

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Balance Sheets

May 31, 2005, with comparative figures for November 30, 2004

"Unaudited"

	May 31 2005	November 30 2004 (as restated)
Assets		
Current assets:		
Cash	\$ 488,104	\$ 632,823
Accounts receivable	7,720,682	11,953,467
Inventory	6,136,928	5,191,353
Investment tax credits recoverable	475,000	474,000
Prepaid expenses and deposits	451,014	342,831
	15,271,728	18,594,474
Investment tax credit recoverable	3,117,000	2,900,000
Property, plant and equipment	4,597,722	4,576,853
Intangible assets	78,981	91,082
	\$ 23,065,431	\$ 26,162,409
Liabilities and Shareholders' Equity		
Current Liabilities:		
Short-term loans	\$ 3,654,075	\$ 6,294,275
Accounts payable and accrued liabilities	2,326,145	3,185,569
Current income taxes	80,138	114,862
Deferred revenue	160,000	199,000
Future income taxes	500,000	506,000
Current portion of long-term debt	576,000	578,700
	7,296,358	10,878,406
Long-term debt	1,244,589	1,530,185
Deferred revenue	442,521	319,606
Future income taxes	698,000	610,000
	9,681,468	13,338,197
Shareholders' Equity:		
Share capital (note 2)	11,813,021	11,782,058
Contributed surplus (note 2)	119,843	119,843
Retained earnings	1,451,099	922,311
	13,383,963	12,824,212
	\$ 23,065,431	\$ 26,162,409

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statement of Operations and Retained Earnings

"Unaudited"

	Three months ended May 31		Six months ended May 31	
	2005	2004	2005	2004
Sales	\$ 8,648,343	\$ 7,553,395	\$ 15,815,300	\$ 14,216,949
Cost of sales	5,811,530	5,391,934	10,811,381	10,757,039
	2,836,813	2,235,696	5,003,919	3,459,910
Administrative and marketing expenses	1,663,480	1,795,043	3,437,530	3,364,637
	1,173,333	330,200	1,566,389	95,273
Research and development	212,242	310,256	349,752	558,069
Earnings before undernoted items	961,091	56,162	1,216,637	(462,796)
Other expenses (income)				
Foreign exchange loss (gain)	18,825	(127,190)	(58,353)	(307,674)
Amortization	225,404	217,589	417,299	429,062
Interest on short-term debt	63,120	48,525	157,090	115,031
Interest on long-term debt	32,011	21,604	65,753	43,765
Interest and other income	(16,697)	(15,397)	(43,322)	(35,142)
	322,663	145,131	538,467	245,042
Earnings (loss) before income taxes	638,428	(88,969)	678,170	(707,838)
Provision for income taxes				
Current	47,114	42,166	67,382	72,299
Future (recovery)	151,000	(70,000)	82,000	(425,000)
	198,114	(27,834)	149,382	(352,701)
Net earnings (loss) for the period	440,314	(61,135)	528,788	(355,137)
Retained earnings, beginning of period				
As previously reported	1,010,785	1,665,236	1,042,154	1,959,238
Less stock based compensation of prior periods	-	(2,843)	(119,843)	(2,843)
As restated	1,010,785	1,662,393	922,311	1,956,395
Retained earnings, end of period	\$ 1,451,099	\$ 1,601,258	\$ 1,451,099	\$ 1,601,258
Earnings (loss) per share - basic	\$ 0.03	\$ 0.00	\$ 0.04	\$ (0.03)
- diluted	\$ 0.03	\$ 0.00	\$ 0.04	\$ (0.03)

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statement of Cash Flows

"Unaudited"

	Three months ended May 31		Six months ended May 31	
	2005	2004	2005	2004
Cash provided by (used in):				
Operations:				
Net earnings (loss)	\$ 440,314	\$ (61,135)	\$ 528,788	\$ (355,137)
Items not involving cash:				
Amortization	225,404	217,589	417,299	429,062
Issue of common shares for expenses	14,459	21,489	30,963	21,489
Deferred revenue	93,512	(97,311)	83,915	(196,703)
	773,689	80,632	1,060,965	(101,289)
Change in non-cash working capital:				
Accounts receivable	(333,711)	994	4,232,785	1,672,183
Investment tax credits recoverable	(88,000)	(270,000)	(218,000)	(470,000)
Inventory	(394,784)	(986,122)	(945,575)	(801,082)
Prepaid expenses and deposits	(131,514)	(172,751)	(108,183)	(195,402)
Accounts payable and accrued liabilities	(683,801)	1,693,738	(859,424)	472,007
Provision for current and future taxes	90,895	(102,681)	47,276	(421,375)
	(767,226)	243,810	3,209,844	155,042
Financing:				
Net short-term loans	(289,200)	(39,477)	(2,640,200)	(193,543)
Repayment of long-term debt	(144,235)	(18,471)	(288,296)	(33,765)
Issue share capital	-	-	-	164,787
	(433,435)	(57,948)	(2,928,496)	(62,521)
Investing:				
Additions to property, plant and equipment	(269,277)	(319,167)	(426,067)	(497,167)
Equity investment	-	(61,772)	-	(61,772)
	(269,277)	(380,939)	(426,067)	(558,939)
Decrease in cash	(1,469,938)	(195,077)	(144,719)	(466,418)
Cash, beginning of period	1,958,042	650,602	632,823	921,943
Cash, end of period	\$ 488,104	\$ 455,525	\$ 488,104	\$ 455,525
Supplemental cash flow disclosure:				
Income taxes paid	\$ 114,337	\$ 73,368	\$ 114,337	\$ 73,368
Interest paid	\$ 95,131	\$ 70,129	\$ 222,843	\$ 158,796

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Period ended May 31, 2005

"Unaudited"

1. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles and follow the same accounting policies and methods of application as, and should be read in conjunction with the most recent audited annual financial statements as of November 30, 2004. The consolidated balance sheet as at May 31, 2005, and the consolidated statements of operations and cash flow for the three and six months then ended have not been audited or reviewed, however management believes that all adjustments necessary to present fairly these financial statements have been included.

2. Share capital:

(a) Share transactions:

	Number of shares	\$ amount
Balance, November 30, 2004	13,747,614	11,782,058
Shares issued in exchange for expenses	36,603	30,963
	<u>13,784,217</u>	<u>11,813,021</u>

(b) Options

Under the terms of a stock option plan approved by the shareholders in May, 1997 and amended in 1998, the Company is authorized to grant directors, officers, employees and others options to purchase common shares at prices based on the market price of shares as determined on the date of grant. At May 31, 2005, 1,213,165 (2004) - 988,165) options remain available to be granted. Stock options become exercisable at dates determined by the Compensation Committee of the Board of Directors.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Interim Financial Statements

Period ended May 31, 2005

"Unaudited"

2. Share capital - continued

At May 31, 2005 the following stock options to directors, officers, employees and others were outstanding:

Exercise Prices	Number Outstanding at May 31, 2005	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at May 31, 2005	Weighted -Average Exercise Price
\$ 0.95 – 1.16	40,000	0.63	\$1.02	40,000	\$1.02
\$ 1.28	870,000	3.75	\$1.28	–	\$ –
\$ 1.30 – 1.60	50,000	0.40	\$1.48	46,667	\$1.49
	960,000			83,334	

The Company has granted stock options to directors, officers, employees and others as follows:

	Number of Common Shares Issuable	Weighted Average Exercise Price
Outstanding, November 30, 2003	734,500	\$ 1.35
Options granted	937,500	1.28
Options exercised	(140,667)	1.17
Options expired and cancelled	(556,333)	1.41
Outstanding, November 30, 2004	975,000	\$ 1.28
Options expired and cancelled	(15,000)	1.28
Outstanding, May 31, 2005	960,000	\$ 1.28

Outstanding options expire between June 30, 2005 and February 28, 2009.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Interim Financial Statements

Period ended May 31, 2005

"Unaudited"

2. Share capital - continued

Effective December 1, 2002, the Company adopted new CICA Handbook Section 3870, "Stock-based Compensation and other Stock-based Payments". This section requires that a fair value based method of accounting be applied to direct awards of stock options to employees. This standard allowed the Company to continue its existing policy, the intrinsic value based method, of recording no compensation cost of the grant of stock options to employees. For each of the 2003 and 2004 fiscal years pro forma information was presented which reflects the difference between compensation costs recorded under the intrinsic based method and costs that would have been recorded under the fair value based method. The fair value of stock options issued in the 2004 year was estimated using the Black-Scholes option pricing model with assumptions of three year weighted average option life, expected forfeiture rate of 50%, 22% volatility and risk-free rate of return of 2.31%.

For the year ended November 30, 2004, the effect on compensation cost of using this approach would be to increase the net loss by \$117,000 and for the 2003 fiscal year to reduce net earnings by \$2,843. In the 2005 fiscal year the Company has retroactively adopted the fair value based method of accounting for awards of employee stock options. Prior periods have not been restated and an adjustment has been made to the opening balance of retained earnings of the current period to reflect the cumulative effect of the change on prior periods.

3. Segmented Information

The Company operates in one industry segment, the Intelligent Transportation Systems industry, which involves the engineering, software development, manufacturing and integration of products and systems to highway departments and industry to improve the efficiency of traffic flows.

The Company had sales in the following geographic areas:

	Three months ended May 31		Six months ended May 31	
	2005	2004	2005	2004
Canada	\$ 1,906,673	\$ 537,004	\$ 2,820,720	\$ 680,645
United States	4,657,670	4,357,066	8,205,086	8,809,165
Offshore	2,084,000	2,659,325	4,789,494	4,727,139
	<u>\$ 8,648,343</u>	<u>\$ 7,553,395</u>	<u>\$ 15,815,300</u>	<u>\$ 14,216,949</u>

4. Comparative Figures

Certain of the 2004 numbers have been reclassified to conform with the 2005 financial statement presentation