

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Balance Sheets

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

"Unaudited"

	August 31 2005	November 30 2004 (as restated)
Assets		
Current assets:		
Cash	\$ 702,676	\$ 632,823
Accounts receivable	10,623,388	11,953,467
Inventory	5,653,646	5,191,353
Investment tax credits recoverable	475,000	474,000
Prepaid expenses and deposits	449,053	342,831
	17,903,763	18,594,474
Investment tax credit recoverable	3,199,000	2,900,000
Property, plant and equipment	4,466,071	4,576,853
Intangible assets	78,510	91,082
	\$ 25,647,344	\$ 26,162,409
Liabilities and Shareholders' Equity		
Current Liabilities:		
Short-term loans	\$ 5,562,655	\$ 6,294,275
Accounts payable and accrued liabilities	2,474,730	3,185,569
Current income taxes	131,500	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
	9,404,885	10,878,406
Long-term debt	1,099,764	1,530,185
Deferred revenue	455,688	319,606
Future income taxes	881,500	610,000
	11,841,837	13,338,197
Shareholders' Equity:		
Share capital (note 2)	11,827,755	11,782,058
Contributed surplus (note 2)	119,843	119,843
Retained earnings	1,857,909	922,311
	13,805,507	12,824,212
	\$ 25,647,344	\$ 26,162,409

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statement of Operations and Retained Earnings

"Unaudited"

	Three months ended August 31		Nine months ended August 31	
	2005	2004	2005	2004
Sales	\$ 10,081,600	\$ 8,745,473	\$ 25,896,900	\$ 22,962,422
Cost of sales	7,077,611	6,147,334	17,888,992	16,799,366
	3,003,989	2,598,139	8,007,908	6,163,056
Administrative and marketing expenses	1,829,876	2,069,630	5,267,406	5,599,668
	1,174,113	528,509	2,740,502	563,388
Research and development	137,672	374,267	487,424	871,942
Earnings (loss) before undernoted items	1,036,441	154,242	2,253,078	(308,554)
Other expenses (income)				
Foreign exchange loss (gain)	65,542	148,163	7,189	(159,511)
Amortization	226,661	212,268	643,960	641,330
Interest on short-term debt	80,953	59,142	238,043	174,173
Interest on long-term debt	29,064	19,579	94,817	63,344
Interest and other income	(12,360)	(3,582)	(55,682)	(38,724)
	389,860	435,570	928,327	680,612
Earnings (loss) before income taxes	646,581	(281,328)	1,324,751	(989,166)
Provision for income taxes				
Current	56,271	142,670	123,653	214,969
Future (recovery)	183,500	(236,000)	265,500	(661,000)
	239,771	(93,330)	389,153	(446,031)
Net earnings (loss) for the period	406,810	(187,998)	935,598	(543,135)
Retained earnings, beginning of period				
As previously reported	1,451,099	1,604,101	1,042,154	1,959,238
Less stock based compensation of prior periods	-	(2,843)	(119,843)	(2,843)
As restated	1,451,099	1,601,258	922,311	1,956,395
Retained earnings, end of period	\$ 1,857,909	\$ 1,413,260	\$ 1,857,909	\$ 1,413,260
Earnings (loss) per share - basic	\$ 0.03	\$ (0.01)	\$ 0.07	\$ (0.04)
- diluted	\$ 0.03	\$ (0.01)	\$ 0.07	\$ (0.04)

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statement of Cash Flows

"Unaudited"

	Three months ended August 31		Nine months ended August 31	
	2005	2004	2005	2004
Cash provided by (used in):				
Operations:				
Net earnings (loss)	\$ 406,810	\$ (187,998)	\$ 935,598	\$ (543,135)
Items not involving cash:				
Amortization	226,661	212,268	643,960	641,330
Issue of common shares for expenses	14,734	-	45,697	21,489
Provision for future income taxes	183,500	(236,000)	265,500	(661,000)
Investment tax credits recoverable	(82,000)	(140,000)	(300,000)	(610,000)
Deferred revenue	13,167	(36,053)	97,082	(232,756)
	762,872	(387,783)	1,687,837	(1,384,072)
Change in non-cash working capital:				
Accounts receivable	(2,902,706)	(480,518)	1,330,079	1,191,665
Inventory	483,282	270,857	(462,293)	(530,225)
Prepaid expenses and deposits	1,961	(29,122)	(106,222)	(224,524)
Accounts payable and accrued liabilities	148,585	(885,965)	(710,839)	(413,958)
Income taxes payable	51,362	119,167	16,638	122,792
	(1,454,644)	(1,393,364)	1,755,200	(1,238,322)
Financing:				
Net short-term loans	1,908,580	1,604,301	(731,620)	1,410,758
Repayment of long-term debt	(144,825)	(22,433)	(433,121)	(56,198)
Issuance share capital	-	-	-	164,787
	1,763,755	1,581,868	(1,164,741)	1,519,347
Investing:				
Additions to property, plant and equipment	(89,732)	(125,772)	(515,799)	(622,939)
Intangible assets	(4,807)	-	(4,807)	-
Equity investment	-	-	-	(61,772)
	(94,539)	(125,772)	(520,606)	(684,711)
Increase (decrease) in cash	214,572	62,732	69,853	(403,686)
Cash, beginning of period	488,104	455,525	632,823	921,943
Cash, end of period	\$ 702,676	\$ 518,257	\$ 702,676	\$ 518,257
Supplemental cash flow disclosure:				
Income taxes paid	\$ 4,909	\$ 23,503	\$ 107,015	\$ 92,177
Interest paid	\$ 110,017	\$ 78,721	\$ 332,860	\$ 237,517

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Period ended August 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 August 31, 2005, and the consolidated statements of operations and cash flow for the three and nine months ended August 31, 2005 and 2004 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	52,929	45,697
	<u>13,800,543</u>	<u>11,827,755</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 August 31, 2005, 1,253,165 (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 August 31, 2005

"Unaudited"

2. Share capital - continued

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

Exercise Prices	Number Outstanding at August 31, 2005	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at August 31, 2005	Weighted -Average Exercise Price
\$ 0.95 – 1.16	40,000	0.37	\$1.02	40,000	\$1.02
\$ 1.28	870,000	3.50	\$1.28	5,000	\$1.28
\$ 1.30	10,000	0.25	\$1.30	10,000	\$1.30
	920,000			55,000	

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

	Number of Common Share 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	(55,000)	1.46
Outstanding, August 31, 2005	920,000	\$ 1.28

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Interim Financial Statements

Period ended August 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 August 31		Nine months ended August 31	
	2005	2004	2005	2004
Canada	\$ 1,899,981	\$ 656,730	\$ 4,721,527	\$ 1,313,595
United States	6,376,972	5,357,324	14,581,232	14,444,440
Offshore	1,804,647	2,731,419	6,594,141	7,204,387
	<u>\$ 10,081,600</u>	<u>\$ 8,745,473</u>	<u>\$ 25,896,900</u>	<u>\$ 22,962,422</u>

4. Comparative Figures

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