

RuggedCom Inc.
CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2010

May 26, 2010

Auditors' Report

To the Shareholders of RuggedCom Inc.

We have audited the consolidated balance sheets of **RuggedCom Inc.** (the Company) as at March 31, 2010 and 2009 and the consolidated statements of operations and retained earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

RuggedCom Inc.
CONSOLIDATED BALANCE SHEETS
As at March 31, 2010 and 2009
(in thousands of United States dollars)

| | 2010 | 2009 |
|--|-------------|-------------|
| | \$ | \$ |
| Assets | | |
| Current | | |
| Cash and cash equivalents (note 5 and 16 (e)) | 33,140 | 45,099 |
| Accounts receivable (note 6) | 13,494 | 9,780 |
| Prepaid expenses and other (note 7) | 1,825 | 1,025 |
| Inventories (note 8) | 10,497 | 4,555 |
| Income taxes recoverable | 1,036 | - |
| Future income taxes (note 14(a)) | 637 | 283 |
| | 60,629 | 60,742 |
| Future income taxes (note 14(a)) | 431 | 246 |
| Severance pay fund | 520 | - |
| Property and equipment (note 9) | 11,372 | 2,017 |
| Goodwill (note 4) | 1,928 | - |
| Intangible assets (note 10) | 11,373 | 1,225 |
| | 86,253 | 64,230 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | 7,618 | 5,793 |
| Current portion of warranty liability | 604 | 482 |
| Income taxes payable | 280 | 2,268 |
| Current portion of deferred income | 99 | 50 |
| Current portion of lease costs | 26 | - |
| Current portion of obligations under capital leases (note 16(b)) | 105 | 126 |
| | 8,732 | 8,719 |
| Warranty liability | 413 | 347 |
| Deferred income | 32 | 21 |
| Severance payable | 558 | - |
| Obligations under capital leases (note 16(b)) | 95 | 48 |
| Lease costs payable | 265 | 6 |
| | 10,095 | 9,141 |
| Shareholders' Equity | | |
| Capital stock (note 11) | 48,886 | 46,820 |
| Contributed surplus (note 13) | 2,538 | 1,559 |
| Accumulated other comprehensive income (loss) (note 12) | 4,887 | (8,952) |
| Retained earnings | 19,847 | 15,662 |
| | 24,734 | 6,710 |
| | 76,158 | 55,089 |
| | 86,253 | 64,230 |

Commitments (note 16)

Contingent liabilities (note 17)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors

"Peter Crombie"

Peter Crombie, Director

"J. Ian Giffen"

J. Ian Giffen, Director

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS
For the years ended March 31, 2010 and 2009
(in thousands of United States dollars except per share information)

| | 2010 | 2009 |
|--|-------------|-------------|
| | \$ | \$ |
| Revenue | 72,739 | 60,373 |
| Cost of goods sold | 30,058 | 22,268 |
| | <hr/> | <hr/> |
| Gross margin | 42,681 | 38,105 |
| | <hr/> | <hr/> |
| Operating expenses | | |
| Research and development | 9,242 | 4,967 |
| Sales and marketing | 14,197 | 10,765 |
| General and administrative | 8,721 | 5,561 |
| Investment tax credits | (1,302) | (1,048) |
| Loss (gain) on foreign exchange | 2,351 | (742) |
| Amortization | 3,068 | 1,166 |
| | <hr/> | <hr/> |
| | 36,277 | 20,669 |
| | <hr/> | <hr/> |
| Operating income | 6,404 | 17,436 |
| Net interest income | 115 | 1,273 |
| | <hr/> | <hr/> |
| Income before income taxes | 6,519 | 18,709 |
| | <hr/> | <hr/> |
| Provision for income taxes (note 14(b)) | | |
| Current | 2,745 | 5,827 |
| Future | (411) | 554 |
| | <hr/> | <hr/> |
| | 2,334 | 6,381 |
| | <hr/> | <hr/> |
| Net income for the year | 4,185 | 12,328 |
| | <hr/> | <hr/> |
| Retained earnings — Beginning of year | 15,662 | 3,334 |
| | <hr/> | <hr/> |
| Retained earnings — End of year | 19,847 | 15,662 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Net earnings per common share (note 18) | | |
| Basic | \$ 0.35 | \$ 1.05 |
| Diluted | \$ 0.33 | \$ 1.00 |
| Basic weighted average number of common shares | 12,062,547 | 11,771,439 |
| Diluted weighted average number of common shares | 12,577,790 | 12,326,514 |

See accompanying notes to consolidated financial statements.

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended March 31, 2010 and 2009
(in thousands of United States dollars)

| | 2010 | 2009 |
|---|---------------|--------------|
| | <u>\$</u> | <u>\$</u> |
| Net income for the year | 4,185 | 12,328 |
| Unrealized foreign currency translation gain (loss) (note 12) | 13,839 | (10,970) |
| | <hr/> | <hr/> |
| Comprehensive income for the year | <u>18,024</u> | <u>1,358</u> |

See accompanying notes to consolidated financial statements.

RuggedCom Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended March 31, 2010 and 2009
(in thousands of United States dollars)

| | 2010 | 2009 |
|---|-------------|-------------|
| | \$ | \$ |
| Cash provided by (used in) | | |
| Operating activities | | |
| Net income for the year | 4,185 | 12,328 |
| Non-cash items | | |
| Amortization of property and equipment | 2,191 | 1,097 |
| Amortization of other assets | 877 | 69 |
| Future income taxes | (411) | 554 |
| Stock-based compensation | 1,175 | 1,082 |
| Warranty liability | (136) | (8) |
| Lease costs | 259 | (29) |
| Net change in non-cash working capital (note 15(a)) | (9,004) | (574) |
| | (864) | 14,519 |
| Investing activities | | |
| Acquisition of subsidiary (note 4) | (8,138) | - |
| Disposal of short-term investments | - | 34,787 |
| Additions to property and equipment | (8,724) | (1,486) |
| Additions to other assets | (1,370) | (1,203) |
| | (18,232) | 32,098 |
| Financing activities | | |
| Repayment of obligations under capital leases | (194) | (247) |
| Issuance of common shares | 1,875 | 228 |
| Repayment of loan (note 4) | (4,875) | - |
| | (3,194) | (19) |
| Effect of exchange rates on cash | 10,331 | (9,536) |
| Increase (decrease) in cash and cash equivalents during the year | (11,959) | 37,062 |
| Cash and cash equivalents — Beginning of year | 45,099 | 8,037 |
| Cash and cash equivalents — End of year (note 15(b)) | 33,140 | 45,099 |

See accompanying notes to consolidated financial statements.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010 and 2009

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

1. THE COMPANY

RuggedCom Inc. (the Company) was incorporated under the provisions of the Business Corporations Act (Ontario) on February 22, 2001. The Company provides rugged communications networking solutions designed for mission-critical applications in harsh environments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Principles of consolidation

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

Use of estimates

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

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

Foreign currency translation

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

Reporting currency translation

The financial statements for all years presented have been translated into United States dollars, the Company's reporting currency, using the current rate method. Under this method, the financial statements have been translated as follows: the assets and liabilities were translated into United States dollars using the exchange rate in effect at balance sheet date. Revenues and expenses were translated at the average quarterly exchange rate prevailing during the quarter. Equity transactions were translated on the date the transaction occurred. All exchange rate differences resulting from translation are included in accumulated other comprehensive income.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010 and 2009

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Inventories

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

Government assistance

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

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

Research and development costs

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

Severance pay fund

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

Property and equipment

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

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

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010 and 2009

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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

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

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

Patents, trademarks and domain names: 5 years

Software: 3 years

Customer lists and agreements: 5 years

Technological assets: 8 years

Goodwill

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

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

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

Impairment of long-lived assets

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

Financing fees

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

Related party transactions

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

Stock-based compensation

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

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010 and 2009

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

The Company often enters into sales transactions involving a range of the Company's products and services (multiple components), for example, for the delivery of hardware, software and related after-sales service. The Company aligns the revenue recognition criteria set out below with each separately identifiable component of the sales transaction in order to reflect the substance of the transaction. The consideration received from these transactions is allocated to the separately identifiable components using the 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: product, training and installation. The Company first allocates the arrangement fee, in a multiple element transaction, to the undelivered elements based on the total fair value of those undelivered elements, as indicated by vendor-specific objective evidence. This portion of the arrangement fee is deferred. Then the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. In some instances, a group of contracts or agreements with the same customer is treated as a single transaction. Revenue is recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Company's different activities has been met. These activity-specific recognition criteria are based on the goods or solutions provided to the customer and the contract conditions in each case, and are described below.

Sale of goods

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

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

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

Sale of services

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

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

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

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

Share issuance costs

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

Per share amounts

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

Financial instruments

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

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

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

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

Recently issued accounting pronouncements

Business combinations

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

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010 and 2009

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidated financial statements

In January 2009, the CICA published Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests, which together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and should be adopted at the same time as Section 1582. Early adoption is permitted as of the beginning of a fiscal year. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

Multiple deliverable revenue arrangements

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

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption. The Company has determined it will adopt this EIC early, effective April 1, 2010. The Company is currently assessing the future impact of this amendment on its financial statements.

International Financial Reporting Standards

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

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Goodwill and intangible assets

Effective April 1, 2009, the Company adopted the CICA Handbook Section 3064, Goodwill and Intangible Assets. This standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard required the Company to retroactively reclassify its computer software assets that meets the definition of an intangible asset on its consolidated balance sheet from property and equipment to intangible assets. The net book value of the purchased computer software reclassified as of April 1, 2008 was \$267.

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

4. ACQUISITION

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

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

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

Assets purchased

| | |
|------------------------|----------|
| Inventory | \$ 2,834 |
| Other current assets | 657 |
| Property and equipment | 1,208 |
| Other assets | 160 |
| Future tax asset | 1,952 |
| Technological assets | 8,228 |
| Agreements | 390 |
| Customer list | 655 |
| Goodwill | 1,628 |
| | <hr/> |
| | 17,712 |

Liabilities assumed

| | |
|----------------------|-------|
| Current liabilities | 2,747 |
| Future tax liability | 1,952 |
| Loan | 4,875 |
| | <hr/> |
| | 9,574 |

| | |
|------------------------------|-----------------|
| Net non-cash assets acquired | 8,138 |
| Cash acquired | 766 |
| | <hr/> |
| Net assets acquired | <u>\$ 8,904</u> |

Upon the closing of the purchase, RuggedCom repaid the loan acquired as part of the acquisition. Future tax liabilities associated with the temporary differences of the acquired non-deductible intangible assets have been recorded. The goodwill recorded as a result of the acquisition is not tax deductible.

During the period since acquisition the company has updated its purchase price allocation as follows:

- decreased the value of inventory purchased due to the determination of obsolete inventory
- increased the amount of the transaction costs due to additional work to prepare the Business Acquisition Report
- recognition of a future tax asset for tax loss carryforwards to offset future tax liability on intangible assets

5. REVOLVING DEMAND FACILITY

The Company has a \$1,000 Canadian dollar revolving demand facility with a major Canadian financial institution. Funds drawn against this facility bear interest at prime rate. The use of the revolving demand facility has been restricted by \$139 United States dollars as security for guarantees. The bank has a first ranking on \$1,000 Canadian of term deposits and bank balances. As at March 31, 2010 and 2009, there was no balance drawn against this facility.

RuggedCom Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010 and 2009

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

6. ACCOUNTS RECEIVABLE

| | 2010 | 2009 |
|---------------------------------|-------------|-------------|
| | \$ | \$ |
| Trade receivables | 13,538 | 9,816 |
| Allowance for doubtful accounts | (44) | (36) |
| | 13,494 | 9,780 |
| | 13,494 | 9,780 |

7. PREPAID EXPENSES AND OTHER

| | 2010 | 2009 |
|--------------------------|-------------|-------------|
| | \$ | \$ |
| Deposits | 413 | 393 |
| Prepaid expenses | 704 | 376 |
| Commodity tax receivable | 360 | 194 |
| Grants receivable | 214 | - |
| Other | 134 | 62 |
| | 1,825 | 1,025 |
| | 1,825 | 1,025 |

8. INVENTORIES

| | 2010 | 2009 |
|----------------|-------------|-------------|
| | \$ | \$ |
| Raw materials | 10,130 | 4,437 |
| Finished goods | 367 | 118 |
| | 10,497 | 4,555 |
| | 10,497 | 4,555 |

Included in cost of goods sold is \$166 (2009 - \$247) recognized as an expense in the year as a provision for the write-down of any losses of inventories.

9. PROPERTY AND EQUIPMENT

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

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

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

9. PROPERTY AND EQUIPMENT (continued)

| | 2009 | | |
|---|-------------|-------------------------------------|------------|
| | Cost | Accumulated amortization | Net |
| | \$ | \$ | \$ |
| Leasehold improvements | 229 | 174 | 55 |
| Leasehold improvements under capital lease | 10 | 9 | 1 |
| Office furniture and equipment | 851 | 386 | 465 |
| Computer hardware | 843 | 147 | 696 |
| Furniture and equipment under capital lease | 650 | 506 | 144 |
| Computer hardware under capital lease | 210 | 187 | 23 |
| Evaluation units | 880 | 506 | 374 |
| Tooling | 507 | 248 | 259 |
| | 4,180 | 2,163 | 2,017 |
| | 4,180 | 2,163 | 2,017 |

10. INTANGIBLE ASSETS

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

| | 2009 | | |
|---------------------------------------|-------------|-------------------------------------|------------|
| | Cost | Accumulated amortization | Net |
| | \$ | \$ | \$ |
| Intangible assets | | | |
| Patents | 90 | 31 | 59 |
| Trademarks | 343 | 103 | 240 |
| Computer software | 1,376 | 466 | 910 |
| Computer software under capital lease | 10 | 8 | 2 |
| Other | 14 | - | 14 |
| | 1,833 | 608 | 1,225 |
| | 1,833 | 608 | 1,225 |

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11. CAPITAL STOCK

Authorized

Unlimited number of Class A shares

Unlimited number of common shares

Issued

| | 2010 | | 2009 | |
|---|------------|--------|------------|--------|
| | shares | Amount | Number of | Amount |
| Common shares balance - Beginning of year | 11,812,608 | 46,820 | 11,717,268 | 46,384 |
| Issued for warrants exercised (a) | 250,000 | 1,499 | - | - |
| Issued for options exercised (b) | 81,850 | 567 | 95,340 | 436 |
| Common shares balance - End of year | 12,144,458 | 48,886 | 11,812,608 | 46,820 |

(a) Common shares issued for warrants exercised in the year were 250,000 (2009 - nil) at a weighted average share price of \$6.00 (\$6.52 Canadian) (2008 - \$nil (\$nil Canadian)).

(b) Common shares issued for options vested and exercised in the year were 81,850 (2008 - 95,340) at a weighted average share price of \$4.66 (\$5.08 Canadian) (2008 - \$2.44 (\$2.75 Canadian)).

Employee stock options

Stock options have been granted since inception to employees and other individuals on a case-by-case basis to attract the right professionals and reward them for their efforts. In 2004, the Company established the 2004 Stock Option Plan, which authorized 750,000 common shares to be available for grants to directors, officers and employees of the Company. The plan also allows for share appreciation rights. To date, there have been no share appreciation rights granted. On March 21, 2007, this plan was amended to increase the maximum number of common shares issuable under the plan to a maximum of 1,200,000 common shares. On August 5, 2009, the plan was further amended to increase the maximum number of common shares issuable under the plan to a maximum of 1,650,000 common shares. Stock options granted under the plan to date have a seven-year term and, other than in respect of grants to directors, contain vesting provisions of 25% on the first anniversary date of the grant, with the remainder vesting monthly on a straight-line basis over the next 30 months. Grants to directors vested fully at the date of grant.

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

| | 2010 | | 2009 | |
|-----------------------------------|----------------------------|--|----------------------------|--|
| | Number of stock options | Weighted average exercise price \$ | Number of stock options | Weighted average exercise price \$ |
| Outstanding - Beginning of year | 779,019 | 6.30 | 803,772 | 5.73 |
| Granted | 324,625 | 21.81 | 97,500 | 16.79 |
| Exercised | (81,850) | 4.66 | (95,340) | 2.44 |
| Forfeited | (30,204) | 17.39 | (26,913) | 7.60 |
| Outstanding - End of year | 991,590 | 12.83 | 779,019 | 6.30 |
| Options exercisable - End of year | 559,684 | 6.92 | 516,534 | 4.68 |

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11. CAPITAL STOCK (continued)

In fiscal 2010, the Company granted an aggregate of 324,625 stock options to certain officers and employees of the Company. These stock options vest on the first anniversary date of the grant, followed by monthly vesting on a straight-line basis over 30 months following the first anniversary date of the grant.

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

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

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

| Issue dates | Stock options outstanding | | | |
|---------------------------------------|--|------------------------------------|--|--|
| | Range of exercise prices \$ | Number of stock options | Weighted average remaining life (years) | Weighted average exercise price per stock option \$ |
| August 18, 2004 to September 27, 2006 | 1.46 | 320,101 | 2.12 | 1.46 |
| March 25, 2008 | 11.32 | 159,250 | 4.98 | 11.32 |
| February 6, 2008 | 11.57 | 5,000 | 4.85 | 11.57 |
| March 21, 2007 to April 25, 2007 | 11.81 | 97,939 | 3.97 | 11.81 |
| November 7, 2007 | 13.03 | 4,000 | 4.60 | 13.03 |
| February 13, 2009 | 20.56 | 97,500 | 5.87 | 20.56 |
| February 12, 2010 | 20.57 | 109,500 | 6.87 | 20.57 |
| April 3, 2009 | 24.83 | 193,300 | 6.01 | 24.83 |
| May 22, 2009 | 25.79 | 5,000 | 6.14 | 25.79 |

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11. CAPITAL STOCK (continued)

| Issue dates | Range of exercise prices \$ | Number of stock options | Stock options exercisable |
|---------------------------------------|--|------------------------------------|--|
| | | | Weighted average exercise price per stock option \$ |
| August 18, 2004 to September 27, 2006 | 1.46 | 320,101 | 1.46 |
| March 25, 2008 | 11.32 | 82,517 | 11.32 |
| February 6, 2008 | 11.57 | 2,874 | 11.57 |
| March 21, 2007 to April 25, 2007 | 11.81 | 81,630 | 11.81 |
| November 7, 2007 | 13.03 | 2,250 | 13.03 |
| February 13, 2009 | 20.56 | 70,312 | 20.56 |
| February 12, 2010 | 20.57 | - | 20.57 |
| April 3, 2009 | 24.83 | - | 24.83 |
| May 22, 2009 | 25.79 | - | 25.79 |

Warrants

During the year ended March 31, 2004, the Company issued a warrant to a shareholder to purchase 250,000 common shares at an exercise price of \$6.00 per share. The warrant was exercisable until the earliest of certain events, including two years following an initial public offering of the Company's common shares. The fair value of this warrant when granted was \$nil. These warrants were exercised on June 30, 2009.

Warrants granted were valued using the Black-Scholes option pricing model with the following assumptions: stock price on the date of grant was \$6.00 per share on a split-adjusted basis; 80% volatility; a three-year estimated life; risk-free interest rate of 5%; and expected dividend yield of nil.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

| | 2010 | 2009 |
|--|-------------|-------------|
| | \$ | \$ |
| Balance - Beginning of the year | (8,952) | 2,018 |
| Unrealized foreign currency translation gain (loss) for the year | 13,839 | (10,970) |
| Balance - End of the year | 4,887 | (8,952) |

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13. CONTRIBUTED SURPLUS

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

| | 2010 | 2009 |
|----------------------------------|-------------|-------------|
| | \$ | \$ |
| Balance - Beginning of year | 1,559 | 684 |
| Stock-based compensation expense | 1,176 | 1,082 |
| Fair value of options exercised | (197) | (207) |
| | 2,538 | 1,559 |

14. INCOME TAXES

(a) Future

| | 2010 | 2009 |
|--|-------------|-------------|
| | \$ | \$ |
| Future income tax assets | | |
| Financing costs | 496 | 623 |
| Reserves | 1,153 | 392 |
| Obligation under capital lease | 3 | 54 |
| Tax losses carry-forward | 7,668 | - |
| Other | 43 | 60 |
| | 9,363 | 1,129 |
| Future income tax liabilities | | |
| Property and equipment | 395 | 249 |
| Investment tax credits | 296 | 258 |
| Deferred revenue | 414 | - |
| Intangible assets | 1,975 | 93 |
| | 3,080 | 600 |
| Net income tax asset | 6,283 | 529 |
| Less: Valuation allowance | 5,215 | - |
| Less: Current portion future tax asset | 637 | 283 |
| | 431 | 246 |

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14. INCOME TAXES (continued)

(b) Expense reconciliation

| | 2010 | 2009 |
|--|-------------|-------------|
| | \$ | \$ |
| Earnings before income taxes | 6,519 | 18,709 |
| Tax at statutory rate (30.75% ;2008 - 31.77%) | 2,005 | 5,944 |
| Subsidiaries foreign tax rates differential | 160 | - |
| Permanent differences | 275 | 443 |
| Scientific research and experimental development | - | (20) |
| Effect of rate change | 51 | 30 |
| Other | (157) | (16) |
| | 2,334 | 6,381 |

15. SUPPLEMENTAL CASH FLOW INFORMATION

a) Net change in non-cash working capital

| | 2010 | 2009 |
|--|-------------|-------------|
| | \$ | \$ |
| Accounts receivable | (1,296) | (4,782) |
| Prepaid expenses and other | (241) | 879 |
| Inventories | (1,844) | (1,963) |
| Accounts payable and accrued liabilities | (2,762) | 2,644 |
| Income taxes payable | (2,894) | 2,606 |
| Deferred income | 33 | 42 |
| | (9,004) | (574) |

b) Cash and cash equivalents

| | 2010 | 2009 |
|------------------|-------------|-------------|
| | \$ | \$ |
| Cash | 3,889 | 2,946 |
| Cash equivalents | 29,251 | 42,153 |
| | 33,140 | 45,099 |

(c) Supplemental disclosures

| | 2010 | 2009 |
|--|-------------|-------------|
| | \$ | \$ |
| Interest paid | 53 | 44 |
| Income taxes paid | 4,811 | 1,820 |
| Addition to assets under capital lease | 186 | - |

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16. COMMITMENTS

a) As at March 31, 2010, the Company has annual commitments for office premises and equipment operating leases as follows:

| | \$ |
|------------|-------|
| 2011 | 1,589 |
| 2012 | 1,247 |
| 2013 | 898 |
| 2014 | 717 |
| 2015 | 762 |
| Thereafter | 3,277 |
| | 8,490 |

b) The Company has entered into capital leases, collateralized by certain property and equipment. These leases carry an interest charged at rates between 1% and 15%, maturing between 2010 and 2012.

Included in interest expense is an amount of \$18 (2008 - \$44) of interest on obligations under capital leases.

Future minimum lease payments under capital leases are as follows:

| | \$ |
|------------------------------------|-----|
| 2011 | 113 |
| 2012 | 79 |
| 2013 | 16 |
| Total minimum lease payments | 208 |
| Less: Amount representing interest | 8 |
| Balance of obligation | 200 |
| Less: Current portion | 105 |
| | 95 |

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

d) WiNetworks participated in programs sponsored by foreign governments for the support of research and development activities. The subsidiary is obligated to pay royalties, amounting to 3% to 5% of revenues generated from the sale of its products up to the amount granted plus interest. WiNetworks obligation to pay these royalties is contingent on actual sales of its products, and in the absence of such sales, no payment is required. As of March 31, 2010, the subsidiary has received cumulative grants of \$3,083 but has not paid or accrued royalties under the programs.

e) The company has guaranteed \$110 of the rents owing under one of its office leases by having restricted access to \$110 its cash and cash equivalents until September, 2010.

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17. CONTINGENT LIABILITIES

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

18. EARNINGS PER COMMON SHARE

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

| | 2010 | 2009 |
|--|--------------------------|--------------------------|
| Net income and dilutive net income attributable to common shareholders | <u>\$ 4,185</u> | <u>\$ 12,328</u> |
| Common shares outstanding — Beginning of year | 11,771,439 | 10,127,253 |
| Weighted average number of common shares issued in the year | <u>291,108</u> | <u>1,644,186</u> |
| Basic weighted average number of common shares | 12,062,547 | 11,771,439 |
| Effect of dilutive securities, stock options and warrants | <u>515,243</u> | <u>555,075</u> |
| Diluted weighted average common shares outstanding — End of year | <u><u>12,577,790</u></u> | <u><u>12,326,514</u></u> |

19. SEGMENTED INFORMATION

The Company has determined that it has two reportable segments: Ruggedcom and WiNetworks. Each business segment assumes responsibility for its operating results. In the prior year the Company only had one reportable segment.

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

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

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

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19. SEGMENTED INFORMATION (continued)

a) By business segment

| | 2010 | | | 2009 |
|--------------------------------------|------------------|-------------------|---------------------|---------------------|
| | Ruggedcom | WiNetworks | Consolidated | Consolidated |
| | \$ | \$ | \$ | \$ |
| Revenue | 71,188 | 1,551 | 72,739 | 60,373 |
| Cost of goods sold | 29,254 | 804 | 30,058 | 22,268 |
| Gross margin | 41,934 | 747 | 42,681 | 38,105 |
| | - | | | - |
| Operating expenses: | | | | |
| Research and development | 7,129 | 2,113 | 9,242 | 4,967 |
| Sales and marketing | 13,960 | 237 | 14,197 | 10,765 |
| General and administrative | 8,100 | 621 | 8,721 | 5,561 |
| Investment tax credits | (1,031) | (271) | (1,302) | (1,048) |
| Foreign exchange loss (gain) | 2,318 | 33 | 2,351 | (742) |
| Amortization | 2,755 | 313 | 3,068 | 1,166 |
| Total operating expenses | 33,231 | 3,046 | 36,277 | 20,669 |
| Interest income (expense) | 160 | (45) | 115 | 1,273 |
| Income before income taxes | 8,863 | (2,344) | 6,519 | 18,709 |
| Provision for income taxes - current | 2,745 | - | 2,745 | 5,827 |
| Provision for income taxes - future | (411) | - | (411) | 554 |
| Net income (loss) | 6,529 | (2,344) | 4,185 | 12,328 |
| Assets | 70,657 | 15,596 | 86,253 | 64,230 |

b) By geographic region

| | 2010 | | | 2009 |
|--------------------------------|------------------|-------------------|---------------------|---------------------|
| | Ruggedcom | WiNetworks | Consolidated | Consolidated |
| | \$ | \$ | \$ | \$ |
| Sales | | | | |
| North America | 32,189 | 910 | 33,099 | 28,203 |
| Latin America | 6,322 | 70 | 6,392 | 3,652 |
| Asia Pacific | 15,109 | 18 | 15,127 | 12,259 |
| Europe, Middle East and Africa | 17,568 | 553 | 18,121 | 16,259 |
| Total | 71,188 | 1,551 | 72,739 | 60,373 |

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19. SEGMENTED INFORMATION (continued)

c) By industry

| | 2010 | | | 2009 |
|----------------------------|-----------|------------|--------------|--------------|
| | Ruggedcom | WiNetworks | Consolidated | Consolidated |
| Sales | \$ | \$ | \$ | \$ |
| Electric Power (Utilities) | 45,406 | 781 | 46,187 | 39,671 |
| Transportation Systems | 11,458 | 2 | 11,460 | 7,525 |
| Industrial Processes | 8,905 | 116 | 9,021 | 7,034 |
| Military | 5,289 | 189 | 5,478 | 5,996 |
| Other | 130 | 463 | 593 | 147 |
| Total | 71,188 | 1,551 | 72,739 | 60,373 |

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

| | 2010 | | | 2009 |
|--------|-----------|------------|--------------|--------------|
| | Ruggedcom | WiNetworks | Consolidated | Consolidated |
| Canada | 8.6% | 0.0% | 8.6% | 10.8% |
| USA | 36.9% | 44.0% | 36.9% | 36.8% |
| China | 10.8% | 0.0% | 10.8% | 6.2% |

20. ECONOMIC DEPENDENCY AND CONCENTRATION OF CREDIT RISK

In the year ended March 31, 2010, the Company had sales to one customer which accounted for 9% of total sales (2009 - 11%). This customer represents 11% (2009 - 14%) of the accounts receivable.

21. CAPITAL DISCLOSURES

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

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22. FINANCIAL INSTRUMENTS

a) Classification

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

| | 2010 | 2009 |
|---------------------------------|-------------|-------------|
| | \$ | \$ |
| Loans and receivables (1) | 13,494 | 9,780 |
| Other financial liabilities (2) | 8,635 | 6,622 |

(1) Includes accounts receivable

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

b) Fair value

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

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

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

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

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

c) Embedded derivatives

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

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

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22. FINANCIAL INSTRUMENTS (continued)

d) Risk arising from financial instruments and risk management

Interest rate risk

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

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash equivalents. The Company is also exposed to interest rate fluctuations with respect to the use of its revolving credit facility, which bears interest at floating rates. Management does not believe the impact from the interest rate risk would be significant. Recognized interest income for the Company's cash equivalents and short-term investments for the year ended March 31, 2010 was \$194 (2009 - \$1,279).

Credit risk

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

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

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

Credit risk associated with accounts receivable is minimized by the Company's program of credit evaluations of customers with limits on the amount of credit extended. Credit risk is further minimized through the large diversified customer base, which is engaged in various industry segments and geographical regions as outlined in note 19. These specific industry segments and geographical regions may be affected by economic factors, which may impact accounts receivable. Management does not believe that any single industry segment or geographical region represents significant credit risk. Provisions against losses from bad debts are estimated according to credit risk, historical trends and other information. Credit risk concentration is disclosed in note 20. Credit terms with customers normally range between 30 to 120 days. As at March 31, 2010, \$1,224 was over 90 days old and of this amount, \$44 was allowed for, \$846 was collected after the year-end and \$64 was not yet due. None of the amounts outstanding has been challenged by the customers and the Company continues to conduct business with those customers. Accordingly, management has no reason to believe that this balance is not fully collectible in the future.

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22. FINANCIAL INSTRUMENTS (continued)

Currency risk

The Company enters into transactions in multiple currencies and is subject to gains and losses due to fluctuations between those currencies. A substantial portion of the Company's revenue is earned in US dollars, but a substantial portion of its operating expenses are incurred in Canadian dollars. Fluctuations in the exchange rate between the United States dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on the Company's business, financial condition and operating results. The Company intends to continue to expand operations internationally so it may be subject to additional gains and losses against additional currencies. From time to time the company does enter into foreign exchange hedging contracts to mitigate its risk.

If the Canadian dollar had depreciated 5 percent against the United States dollar at March 31, 2010, with all other variables held constant, the impact of the foreign currency change on the Company's United States denominated financial instruments would lead to an additional after tax net earnings of \$264 for the year ended March 31, 2010. If the Canadian dollar had appreciated 5 percent against the United States dollar at March 31, 2010, with all other variables held constant, the impact of the foreign currency change on the Company's United States denominated financial instruments would lead to a decrease of after tax net income of \$264 for the year ended March 31, 2010.

Liquidity risk

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

23. COMPARATIVE FIGURES

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