolidated Quarterly Information

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

(Unaudited)	Fiscal 2008				Fiscal 2007			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
<b>Revenue</b> .....	\$ 11,466	\$ 10,312	\$ 9,370	\$ 8,031	\$ 6,863	\$ 6,638	\$ 6,489	\$ 6,068
Cost of goods sold .....	<u>4,078</u>	<u>4,520</u>	<u>4,227</u>	<u>3,643</u>	<u>3,153</u>	<u>2,933</u>	<u>2,946</u>	<u>2,954</u>
Gross margin .....	7,388	5,792	5,143	4,388	3,710	3,705	3,543	3,114
Gross margin % .....	64.4%	56.2%	54.9%	54.6%	54.1%	55.8%	54.6%	51.3%
<b>Operating expenses:</b>								
Research and development...	883	732	607	702	(497)	513	524	487
Sales and marketing .....	2,244	1,777	1,849	1,741	1,932	1,410	1,187	1,205
General and administrative...	1,093	1,137	1,282	1,237	874	595	660	572
Amortization .....	<u>225</u>	<u>214</u>	<u>187</u>	<u>197</u>	<u>172</u>	<u>156</u>	<u>127</u>	<u>110</u>
Total operating expenses .....	<u>4,445</u>	<u>3,860</u>	<u>3,925</u>	<u>3,878</u>	<u>2,481</u>	<u>2,674</u>	<u>2,498</u>	<u>2,374</u>
Interest (income) expense .....	(461)	(484)	(400)	111	127	140	149	146
Income before income taxes...	3,404	2,416	1,618	400	1,102	891	896	594
Provision for income taxes – current .....	1,004	1,043	487	251	120	238	465	
Provision (recovery) for income taxes - future .....	<u>111</u>	<u>16</u>	<u>77</u>	<u>(15)</u>	<u>(110)</u>			
Net income .....	<u>\$2,289</u>	<u>\$1,357</u>	<u>\$1,054</u>	<u>\$164</u>	<u>\$1,092</u>	<u>\$653</u>	<u>\$431</u>	<u>\$594</u>
<b>Net Income Per Share:</b>								
Basic .....	\$ 0.20	\$ 0.12	\$ 0.09	\$ 0.03	\$ 0.20	\$ 0.12	\$ 0.08	\$ 0.11
Diluted .....	\$ 0.19	\$ 0.11	\$ 0.09	\$ 0.02	\$ 0.13	\$ 0.09	\$ 0.06	\$ 0.08
<b>Weighted Average Number of Common Shares Outstanding</b>								
Basic .....	11,520,092	11,510,060	11,412,488	5,926,776	5,345,717	5,345,717	5,343,950	5,296,087
Diluted .....	12,191,377	12,286,253	12,294,460	7,215,243	9,223,222	9,207,833	9,180,021	9,180,369
<b>Other data:</b>								
EBITDA <sup>(1)</sup> .....	\$ 3,168	\$ 2,146	\$ 1,405	\$ 708	\$ 1,401	\$ 1,187	\$ 1,172	\$ 850
EBITDA Margin <sup>(1)</sup> % .....	27.6%	20.8%	15.0%	8.8%	20.4%	17.9%	18.1%	14.0%

(1) For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-GAAP Measures" above.

## Net Income to EBITDA Reconciliation

(Unaudited)	Fiscal 2008				Fiscal 2007			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Net income	\$2,289	\$1,357	\$1,054	\$164	\$1,092	\$ 653	\$ 431	\$594
Interest <sup>(1)</sup>	(461)	(484)	(400)	111	127	140	149	146
Taxes	1,115	1,059	564	236	10	238	465	--
Amortization	<u>225</u>	<u>214</u>	<u>187</u>	<u>197</u>	<u>172</u>	<u>156</u>	<u>127</u>	<u>110</u>
<b>EBITDA<sup>(2) (3)</sup></b>	<b><u>\$3,168</u></b>	<b><u>\$2,146</u></b>	<b><u>\$1,405</u></b>	<b><u>\$708</u></b>	<b><u>\$1,401</u></b>	<b><u>\$1,187</u></b>	<b><u>\$1,172</u></b>	<b><u>\$850</u></b>

Notes:

- (1) Upon completion of the initial public offering, the Class A Shares were automatically converted to common shares and virtually all of the future interest expense ceased to accrue. See "Current Period and Annual Operating Results – Interest and Other Income".
- (2) For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-GAAP Measures".
- (3) EBITDA includes SR&ED tax credits.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

### ***Change in Reporting Currency***

Commencing in the Q2-F08 reporting period, the Company changed its reporting currency from Canadian dollars to United States dollars because a majority of the Company's business is conducted in US dollars and the Company believes that reporting in US dollars more accurately reflects the Company's true operating results and financial position. Additionally, management believes that reporting financial results in US dollars facilitates easier comparison of the Company's results with those of similar companies reporting in United States dollars (although the Company still reports in Canadian GAAP). The Company has used the current rate method to translate financial results for comparative periods shown in our financial statements from Canadian dollars to US dollars. Under this method, income statement and cash flow statement items for each period are translated into the reporting currency using the rates then in effect at the date of the transactions, and the assets and liabilities are translated using the exchange rate at the end of the relevant period. Opening equity for fiscal 2006 has been translated at the opening balance sheet rate with subsequent changes in equity translated at historical rates. All resulting exchange differences are reported as a separate component of shareholders' equity. The functional currencies of the Company and its subsidiary remained unchanged as Canadian dollars.

### ***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.

### ***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.

### ***Allowance for Doubtful Accounts***

The Company's accounts receivable balance as at March 31, 2008 was \$6.6 million compared to \$4.0 million at March 31, 2007. The allowance for doubtful accounts was \$57,000 as at March 31, 2008 compared to \$50,000 as at March 31, 2007.

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

### ***Inventory***

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 is comprised of material, labour and manufacturing overhead.

### ***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.

### ***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.

### ***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.

### ***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.

### ***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.

## **ACCOUNTING CHANGES**

In July 2006, the 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.

On April 1, 2007, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("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.

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. The following table shows the classification and measurement chosen for each of the Company's financial assets and liabilities:

<b>Asset/Liability</b>	<b>Classification</b>	<b>Measurement</b>
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

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.

## **Risk and Uncertainties**

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

### ***Growth Management***

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

### ***Reliance on Key Personnel***

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

### ***Growth in Key Markets***

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

### ***Dependence on Electric Power Industry***

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

### ***Competition***

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

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

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

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

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

### ***Reliance on Third-Party Suppliers***

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

### ***Manufacturing and Reliance on Contract Manufacturers***

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

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

Therefore, any significant interruption in contract manufacturing would result in the Company being unable to deliver the affected products to meet its customer orders.

### ***Reliance on Third Party Channel Partners***

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

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

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

### ***Fluctuations in Quarterly Results***

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

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

### ***Dependence on Certain Licensed Intellectual Property***

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

### ***Infringement of Intellectual Property Rights***

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

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

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

### ***Use of Open Source Software***

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

### ***Protection of the Company's Intellectual Property***

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

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

### ***Rapid Technological Change***

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

### ***Product Defects and Liability Claims***

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

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

### ***Currency Fluctuations***

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. However, in the future, it may establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if it develops a hedging program, it may not hedge entirely the exposure related to any one foreign currency and it may not hedge its exposure at all with respect to certain foreign currencies.

### ***International Risk***

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

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

### ***Regulation***

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

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

### ***Health and Safety***

In recent years there has been publicity regarding the potentially negative direct and indirect health and safety effects of electromagnetic emissions from wireless equipment sources, including allegations that these emissions may cause cancer. The Company's wireless communications products emit electromagnetic radiation. Health and safety issues related to its products may arise that could lead to

litigation or other actions against the Company or to regulation of certain of its product components. The Company may be required to modify its technology and may not be able to do so. It may also be required to pay damages that may reduce its profitability and adversely affect its financial condition. Even if these concerns prove to be baseless, the resulting negative publicity could affect the Company's ability to market certain of its products and, in turn, could harm its business and results of operations.

### ***Economic and Geopolitical Uncertainty***

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

### ***Acquisitions***

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

### ***Transfer Pricing***

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

### ***Other Tax Matters***

Although management is of the view that all expenses and tax credits claimed by the Company, including research and development expenses and SR&ED tax credits, are reasonable and deductible and have been correctly determined, there can be no assurance that the Canadian taxation authorities will agree. If the Canadian taxation authorities successfully challenge such expenses or the correctness of such income tax credits claimed, the Company's operating results could be adversely affected. If the Canadian

taxation authorities reduce the tax credit either by reducing the rate of the grant or the eligibility of some research and development expenses in the future, its operating results will be adversely affected.

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