

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For The Nine Month Period Ended May 31, 2009**

This interim Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Rutter Inc. ("Rutter" or "the Company") should be read in conjunction with the Company's audited Consolidated Financial Statements and notes thereto for the year ended August 31, 2008. This MD&A has been prepared as of July 14, 2009.

Management is responsible for the reliability and timeliness of information disclosed in this MD&A. Further, management is also responsible for ensuring the existence and effectiveness of systems, controls and procedures to ensure that information used internally and disclosed externally is reliable and timely. The Audit Committee meets with management to satisfy themselves that management has implemented the necessary systems, controls and procedures required to ensure the reliability and timeliness of MD&A disclosures. The Audit Committee then recommends approval of the financial statements and MD&A to the Board of Directors. The Board of Directors of the Company provides an oversight role to ensure the integrity of the reported information by discussing content and decision making processes with the Audit Committee and management prior to approving the documents for public release.

All information reflected herein is expressed in Canadian dollars unless otherwise noted and is prepared by management in accordance with Canadian generally accepted accounting principles.

Additional information regarding the Company, including copies of the Company's continuous disclosure materials such as the Company's Annual Information Form ("AIF"), is available on the Company's website at www.rutter.ca or through the SEDAR website at www.sedar.com.

Forward Looking Statements

Management's Discussion and Analysis contains certain forward looking statements that are subject to risks and uncertainties that may cause actual results or events to differ materially from the results or events predicted in this discussion. The Company is subject to the risks outlined in its annual MD&A and AIF for the year ended August 31, 2008. No assurance can be provided that the results or performance expressed in or implied by forward looking statements within this document will occur, or if they do, that any benefits may be derived from them.

COMPANY OVERVIEW

Rutter focuses on providing innovative technologies and engineering solutions. Rutter's global network supplies technologies to improve efficiency and safety in the marine, defense, transportation, oil and gas sectors from its headquarters in the Province of Newfoundland and Labrador ("NL"). Multidisciplinary consulting engineering (other than automation engineering) as well as environmental and construction management services are provided to a diverse client base which includes all levels of Government and the oil and gas and industrial sectors.

Business Segments

The Company has one reportable business segment – Technologies.

Technologies Segment

Headquartered in St. John's, NL the Technologies segment employs approximately 208 staff and is represented in over 100 locations and 70 countries through a well established dealer and service network, producing and globally marketing its suite of products including; Voyage Date Recorder ("VDR"), high-resolution radar processing and recording technology, specialty radar systems, marine certified electronic interfaces, and marine safety lights for civilian and military use. Rutter Technologies Inc. ("Rutter Technologies") also offers capabilities as an integrator of custom solutions for efficient monitoring, recording and playback of audio, video and data outputs for military exercises, coastal surveillance and other such applications. From its ISO 9001:2008 manufacturing facilities, this segment also offers electronics manufacturing, sub-assembly and full cycle product support to military and telecommunications customers.

Company owned products

In December, 2004, the International Maritime Organization ("IMO") adopted amendments requiring internationally traveling cargo vessels greater than 3,000 gross tonnage to carry a VDR. These amendments require that vessels greater than 20,000 gross tonnage have a VDR installed at the first scheduled dry docking after July 1, 2006 but not later than July 1, 2009 and that vessels of 3,000 gross tonnage up to 20,000 gross tonnage have a VDR installed at the first scheduled dry docking after July 1, 2007 but not later than July 1, 2010.

The VDR has become the largest source of product revenue for the Technologies segment and the Company believes that its competitive advantages in this market are reputation for product support and the ability to install and support a solid product on a worldwide basis. The Company estimates that it has captured 15-20% of the world market for VDR retrofits.

Increasingly, the Company is focusing on Rutter's high resolution radar technology which suppresses unwanted radar screen clutter enabling the user to see smaller objects at farther distances. It also offers superior detection tracking capability enabling the user to see and simultaneously track multiple objects, large and small, traveling at varying speeds. This technology is sold into marine, aviation, defence and security markets for a variety of applications including; ice navigation, oil spill detection, bird/aircraft collision avoidance, coastal surveillance, port security, search and rescue and marine traffic management.

Rutter's marine safety lights are used primarily as a life vest safety light. These are sold internationally to militaries, personal flotation device manufacturers and cruise ship and ferry operators. The Company has also developed a military life raft safety light but has not yet reached commercial acceptance for this product.

Third party manufacturing

Rutter Technologies leverages its 30,000 sq. ft., ISO 9001: 2008 manufacturing facility to offer a full suite of design, manufacturing and integration services to larger military contractors and telecommunications companies. In particular, Rutter (and its predecessor) has been a subcontractor to General Dynamics Land Systems-Canada producing electronics and electromechanical

subassemblies for light armoured vehicles (LAVs) for over fifteen (15) years. In 2007 the Company expanded this long term relationship to include production of components for a second class of LAV. The Company believes that its competitive advantage lies in successfully producing niche products that must perform reliably under extreme conditions.

Other

Prior to the second quarter of the current year, the Company also had a second reportable segment, Controls and Automation. The Company sold its interest in the Controls and Automation portion of its business as of March 31, 2009. See “Discontinued Operations” below.

Other reflects revenues and expenses of the Company’s consulting engineering business. With two Newfoundland offices, St. John’s and Clarenville, this operation provides multidisciplinary consulting engineering (other than automation engineering) as well as environmental and construction management services to a diverse client base which includes all levels of Government and the oil and gas and industrial sectors. Other also reflects revenues and expenses relating to owned and subleased properties and corporate costs.

GOING CONCERN

The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

At the balance sheet date, several adverse conditions existed which could raise doubt on the validity of this assumption. The Company has had a history of operating losses, has an accumulated deficit and has debt of \$8,000,000 maturing August 31, 2010 which the Company intends to refinance. Management is continuing efforts to improve operating performance and to ensure access to appropriate credit markets.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate, because management believes actions taken or planned will generate sufficient cash to enable the Company to continue as a going concern. Readers of these financial statements are cautioned that there can be no assurances that management will be successful in its efforts.

If the going concern basis of accounting was not appropriate for these financial statements, adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses and loss per share, and the balance sheet classifications used, and these adjustments could be material.

DISCONTINUED OPERATIONS

On March 31, 2009, the Company disposed of its Controls and Automation operations in North America through a sale to the Rockwell Automation Group of Companies.

The proceeds of the sale were \$22,983,000 of which cash of \$20,900,000 was received at closing; an estimated working capital adjustment of \$983,000 is due in three equal monthly payments commencing May 30, 2009 and \$1,100,000 is due in equal payments of \$550,000 due on the first and second anniversaries of the closing date. The carrying value of the assets and liabilities disposed of at the time of the sale was \$19,680,000 and the Company incurred closing costs of \$659,000 resulting in a gain on business disposition of \$2,644,000.

On July 10, 2008, the Company disposed of its 74% interest in Unicontrol International Ltda. (“Unicontrol”), a Brazilian company, to the minority shareholders of that company.

Prior to the reclassifications as discontinued operations, the operating results of Unicontrol and the North American Controls and Automation business were reported in a reportable segment, Controls and Automation segment.

RESULTS OF CONTINUING OPERATIONS

Revenue

Outlined below is the Company’s revenue from continuing operations for the current and prior year:

	Three months ended May 31			
	<i>(in thousands)</i>			
	2009	2008	Change	
\$			%	
Revenues				
Technologies				
Third party manufacturing	\$ 13,330	\$ 6,113	\$ 7,217	118.1%
Company owned products	3,384	5,003	(1,619)	(32.4)%
	<u>\$ 16,714</u>	<u>\$ 11,116</u>	<u>\$ 5,598</u>	<u>50.4%</u>
Other	\$ 596	\$ 527	\$ 69	13.1%
	<u>\$ 17,310</u>	<u>\$ 11,643</u>	<u>\$ 5,667</u>	<u>48.7%</u>

Nine months ended May 31

(in thousands)

	2009	2008	Change	
			\$	%
Revenues				
Technologies				
Third party manufacturing	\$ 30,432	\$ 17,570	\$ 12,862	73.2%
Company owned products	10,987	14,795	(3,808)	(25.7)%
	\$ 41,419	\$ 32,365	\$ 9,054	28.0%
Other	\$ 1,580	\$ 1,576	\$ 4	0.3%
	\$ 42,999	\$ 33,941	\$ 9,058	26.7%

Revenues from operations for the quarter were \$17,310,000, an increase of \$5,667,000 or 48.7% as compared to the same period of the prior year. The revenue increase consisted of increases of \$5,598,000 in the Technologies segment and \$69,000 in Other.

Revenues from operations were \$42,999,000 on a year to date basis, an increase of \$9,058,000 or 26.7% as compared to the same period of the prior year. The revenue increase consisted of increases of \$9,054,000 in the Technologies segment and an increase of \$4,000 in Other.

Technologies

Revenues in the Technologies segment for the quarter were \$16,714,000, an increase of 50.4% over the comparative quarter of the prior year which is attributable to increased revenues of \$7,217,000 in third party manufacturing revenue partially offset by decreased revenues of \$1,619,000 in Company owned products revenue.

The third party manufacturing revenue increase is due primarily to a significant increase in activity levels with the Company's major military customer and the impact of a weaker Canadian dollar versus the US dollar in the current quarter as compared to the same period last year.

The Company owned products revenue decrease is primarily due to lower volumes in the current quarter for the VDR. The unit sales trends are consistent with the introduction of regulatory requirements for vessels as outlined previously in the MD&A but have been impacted negatively in the current year by general economic conditions.

The variances in revenues on a year to date basis are consistent with the trends in the quarter with revenues for third party manufacturing increasing from \$17,570,000 to \$30,432,000, an increase of \$12,862,000 or 73.2% and revenues for Company owned products decreasing from \$14,795,000 to \$10,987,000, a decrease of \$3,808,000 or 25.7%.

Other

Revenue in Other increased by \$69,000 or 13.1%, for the current quarter as compared to the comparative quarter in the prior year. On a year to date basis, revenue increased by \$4,000 or 0.3%. Revenues in the Consulting Engineering business are dependent on customer project timelines.

“EBITDA”¹

Outlined below are the Company’s EBITDA results for the current and prior year:

	Three months ended May 31			
	<i>(in thousands)</i>			
	2009	2008	Change	
\$			%	
EBITDA				
Technologies	\$ 1,625	\$ (164)	\$ 1,789	1,090.9%
Other	(124)	(341)	217	63.6%
	<u>\$ 1,501</u>	<u>\$ (505)</u>	<u>\$ 2,006</u>	<u>397.2%</u>

	Nine months ended May 31			
	<i>(in thousands)</i>			
	2009	2008	Change	
\$			%	
EBITDA				
Technologies	\$ 5,023	\$ 1,426	\$ 3,597	252.2%
Other	(1,149)	(1,497)	348	23.2%
	<u>\$ 3,874</u>	<u>\$ (71)</u>	<u>\$ 3,945</u>	<u>5,556.3%</u>

EBITDA for the quarter was \$1,501,000, an improvement of \$2,006,000 from EBITDA in the comparative quarter of fiscal 2008. The EBITDA improvement consisted of an improvement of \$1,789,000 in the Technologies segment and an improvement in Other of \$217,000.

The same trends are evident on a year to date basis with a total improvement in EBITDA of \$3,945,000 comprised of an improvement of \$3,597,000 in the Technologies segment and an improvement in Other of \$348,000.

Technologies

EBITDA for the quarter in the Technologies segment was \$1,625,000, an increase of \$1,789,000 or 1,090.9% and for the nine month period was \$5,023,000, an increase of \$3,597,000 or 252.2%. Driving the improvement for both the quarter and year to date is improved gross margin performance achieved as a result of the large revenue growth experienced in third party manufacturing. Profitability has also improved with respect to product sales as compared to the

¹ The Company defines EBITDA as Net earnings (loss) before interest on long term debt, interest and bank charges, income taxes, depreciation and amortization, non-controlling interest and other costs. This is identified on the Company’s financial statements as “Loss before undernoted items”. EBITDA is not a measure of financial performance under Canadian generally accepted accounting principles (“GAAP”) and may not be comparable to a similar measure used by other companies. The Company has included information concerning EBITDA because it believes it is a useful financial indicator commonly used by investors. Management uses EBITDA as one measure to assess the operating performance of its business units.

prior year. The third quarter of the prior year was negatively impacted by a large warranty provision with respect to the Company's VDR product line.

Other

Other EBITDA for the quarter was a loss of \$124,000 an improvement of \$217,000 or 63.6% and for the nine month period was a loss \$1,149,000, an improvement of \$348,000 or 23.2% as compared to the same periods of the prior year. The improvement in EBITDA performance is primarily attributable to reduced corporate costs.

Depreciation and amortization

Depreciation and amortization expense for the current quarter was \$446,000 versus \$389,000 for the comparative quarter last year, an increase of \$57,000. On a year to date basis, this expense was \$1,236,000 versus \$1,103,000 in the prior year, an increase of \$133,000.

The year to date increase in depreciation and amortization expense is the cumulative impact of an increase in amortization of product development costs of \$149,000, an increase in the amortization of deferred government assistance of \$19,000, a decrease in the amortization of intangibles of \$19,000 and a decrease in depreciation of capital assets of \$16,000. The increased amortization of product development costs relates primarily to the third generation VDR.

Interest on long-term debt

Interest on long-term debt consists of interest on long-term debt and accretion of long-term debt. The following table summarizes the breakdown in interest on long-term debt for the current and prior year:

	Three months ended May 31	
	<i>(in thousands)</i>	
	2009	2008
Interest on long-term debt	\$ 741	\$ 880
Accretion of loan transaction costs	118	122
Accretion of equity component of long-term debt	38	17
Accretion of non-interest bearing government loans	42	54
	\$ 939	\$ 1,073

	Nine months ended May 31	
	<i>(in thousands)</i>	
	2009	2008
Interest on long-term debt	\$ 2,425	\$ 2,242
Accretion of loan transaction costs	295	235
Accretion of equity component of long-term debt	72	34
Accretion of non-interest bearing government loans	140	167
	\$ 2,932	\$ 2,678

Interest on long-term debt decreased from \$1,073,000 in the comparative quarter of the prior year to \$939,000 in the current quarter, a decrease of \$134,000. This decrease is due to the amended interest rates of 10% and 12% on the Company's June 2007 debentures effective April 1, 2009 as per the March 31, 2009 amending agreement. Prior to this amendment, the Company's senior debt was subject to interest rates of 14% and 18%, inclusive of a 2% default interest.

On a year to date basis, Interest on long-term debt increased by \$254,000 from \$2,678,000 to \$2,932,000. The increase of \$183,000 year to date in interest on long-term debt is attributable to an additional 2% premium interest payable on the debentures that were issued in June 2007 while the Company was in default of its original covenants. This premium interest became effective March 1, 2008 and was in effect for two months of the prior year comparative period versus seven months of the current year to date period. This impact was offset in part by the reduction in interest rate on these debentures effective April 1, 2009. Accretion of loan transaction costs is slightly lower in the current quarter due to transaction costs on the \$15,000,000 term loan being fully accreted in the first quarter of the current year whereas on a year to date basis, these costs have increased due to increased accretion following the amendment of the terms of the loans. These increases are partially offset by a decrease of \$12,000 for the quarter and \$27,000 year to date in accretion of non-interest bearing government loans.

Interest and bank charges

Interest and bank charges for the quarter were \$1,000 compared to \$11,000 for the same quarter in the prior year and \$6,000 versus \$11,000 on a year to date basis. The Company has no operating line.

Other items

The following table summarizes the breakdown in other items for the current and prior year:

	Three months ended May 31	
	<i>(in thousands)</i>	
	2009	2008
Severance and contract termination costs	\$ -	\$ 836
Accretion of severance and termination costs	24	-
Other costs	-	3
Foreign exchange (gains) losses	382	24
	<u>\$ 406</u>	<u>\$ 863</u>

	Nine months ended May 31	
	<i>(in thousands)</i>	
	2009	2008
Severance and contract termination costs	\$ 231	\$ 836
Accretion of severance and termination costs	89	-
Loss on disposal of property and equipment	28	-
Other costs	6	4
Government assistance	(5)	-
Loss on settlement of debt	-	80
Foreign exchange (gains) losses	(573)	457
	<u>\$ (224)</u>	<u>\$ 1,377</u>

The net loss on other items was \$406,000 compared to a net loss of \$863,000 in the same quarter in the prior year. On a year to date basis, the net gain on other items was \$224,000 as compared to a net loss of \$1,377,000 in the prior year.

Severance and contract termination costs in the current year were \$231,000 compared to \$836,000 in the comparative nine month period of the prior year. The severance and contract termination costs relate to staffing changes undertaken during the prior year.

During the prior year, the Company repaid \$750,000 of its term loan, bearing interest of 16%. There were no repayment penalties; however, the Company recognized a loss on settlement of debt of \$80,000 relating to the unamortized values of transactions costs and unaccreted value of warrants at the date of the prepayment.

The Company's operating results are impacted by exchange rate changes in the Technologies segment which conducts a substantial portion of its business in foreign currencies. Despite some natural hedging of accounts receivable and accounts payable, the Company has a net exposure to foreign exchange fluctuations in its Canadian operations. Foreign exchange loss was \$382,000 in the current quarter versus a loss of \$24,000 in the same quarter of the prior year. On a year to date basis, the foreign exchange gain was \$573,000 versus a loss of \$457,000 in the prior year.

Impacting year to date was high volatility of exchange rates in the previous quarter where rates for the US dollar varied from a high of 1.3063 to a low of 1.0296 whereas during the same quarter in the prior year, exchange rates varied from a high of 1.0594 to a low of 0.9057.

Write down of intangible assets and product development cost

Write down of intangible assets and product development cost was \$nil for the quarter and year to date as compared to \$168,000 on a year to date basis in the prior year. During the prior year, Aquatek, a joint venture in which the Company holds a 41.67% interest re-evaluated its business plan and determined that commercial success is in part dependent upon further research and development. In addition, the joint venture initiated an action against one of the other parties to the joint venture under the terms of an escrow agreement to obtain access to a formula critical to its success based on the non-supply of the medium as needed for operations. This action is currently before the courts. Further research and development will depend upon the outcome of the escrow demand. Based on these changed circumstances, the Company reviewed all related intellectual property and product development costs for impairment as measured by comparing the net book value of the assets to the estimated undiscounted cash flows generated by their use and eventual disposition. The Company recognized an impairment loss during the prior year of \$168,000 relating to these assets comprised of \$125,000 relating to intangible assets and \$115,000 relating to product development costs net of \$72,000 relating to deferred assistance recognized against those same assets.

Equity income

Equity income has decreased to \$46,000 from \$52,000, a decrease of \$6,000 for the quarter and has decreased from \$186,000 to \$94,000, a decrease of \$92,000 on a year to date basis.

Earnings (loss) from continuing operations

The Company's net loss from continuing operations for the quarter was \$245,000 as compared to a net loss from continuing operations of \$2,789,000 for the comparative quarter of the prior year, an improvement of \$2,544,000. On a year to date basis, net earnings from continuing operations was \$18,000 as compared to a net loss from continuing operations of \$5,222,000, an improvement of \$5,240,000.

For the quarter, an EBITDA improvement of \$1,789,000 in the Technologies segment and \$217,000 in Other result in a net improvement in EBITDA of \$2,006,000. Also increasing the net earnings from continuing operations is a decrease in other items of \$457,000, a decrease in interest on long-term debt of \$134,000 and a decrease in interest and bank charges of \$10,000. Offsetting these improvements in part are an increase in depreciation and amortization of \$57,000 and a decrease of \$6,000 in equity income.

On a year to date basis, an EBITDA improvement of \$3,597,000 in the Technologies segment and \$348,000 in Other, result in a net improvement in EBITDA of \$3,945,000. Also increasing the net earnings from continuing operations are a decrease in write down of intangible assets and product development costs of \$168,000, a decrease in interest and bank charges of \$5,000 and a net improvement in other items of \$1,601,000. Offsetting these improvements in part are an increase in depreciation and amortization of \$133,000, an increase in interest on long-term debt of \$254,000 and a decrease of \$92,000 in equity income.

Net earnings (loss) from discontinued operations

The Company's net earnings from discontinued operations for the quarter were \$3,727,000 compared to a net loss from discontinued operations of \$2,040,000 for the comparative quarter of the prior year. On a year to date basis, the net earnings from discontinued operations were \$1,992,000 as compared to a net loss of \$6,617,000 for the comparative period of the prior year.

Included in the current quarter and year to date results are a gain on sale of the Controls and Automation business of \$2,644,000 and income tax recovery of \$1,537,000 due to the reversal of a future tax liability with respect to differences between income tax values and fair values of the trade name asset acquired in 2007 but disposed of in the current year. The Controls and Automation business was sold at March 31, 2009; accordingly, also included in the net earnings (loss) from discontinued operations are operating losses of \$454,000 as compared to \$1,533,000 in the comparative quarter of the prior year and \$2,189,000 as compared to \$5,010,000 on a year to date basis as compared to the prior year.

Also, reflected in net earnings (loss) from discontinued operations for the prior year is the Company's proportionate share of losses for Unicontrol, \$507,000 for the quarter and \$1,607,000 on a year to date basis. The Company's interest in Unicontrol was disposed of on July 10, 2008.

Net earnings (loss)

The Company's net earnings for the quarter are \$3,482,000 as compared to a net loss of \$4,829,000 in the prior year, an improvement of \$8,311,000. On a year to date basis, the net earnings are \$2,010,000 as compared to a net loss of \$11,839,000 in the prior year, an improvement of \$13,849,000.

QUARTERLY INFORMATION

The table below sets forth selected financial data relating to the Company's revenue, net earnings (loss) and net earnings (loss) per common share for each of the eight quarters ended May 31, 2009. The financial data is derived from the Company's unaudited interim consolidated financial statements, which are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). Comparative figures have been reclassified to conform to the presentation of Controls and Automation business as discontinued operations.

(in thousands, except per share amounts)

Fiscal year	2009	2009	2009	2008	2008	2008	2008	2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	May 31	Feb 28	Nov 30	Aug 31	May 31	Feb 29	Nov 30	Aug 31
Revenues								
Technologies – Third Party Manufacturing	\$13,330	\$10,266	\$6,836	\$6,815	\$6,113	\$5,213	\$6,245	\$7,461
Technologies – Company Owned Products	3,384	3,384	4,219	4,426	5,003	5,122	4,670	5,921
Other	596	421	563	550	527	591	458	329
Total Revenues	\$17,310	\$14,071	\$11,618	\$11,791	\$11,643	\$10,926	\$11,373	\$13,711
Net earnings (loss) from continuing operations	(245)	115	149	(3,906)	(2,789)	(862)	(1,571)	2,538
Net earnings (loss) from discontinued operations	3,727	(1,754)	17	(14,495)	(2,041)	(2,355)	(2,222)	(3,428)
Net earnings (loss)	3,482	(1,639)	166	(18,401)	(4,830)	(3,217)	(3,793)	(890)
Net earnings (loss) per share (basic and diluted)	0.05	(0.02)	-	(0.24)	(0.06)	(0.04)	(0.05)	-
Total assets	38,490	65,572	65,437	63,734	93,082	92,016	93,388	102,090
Total long-term financial liabilities	18,971	12,120	1,665	1,597	1,509	1,934	1,558	1,348

Fiscal 2009

Revenues in the third quarter have increased by \$3,239,000 as compared to the second quarter and have increased by \$5,692,000 as compared to the first quarter of fiscal 2009. Third party manufacturing accounts for the increase with significant additional revenue generated from the Company's large military customer. Company owned products revenue in the third quarter remained consistent with revenues in the second quarter after experiencing revenue declines in previous quarters. Company owned products revenue has been impacted by declining VDR unit sales. Declining VDR unit sales is expected as regulatory deadlines are nearing completion. In addition, this business has experienced the impact of recent global economic downturn as owners rationalize the size of their fleets.

The Company has recognized net earnings of \$3,482,000 in the third quarter as compared to a net loss of \$1,639,000 in the second quarter and net earnings of \$166,000 in the first quarter. Continuing operations recognized a net loss of \$245,000 in the third quarter after relatively consistent net earnings in the first two quarters of \$115,000 and \$149,000 in the second and first quarters respectively despite significantly higher revenues each quarter. This is due to a large foreign exchange loss recognized in the third quarter compared to a large foreign exchange gain recognized in the first quarter. The gain on business disposition and an income tax recovery from the discontinued operations account for the overall increase in net earnings as compared to the previous two quarters.

Total assets have declined significantly in the third quarter to \$38,490,000 from \$63,734,000 at August 31, 2008. Decreases in current and long-term assets of discontinued operations of \$28,354,000, as a result of the disposition of the discontinued operations on March 31, 2009, are partially offset by an increase in assets in the continuing operations. Key elements of the change in the continuing operations include an increase in accounts receivable of \$4,349,000; an increase of inventories of \$3,284,000; an increase in long-term receivable of \$550,000; and a decrease in cash of \$4,158,000. Driving the changes in the continuing operations was increased manufacturing activity.

The total long-term liabilities increase reflects the change in classification of long-term debt as a result of an amending agreement reached with the lender during the quarter. In the preceding quarters, debt had been reclassified to current due to covenant violations on the debt. The amending agreement signed during the quarter includes waiver of previous defaults.

Fiscal 2008

Revenues were relatively stable through fiscal 2008. In the Technologies segment, third party manufacturing revenues generally are driven by larger orders from military and telecommunications customers and are dependent upon their capital spending programs; revenues for both declined slightly in the second quarter but rebounded in the third quarter while additional increases were experienced in the fourth quarter. Company owned products revenues peaked at \$5,921,000 in the fourth quarter of 2007, were relatively consistent in the second and third quarters of 2008 and declined in the fourth quarter of 2008 to levels comparable to the first quarter in 2007. Quarterly unit sales of the VDR dropped slightly during the final four quarters of fiscal 2008 as the final quarter of 2007 included a key regulatory implementation date for the VDR, requiring that vessels of 3,000 gross tonnage up to 20,000 gross tonnage have a VDR installed at the first scheduled dry docking after July 1, 2007 but not later than July 1, 2010. Average selling price of

the VDR dropped in the first quarter of the year but recovered in the second, third and fourth quarters to nearly comparable levels with the final quarter of fiscal 2007.

The Company recognized a net loss from continuing operations of \$3,906,000 in the fourth quarter as compared to \$2,789,000 in the third quarter, \$862,000 in the second quarter and \$1,571,000 in the first quarter. Impacting the fourth quarter was a specific warranty provision of \$1,043,000 relating to the VDR product and a goodwill impairment charge of \$773,000 relating to the EJE Translite acquisition. Impacting the third quarter were a specific warranty provision of \$1,500,000 and severance and contract termination costs of \$1,032,000. High interest rates on long term debt adversely affected performance in all four quarters.

Net loss from discontinued operations increased to \$14,495,000 in the fourth quarter driven by a goodwill impairment of \$8,752,000 and write down of intangible assets of \$7,037,000 both relating to the Hinz acquisition made in fiscal 2007.

Total assets decreased to \$63,734,000 from \$102,090,000 in the final quarter of fiscal 2007, a decrease of \$38,356,000. Decreases in cash and cash equivalents of \$3,064,000; restricted cash and cash equivalents of \$795,000; accounts receivable and unbilled contract revenue of \$2,473,000; inventories of \$1,689,000; current assets of discontinued operations of \$5,924,000; intangibles of \$463,000; deferred costs of \$2,413,000; long-term assets of discontinued operations of \$20,356,000 and goodwill of \$773,000 comprise the significant elements of the change. The decrease in assets of discontinued is due in part to the July 10, 2008 disposition of Unicontrol and in part to large write down of goodwill and intangibles due to results of the annual impairment test; the decrease in cash was largely due to usage of cash in operations; deferred costs decreased due to a change in accounting policy adopted September 1, 2007; and intangibles decreased as a result of amortization recognized during the year.

Fiscal 2007

Third party manufacturing revenues increased substantially in the final quarter as a result of completion of large telecommunications projects and due to increased activity in the Company's military sales. Company owned products revenues remained relatively consistent in the final two quarters of fiscal 2007.

The Company recognized a net loss of \$890,000 in the final quarter of fiscal 2007 driven by significant losses in Brazil. Poor performance in Controls and Automation in Atlantic Canada also contributed to the losses as did higher borrowing costs, depreciation and amortization and other items costs. The Technologies segment performed very well throughout fiscal 2007 and remained profitable throughout the year despite the impact of the strengthening Canadian dollar and additional warranty provisions during the year. Included in the net loss in the final quarter of fiscal 2007 was a gain of \$4,563,000 on the disposition of the Company's 28% interest in DORIS Engineering SA and \$216,000 in equity income relating to the same investment. Adjusting for these items, the comparable normalized net loss for the fourth quarter would be \$5,669,000.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

Cash generated from operating activities was \$671,000 compared to cash generated of \$209,000 in the comparative quarter of the prior year, a change of \$462,000. On a year to date basis, cash used by operating activities was \$2,190,000 as compared to \$12,000 in the prior year, a change of \$2,178,000.

Total cash used in operating activities after adjusting for non-cash items but prior to accounting for the change in non-cash operating working capital has increased on a year to date basis due to improved operating results. Changes in non-cash operating working capital provided cash of \$1,187,000 versus cash provided of \$1,763,000 in the prior year quarter and on a year to date basis used cash of \$3,794,000 as compared to cash provided of \$1,799,000 in the prior year. The significant use of cash on a year to date basis is attributable primarily to increases in inventory and accounts receivable. Inventory has increased by \$3,284,000 and accounts receivable has increased by \$4,349,000 year to date. These increases are a direct result of increasing levels of manufacturing activity.

Ongoing liquidity and capital resources to grow the business will be dependent on sustained improvements in EBITDA performance and continued improvement in managing working capital assets.

Investing Activities

Cash generated from investing activities was \$19,906,000 compared to cash used of \$29,000 in the comparative quarter of the prior year, a change of \$19,935,000. On a year to date basis, cash generated from investing activities was \$19,638,000 compared to cash provided of \$290,000 in the prior year, an increase of \$19,348,000.

During the quarter, the Company sold its interest in its Controls and Automation segment, generating cash proceeds, net of disposal costs, of \$20,241,000. In addition, increases in product development costs of \$64,000; acquisition of property and equipment of \$117,000 and restricted cash and cash equivalents of \$144,000 are offset in part by an increase in deferred government assistance of \$19,000. On a year to date basis, proceeds from the sale of business of \$20,241,000; a decrease in product development costs of \$7,000 and acquisition of property and equipment of \$125,000 are offset in part by a decrease in restricted cash and cash equivalents of \$802,000 and an increase in deferred government assistance of \$24,000.

Financing activities

Financing activities used cash of \$249,000 compared to \$296,000 in the same quarter of the prior year. On a year to date basis, financing activities used cash of \$612,000 compared to cash provided of \$83,000.

Of the cash used in the current quarter, \$188,000 relates to scheduled repayments of long-term debt and \$61,000 is due to an increase in financing costs related to the March 2009 amendment of the Company's term loans. On a year to date basis, \$551,000 relates to scheduled repayments of debt and \$61,000 relates to financing costs. Repayment of debt utilizing proceeds from the sale of

the Controls and Automation business are reflected in net cash and cash equivalents provided (used) by discontinued operations.

Cash and credit availability

At May 31, 2009, the Company held \$2,637,000 in cash and cash equivalents as compared to \$6,795,000 at August 31, 2008. The Company also had total restricted cash and cash equivalents of \$100,000 at May 31, 2009 as compared to \$227,000 at August 31, 2008. The Company currently has no operating facilities.

CONTRACTUAL OBLIGATIONS

The following table contains a summary of the Company's contractual obligations from continuing operations and commitments to make future payments under contracts including debt and capital and operating lease agreements at May 31, 2009.

Scheduled Payments due by period <i>(in thousands of Canadian Dollars)</i>	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long term debt	\$24,970	\$4,289	\$11,462	\$8,979	\$240
Capital lease obligations	61	35	26	-	-
Operating lease obligations	3,708	791	1,516	902	499
Total contractual obligations from continuing operations	\$28,739	\$5,115	\$13,004	\$9,881	\$739

Total obligations at May 31, 2009 related to long-term debt, operating leases and capital leases for the next five years and thereafter total \$28,739,000, compared to \$26,958,000 at August 31, 2008. The increase is due primarily to reclassification from discontinued operations of \$1,573,000 and \$702,000 of interest accrued and added to the June 2007 term loan bearing interest of 12% and an increase of \$38,000 on the US\$1,400,000 long-term debt in the US operation resulting from foreign currency fluctuations. These increases are offset in part by reductions in total obligations since August 31, 2008 based on payments made during the nine month period.

The Company also has commitments with respect to the payout of royalties based on both sales and earnings subject to certain cumulative limits. The remaining royalty commitments at May 31, 2009 were \$61,500 (August 31, 2008 - \$61,500).

FOREIGN CURRENCY

The Company prepares its consolidated financial statements in Canadian dollars and its financial results are therefore impacted by fluctuations in foreign exchange rates, primarily the U.S. dollar, Euro and until the disposition of its interest in Unicontrol, the Brazilian Real.

Because there is partial natural hedging in the Company's foreign denominated revenues and expenses, the Company has not generally entered into formal hedging arrangements and there are no forward exchange sales contracts at the balance sheet date.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, these estimates are subject to measurement uncertainty. The effect on the financial statements of changes in such estimates in future periods could be material and would be accounted for in the period the change occurs. The Company's critical accounting estimates are discussed in the MD&A for the year ended August 31, 2008. There has been no material change in these estimates during the quarter.

RISKS

The Company and its business are subject to a number of risks and uncertainties. These risks and uncertainties are described in the Company's Annual Information Form filed with Canadian securities regulators, the MD&A included in the Company's 2008 filings and in Note 13 of the current quarter's financial statements.

SEASONALITY

The Company markets and distributes its products and provides services worldwide. As a result, the overall impacts of seasonality are negligible. The Technologies segment does not experience seasonality but will see changes in activity levels based on regulatory implementation dates in the products' marine market and military activity levels in the manufacturing business. Revenues reflected as Other do not have any significant level of seasonality but could have some level of cyclicity because the operations are project oriented.

CHANGES IN ACCOUNTING POLICIES

A summary of the Company's significant accounting policies is presented in Note 3 to the Company's Audited Consolidated Financial Statements for the year ended August 31, 2008.

New accounting standards

During the period, the Company's accounting policies changed as described below and in Note 3 of the May 31, 2009 financial statements:

Capital Disclosures

In December 2006, the Canadian Institute of Chartered Accountants ("CICA") issued a Handbook section entitled, "Capital Disclosures" (Section 1535). The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. These recommendations are effective for the Company's interim and annual reporting periods beginning September 1, 2008. The new disclosure is included in Note 14.

Financial Instruments – Disclosures and Financial Instruments - Presentation

In December 2006, the CICA issued Handbook sections entitled “Financial Instruments – Disclosures” (Section 3862) and “Financial Instruments – Presentation” (Section 3863), which will replace “Financial Instruments – Disclosure and Presentation” (Section 3861). The new disclosures standard increases the emphasis on the risk associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements and is effective for the Company’s interim and annual reporting periods beginning September 1, 2008. The new disclosure is included in Note 13.

Inventories

In December 2006, the CICA issued a Handbook section entitled “Inventories” (Section 3031 which has replaced Section 3030 with the same title). The new section establishes that inventory should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. These recommendations are effective for the Company’s interim and annual reporting periods beginning September 1, 2008. The new disclosure is included in Note 6.

Future accounting standards for adoption

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, convergence of accounting standards in Canada for public companies with International Financial Reporting Standards (“IFRS”) will impact the Company by the fiscal period ending August 31, 2012. The impact of the transition of IFRS on the Company’s consolidated financial statements has not yet been determined.

Goodwill and Intangible Assets

Effective September 1, 2009, the Company will be adopting the new CICA Handbook Section 3064 – *Goodwill and Intangible Assets*. This Section, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets.

The provisions related to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Accounting Standard 38, *Intangible Assets*. The impact of this new standard has not been determined on the Company’s consolidated financial statements.

RELATED PARTY TRANSACTIONS

Transactions with related parties are measured at the exchange amount. During the quarter, the Company had related party transactions with companies that were either owned by one or more of the officers or directors of the Company or were companies that were not controlled by the Company. The nature of these related party transactions is consistent with those undertaken in the prior year. In all cases, the Company entered into these transactions because they were viewed to be a good fit with the Company’s strategy and vision. All of the related party transactions have been reviewed and approved by the Company’s Board of Directors and the Board was satisfied

that the purpose of the transactions and the amounts paid are all fair and in the best interests of shareholders. The following is a summary of the most significant related party transactions during the period.

- In the prior quarter, the Company accrued \$232,000 as part of discontinued operations, payable to a senior officer with respect to the termination of a management services agreement. The remaining balance relating to this agreement is \$116,000 payable in two equal monthly payments of \$58,000.
- During the quarter, the Company has paid \$138,000 to a former senior officer as consideration for the officer entering into a non-compete agreement. This expense is reflected in the gain on sale of discontinued operations.
- The Company paid \$60,500 during the quarter and \$181,500 year to date for management services rendered by one senior officer of the Company to a personal services company established by this individual.
- The Company recognized an expense of \$9,000 during the quarter and \$67,000 year to date for consulting services provided by a Director controlled company.
- The Company recognized an expense of \$6,000 during the quarter and \$19,000 year to date relating to a guarantee fee charged by a director of the Company. The guarantee fee relates to the Company's US mortgage and is payable annually based on 1.5% of the remaining outstanding balance at that time.
- The Company has recognized an accretion expense of \$6,000 during the quarter and \$36,000 year to date relating to contract termination obligations, payable to the management services company established by a senior officer, accrued in the prior year. The remaining balance relating to this agreement is \$225,000 payable in equal instalments of \$17,000. The non-interest bearing note payable was recorded at its fair value at inception and is being amortized using the effective interest rate method.
- The Company has recognized an accretion expense of \$15,000 during the quarter and \$44,000 year to date with respect to contract termination obligations with a management services company established by a senior officer resulting from the restructuring of the management group undertaken during the prior year. The agreement provides for payment of the total termination amount of \$460,000 over twenty-four equal monthly payments beginning June 2009. The non-interest bearing note payable was recorded at its fair value at inception and is being amortized using the effective interest rate method.
- The Company has recognized an expense of \$3,000 during the quarter and \$44,000 year to date relating to a retention bonus established in the prior year to the management services company of a senior officer.

OUTSTANDING SHARE DATA

At June 30, 2009, the Company had 76,676,578 common shares, 6,000,000 warrants convertible into common shares, and 268,000 stock options that can be exercised when vested to obtain an equivalent number of common shares.

Warrants outstanding at June 30, 2009 were issued in connection with the March 2008 amendment of term debt at an exercise price of \$0.28. Since the year ended August 31, 2008, 9,917,145 warrants have expired, including 9,317,145 warrants issued in a June 2007 private placement at an exercise price of \$0.80 and 600,000 warrants issued in conjunction with three short-term notes payable at an exercise price of \$0.65. In addition, 4,000,000 warrants issued in conjunction with the June 2007 issuance of \$40,000,000 in term debt at an exercise price of \$0.65 have been cancelled as part of an amending agreement with the lender as of March 31, 2009.

DISCLOSURE PROCEDURES AND CONTROLS / INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's CEO and CFO have concluded the Company's disclosure controls and procedures are adequate and effective, based on their evaluation of the effectiveness of these procedures and controls as of the end of the period covered by this report except as noted below.

Management of the Company is responsible for designing internal controls over financial reporting for the Company. Management has designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP except as noted below.

- Tax compliance and reporting

As a company with international operations, Rutter is subject to the tax laws of multiple jurisdictions. The Company does not have an in-house tax department and at present, the Company's design of internal controls does not provide reasonable assurance that it has properly accounted for all possible tax assets and liabilities. To mitigate the risk of compliance and financial reporting errors, the Company relies upon external experts to provide advice with respect to tax issues.

- Staff turnover

Management concluded during the prior year that a weakness existed in the design of internal control over financial reporting caused by staff turnover issues within its Technologies segment. This weakness leads to uncertainty as to whether critical control procedures are being carried out, such that material misstatements to the financial statements may fail to be prevented or detected. This weakness should also be considered a weakness in the Company's disclosure controls and procedures.

During the year, management engaged external advisors to review the existing internal control environment and documentation and to identify whether material gaps exist. Management has been: rectifying weaknesses as they are identified; reviewing training requirements for existing staff and when hiring new staff; and applying more monitoring controls within the segment and by the parent company, both at senior management levels. Staffing has stabilized since the prior year and efforts to further strengthen the control environment are continuing.

EVENTS SUBSEQUENT TO QUARTER END

On June 30, 2009, the Company repaid \$1,000,000 of the term loan with face value of \$13,400,000 as of May 31, 2009.

On July 14, the Board approved a success fee agreement with a company controlled by two Directors. Under the agreement, the Director controlled company will provide assistance to Rutter in the negotiation of a subcontract to provide engineering services to a joint venture that intends to bid work on the Hebron offshore oil project in St. John's, NL. The agreement provides for a payment of \$200,000 within ten days of notification of successful prequalification of the joint venture for the project and provides for further payments of 5% of revenues related to the subcontract if the joint venture is successful in its bid.

OUTLOOK

Technologies

The Company has continued to expand its 21 year relationship with its military customer, signing new long-term contracts in each of the past three years that have increased sales volume and expanded the range of assemblies the Company now produces. Efforts in the past year to improve productivity are seen as having been a significant factor in achieving this expanded relationship with this particular customer and have enabled the Company to meet the challenges of this growth. In the next fiscal year, the Company will be looking to diversify its customer base in this business area. The relationship with its major military customer continues to be quite strong with the Company having delivered a solid performance operationally in the current year; however, it is not expected that revenues will reach the same levels in the next fiscal year. The Company's ability to attain revenue levels comparable to fiscal 2009 will be dependent on activity levels of the customer and in the current global economic climate, may be negatively impacted by 'buy American' sentiment.

As expected, VDR sales levels have declined in the current year as we are now approaching the latter part of the regulatory market; however, the decline has been larger in the current year than expected which is believed to be attributable to the general global economic climate. It is uncertain at this time how that will impact the next fiscal year as vessels approach the 2010 regulatory deadline but assuming the cargo market follows the same trend experienced in the passenger ship retrofit market, it appears likely that there will be a jump in demand during 2010 as compared to 2009. The Company expects reduced demand for the VDR after 2010 as the retrofit market will have been addressed by that time and new build vessels travelling in international waters will be the primary market. The Company continues to anticipate new demand for the VDR based on the expectation that countries will begin to introduce requirements for domestic ferries and Ro Ro vessels to carry a VDR although there is no certainty if or when these requirements might materialize. Rutter has sold systems to several domestic ferry fleets who are fitting voluntarily.

Rutter continues its efforts to more fully penetrate the marketplace with its radar technology. During the year, Rutter won a prestigious Safety at Sea award for its radar product and participated in successful oil spill detection trial tests in Norway. This and other positive feedback from the marketplace confirm management's belief that it has a superior product offering in its radar capabilities. However, that has not yet translated into the steady sales growth that the Company is

aiming to attain. Refocusing within the sales group and efforts to more clearly define its radar products are in part, the Company's most recent efforts to address the radar sales opportunities.

Initiatives to diversify the revenue base for Company owned products to include a broader range of higher margin products began in 2007. Efforts continue to generate new revenue streams from an electronic chart and display information system and the Vector M military raft light. The Vector M military raft light is ready for commercialization but sales penetration has been impacted by other priorities of potential military customers. During the prior year, the Company wrote off its investment in product development costs and inventory with respect to this product due to the uncertainty of customer intentions and ultimate implementation.

The Technologies segment continues to pursue niche opportunities defined by a more fundamental recognition that its electrical engineering capabilities and propriety hardware and software allow the Company to be very competitive in offering custom solutions for integrated data recording and playback systems. Potential applications range from military tactical data recording to commercial surveillance. During the prior year, the Company reorganized its resources and tasked a small group with pursuing new business development opportunities that build upon the Company's key capabilities.

Other

On March 31, 2009, the Company sold its interest in the Controls and Automation business but retained its interest in its multi-disciplinary engineering offices operating out of Clarendville, NL and St. John's, NL. This is a small business with a diverse client base making it well-positioned to take advantage of upcoming opportunities in the Newfoundland market driven by oil and gas development.

CONCLUSION

The Company continues to focus on its core competencies in the Technologies segment, executing on opportunities with its military manufacturing business and working to diversify and expand the Company's product offerings within the Technologies segment. The Company also intends to grow its consulting engineering business which is well positioned to benefit from activity in the local Newfoundland market where the Company is headquartered.