

**RuggedCom Inc.**  
**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
1st Quarter ended June 30, 2007

**RuggedCom Inc.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands of Canadian dollars)

	<b>June 30, 2007</b>	<b>March 31, 2007</b>
	<b>(unaudited)</b>	<b>(audited)</b>
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	38,168	3,829
Accounts receivable (note 5)	4,836	4,621
Prepaid expenses and other	1,571	1,640
Inventories	3,153	2,608
Future income taxes	24	81
	<hr/>	<hr/>
	47,752	12,779
<b>Future income taxes</b>	1,411	48
<b>Property and equipment</b>	1,843	1,800
<b>Other assets</b>	153	181
	<hr/>	<hr/>
	51,159	14,808
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	6,250	3,985
Warranty	518	499
Income taxes payable	91	934
Current portion of obligations under capital lease	271	237
	<hr/>	<hr/>
	7,130	5,655
<b>Warranty</b>	464	408
<b>Obligations under capital lease</b>	424	434
<b>Leasehold inducements</b>	37	36
<b>Preferred shares (note 6)</b>	-	4,844
	<hr/>	<hr/>
	8,055	11,377
	<hr/>	<hr/>
<b>Shareholders' Equity</b>		
<b>Capital stock (note 7)</b>	44,348	3,858
<b>Contributed surplus (note 8)</b>	634	1,629
<b>Deficit *</b>	(1,878)	(2,056)
	<hr/>	<hr/>
	43,104	3,431
	<hr/>	<hr/>
	51,159	14,808
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**Contingent liabilities** (note 9)

See accompanying notes to consolidated financial statements.

\* Deficit includes comprehensive income and accumulated other comprehensive income

**RuggedCom Inc.**  
**CONSOLIDATED STATEMENTS OF EARNINGS, COMPREHENSIVE INCOME AND DEFICIT**  
(in thousands of Canadian dollars except per share information)  
(unaudited)

	<b>3 month period ended June 30, 2007</b>	<b>3 month period ended June 30, 2006</b>
	\$	\$
<b>Revenue</b>	8,784	6,818
<b>Cost of goods sold</b>	3,985	3,319
	<hr/>	<hr/>
<b>Gross margin</b>	4,799	3,499
	<hr/>	<hr/>
<b>Operating expenses</b>		
Research and development — net of scientific research and experimental development investment tax credits of \$75 (2006 — \$NIL )	768	547
Sales and marketing	1,904	1,354
General and administrative	1,353	643
Amortization	216	124
	<hr/>	<hr/>
	4,241	2,668
	<hr/>	<hr/>
Operating income	558	831
Interest	121	164
	<hr/>	<hr/>
<b>Income before income taxes</b>	437	667
	<hr/>	<hr/>
<b>Income taxes</b>		
Current	275	-
Future	(16)	-
	<hr/>	<hr/>
	259	-
	<hr/>	<hr/>
<b>Net income and comprehensive income for the period</b>	178	667
	<hr/>	<hr/>
<b>Deficit — Beginning of period</b>	(2,056)	(5,225)
	<hr/>	<hr/>
<b>Deficit — End of period</b>	(1,878)	(4,558)
	<hr/> <hr/>	<hr/> <hr/>
<b>Net earnings per share</b>		
Basic	\$ 0.03	\$ 0.13
Diluted	\$ 0.02	\$ 0.09
Basic weighted average number of common shares outstanding	5,926,776	5,296,087
Diluted weighted average number of common shares outstanding	7,215,243	9,180,369

See accompanying notes to consolidated financial statements.

**RuggedCom Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands of Canadian dollars )  
(unaudited)

	<b>3 month period ended June 30, 2007</b>	<b>3 month period ended June 30, 2006</b>
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income for the period	178	667
Non-cash items		
Amortization of property and equipment	170	101
Amortization of other assets	46	23
Loss on disposal of property and equipment	6	-
Future income taxes	(16)	-
Accretion and cumulative dividends on preferred shares	162	158
Stock based compensation	109	46
Warranty	75	100
Leasehold inducements	1	3
Net change in non-cash working capital (note 13)	(357)	(360)
	<u>374</u>	<u>738</u>
<b>Investing activities</b>		
Additions to property and equipment	(133)	(193)
Additions to other assets	(18)	(7)
	<u>(151)</u>	<u>(200)</u>
<b>Financing activities</b>		
Decrease in long-term debt	-	(12)
Repayment of obligations under capital lease	(61)	(22)
Issuance of common shares	36,824	50
Share issuance costs	(2,647)	-
	<u>34,116</u>	<u>16</u>
<b>Increase in cash and cash equivalents during the period</b>	<b>34,339</b>	<b>554</b>
<b>Cash and cash equivalents — Beginning of period</b>	<b>3,829</b>	<b>784</b>
<b>Cash and cash equivalents — End of period</b>	<b>38,168</b>	<b>1,338</b>
<b>Supplementary information</b>		
Interest paid	\$ 24	\$ 6
Income taxes paid	\$ 1,040	\$ -

**RuggedCom Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands of Canadian dollars Except for "Number of Shares" and "Per share amounts")**  
**(unaudited)**

### **1. THE COMPANY**

RuggedCom Inc. (the Company) was incorporated under the provisions of the Business Corporations Act (Ontario) on February 22, 2001.

The Company designs and manufactures industrial strength network hardware.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and, accordingly, certain disclosures normally included in annual consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles are not provided. These consolidated financial statements have been prepared following accounting principles consistent with those used in the annual audited consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended March 31, 2007 except as disclosed in note 3. The results of the operations for the interim period are not necessarily indicative of the results of operations for any other interim period or a full fiscal period.

### **3. CHANGE IN ACCOUNTING POLICY**

The change in accounting policy did not result in any material changes to the April 1, 2007 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 periods prior to the effective date generally are not reversed and, therefore, the comparative amounts for prior periods 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 are excluded from net income calculated in accordance with the Canadian generally accepted accounting principles. The Company has no other comprehensive income components, and, accordingly, the Company's net income equals 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 and 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.

**RuggedCom Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(In thousands of Canadian dollars Except for "Number of Shares" and "Per share amounts")  
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**3. CHANGE IN ACCOUNTING POLICY (continued)**

The Company's financial assets and financial liabilities are classified and measured as follows:

<b>Asset/Liability</b>	<b>Classification</b>	<b>Measurement</b>
Cash and cash equivalents	\$250 held for trading	Fair value
	Remainder held to maturity	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Warranty	Other financial liabilities	Amortized cost
Obligation under capital leases	Other financial liabilities	Amortized cost
Preferred shares	Other financial liabilities	Amortized cost

Held for trading

These instruments are accounted for at fair value with the change in fair value recognized in net earnings during the period. Cash and cash equivalents were classified partly as held for trading, these instruments are highly liquid are readily convertible to known amounts of cash and are so near maturity that there is no significant risk of changes in value due to rate changes.

Held-to-maturity

Cash and cash equivalents the Company has positive intention and the ability to hold to maturity are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method.

Loans and receivables

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

Available-for-sale

Financial assets designated to be available-for-sale or not designated as one of the above categories are classified as available-for-sale. These assets are accounted for at fair value, with changes in fair value recognized in other comprehensive income. When a decline in fair value is determined to be other-than-temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net earnings. No investments were classified as available-for-sale on April 1, 2007 or June 30, 2007.

Financial liabilities

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

Embedded derivatives

Derivatives may be embedded in other financial and non-financial instruments (the "host instrument"). Prior to the adoption of the new standards, embedded derivatives were not accounted for separately from the host instrument. Under the new standard, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in the statement of earnings, comprehensive

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**3. CHANGE IN ACCOUNTING POLICY (continued)**

income and deficit as an element of administrative expenses. The Company conducted a search for embedded derivatives in its contractual arrangements and did not identify any embedded features that required separate presentation from the related host contract. On April 1, 2007, 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 counterparty, the embedded derivative is considered to be closely related and is not accounted for separately.

If the contract is neither in Canadian currency nor the functional currency of the counterparty, the embedded foreign currency derivative is separated unless the non-functional item delivered under the contract is routinely denominated in the currency of the contract in international commerce or the currency the contract is denominated in is commonly used in the economic environment in which the transaction takes place.

**4. REVOLVING DEMAND FACILITY**

The Company has a \$700 revolving demand facility with a banking institution. Funds drawn against the facility bear interest at 2.5% above the bank's prime rate. The bank has a first ranking general security agreement and the facility includes certain financial and reporting covenants. As at June 30, 2007, the Company had not used the facility (2006 — \$nil).

**5. ACCOUNTS RECEIVABLE**

	June 30, 2007	March 31, 2007
	\$	\$
Trade receivable	5,009	4,679
Allowance for doubtful accounts	(173)	(58)
	<u>4,836</u>	<u>4,621</u>

**6. PREFERRED SHARES**

Class A Shares issued and outstanding are as follows:

	June 30, 2007	
	Number of shares	Amount \$
Balance, March 31, 2007	10,813,734	4,844
Conversion to Common shares (note 7)	(10,813,734)	(5,006)
Accretion including cumulative dividends	-	162
Balance, June 30, 2007	<u>-</u>	<u>-</u>

**RuggedCom Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**6. PREFERRED SHARES (continued)**

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

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

Included in interest expense is an amount of \$162 (2006 — \$158), which represents the accretion including cumulative dividends on the Class A Shares to the date of conversion.

**7. CAPITAL STOCK**

**Authorized**

Unlimited number of Class A Shares  
Unlimited number of common shares

**Issued**

	<b>June 30, 2007</b>	<b>March 31, 2007</b>
	<u>\$</u>	<u>\$</u>
11,047,254 (March 31, 2007 - 5,345,717) common shares	44,348	3,858
	<b><u>Number</u></b>	<b><u>Amount</u></b>
	<b><u>of shares</u></b>	<b><u>\$</u></b>
Balance, March 31, 2007	5,345,717	3,858
Issued from treasury on initial public offering (a)	2,808,175	34,063
Conversion of Preferred shares (note 6)	2,703,432	5,973
Issued for options exercised (b)	189,930	454
Balance, June 30, 2007	<u><u>11,047,254</u></u>	<u><u>44,348</u></u>

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

On June 21, 2007, a secondary offering by existing shareholders of the Company for 271,825 common shares at \$13.00 per common share for \$3,534. The proceeds were attributed to the exiting shareholders, therefore the company does not receive any of the proceeds it derives. \$72 of the offering expenses were born by the Company on behalf of the exiting shareholders and expensed in the period.

The company has granted the underwriters an over allotment option equal to 15 percent of the offered shares. This grant is exercisable for a period of 30 days following the closing of the offering (note 15).

(b) Common shares issued for options vested and exercised in the period were 189,930 at a weighted average share price of \$1.67.

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**8. CONTRIBUTED SURPLUS**

The following table presents the reconciliation of contributed surplus:

	<b>\$</b>
Balance, March 31, 2007	1,629
Conversion of preferred shares (note 6 and 7)	(967)
Stock based compensation expense	109
Stock options exercised (note 7)	(137)
	634
Balance, June 30, 2007	634

**9. CONTINGENT LIABILITIES**

The Company has been named in several lawsuits. In management's view, these claims are without merit and should not have a material adverse effect on the financial position of the Company. 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 statement of earnings, comprehensive income and deficit in the year such losses are determinable.

**10. EARNINGS PER COMMON SHARE**

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

	<b>3 month period ended June 30, 2007</b>	<b>3 month period ended June 30, 2006</b>
Net income attributable to common shareholders	178	667
Accretion	-	158
	178	825
Dilutive net income attributable to common shareholders	178	825
Weighted average common shares outstanding — Beginning of period	5,345,717	5,295,717
Weighted average number of common shares issued in the period	581,059	370
	5,926,776	5,296,087
Weighted average number of common shares	5,926,776	5,296,087
Effect of dilution by stock options and warrants	1,288,467	1,180,850
Effect of dilution by Class A Shares	-	2,703,432
	7,215,243	9,180,369
Weighted average diluted common shares outstanding — End of period	7,215,243	9,180,369

In the current period the Class A Shares are not considered in calculating the dilutive earnings per share because it has an anti-dilutive effect.

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**11. SEGMENTED INFORMATION**

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

<b>Sales by region</b>	<b>3 month period ended June 30, 2007</b>	<b>3 month period ended June 30, 2006</b>
	<b>\$</b>	<b>\$</b>
North America	3,803	3,539
Latin America	659	211
Asia Pacific	1,151	886
Europe, Middle East and Africa	3,171	2,182
	<hr/>	<hr/>
Total	8,784	6,818

<b>Sales by industry</b>	<b>3 month period ended June 30, 2007</b>	<b>3 month period ended June 30, 2006</b>
	<b>\$</b>	<b>\$</b>
Utilities	5,437	4,370
Transportation	1,449	1,486
Industrial	1,089	648
Military	676	225
Other	133	89
	<hr/>	<hr/>
Total	8,784	6,818

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

	<b>3 month period ended June 30, 2007</b>	<b>3 month period ended June 30, 2006</b>
Canada	7.70%	11.60%
United States of America	35.60%	40.30%

All material assets are held in Canada.

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**12. ECONOMIC DEPENDENCY AND CONCENTRATION OF CREDIT RISK**

In the 3 month period ended June 30, 2007, the Company had sales to two customers which accounted for 26% of total sales (2006 — 20%). These two customers represent 35% (2006 -18%) of the accounts receivable.

**13. NET CHANGE IN NON-CASH WORKING CAPITAL**

	<b>3 month period ended June 30, 2007</b>	<b>3 month period ended June 30, 2006</b>
	<b>\$</b>	<b>\$</b>
Accounts receivable	(215)	(837)
Prepaid expenses and other	69	(109)
Inventories	(545)	(124)
Accounts payable and accrued liabilities	1,177	710
Income taxes payable	(843)	-
	<u>(357)</u>	<u>(360)</u>

**14. INCOME TAXES**

	<b>3 month period ended June 30, 2007</b>	<b>3 month period ended June 30, 2006</b>
	<b>\$</b>	<b>\$</b>
Income before income taxes	<u>437</u>	<u>667</u>
Tax at statutory rate (35.72% (2006 - 36.12%))	156	241
Permanent differences	104	74
Scientific research and experimental development incentive	(11)	-
Change in valuation allowance	-	(315)
Other	10	-
	<u>259</u>	<u>0</u>

**15. SUBSEQUENT EVENT**

On July 16, 2007 the underwriters of the offering exercised their option to purchase shares. The company issued 421,226 shares from treasury at \$13.00 per common share and received \$5,476 less the underwriter fees of \$329.