

Consolidated Financial Statements of

INTERNATIONAL ROAD DYNAMICS INC.

Years ended November 30, 2005 and 2004



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of International Road Dynamics Inc. as at November 30, 2005 and 2004 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, stylized script.

Chartered Accountants

Saskatoon, Canada

February 8, 2005

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Balance Sheets

November 30, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash	\$ 873,827	\$ 632,823
Accounts receivable (note 3)	10,398,038	11,953,467
Investment tax credits recoverable	230,000	474,000
Inventory	5,184,447	5,191,353
Prepaid expenses and deposits	439,821	342,831
	<u>17,126,133</u>	<u>18,594,474</u>
Investment tax credits recoverable	3,554,000	2,900,000
Property, plant and equipment (note 4)	4,408,078	4,576,853
Intangible assets (note 5)	67,208	91,082
Equity investment	197,488	—
	<u>\$ 25,352,907</u>	<u>\$ 26,162,409</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term loans (note 6)	\$ 4,941,075	\$ 6,294,275
Accounts payable and accrued liabilities	2,991,135	3,185,569
Income taxes payable	178,080	114,862
Deferred revenue	223,825	199,000
Current portion of long-term debt (note 7)	484,000	578,700
Future income taxes (note 8)	477,000	506,000
	<u>9,295,115</u>	<u>10,878,406</u>
Deferred revenue	429,074	319,606
Long-term debt (note 7)	1,049,532	1,530,185
Future income taxes (note 8)	714,000	610,000
Shareholders' equity:		
Share capital (note 9)	11,860,920	11,782,058
Contributed surplus	119,843	—
Retained earnings	1,884,423	1,042,154
	<u>13,865,186</u>	<u>12,824,212</u>
	<u>\$ 25,352,907</u>	<u>\$ 26,162,409</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

_____ Director

_____ Director

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statement of Operations and Retained Earnings

Years ended November 30, 2005 and 2004

	2005	2004
Sales	\$ 33,550,204	\$ 31,356,042
Cost of sales	23,711,994	23,258,115
	9,838,210	8,097,927
Administrative and marketing expenses	7,078,565	7,209,061
	2,759,645	888,866
Research and development (note 10)	533,699	1,015,078
Earnings (loss) before other expenses (income)	2,225,946	(126,212)
Other expenses (income):		
Foreign exchange (gain) loss	14,738	(90,992)
Amortization	836,259	932,671
Interest on short-term debt	316,054	257,437
Interest on long-term debt	125,070	93,657
Interest and other income	(73,439)	(115,077)
Loss (income) from equity investment	(197,488)	92,340
	1,021,194	1,170,036
Earnings (loss) before income taxes	1,204,752	(1,296,248)
Provision for (recovery of) income taxes (note 8)		
Current	167,640	129,836
Future (recovery)	75,000	(509,000)
	242,640	(379,164)
Net earnings (loss)	962,112	(917,084)
Retained earnings, beginning of year		
As previously reported	1,042,154	1,959,238
Less stock based compensation of prior periods (note 9)	(119,843)	-
As restated	922,311	1,959,238
Retained earnings, end of year	\$ 1,884,423	\$ 1,042,154
Earnings per share (note 11)		
Basic	\$ 0.07	\$ (0.07)
Diluted	\$ 0.07	\$ (0.07)

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statement of Cash Flows

Years ended November 30, 2005 and 2004

	2005	2004
Cash flows from (used in):		
Operations:		
Net earnings (loss):	\$ 962,112	\$ (917,084)
Items not involving cash:		
Amortization of property, plant and equipment and intangible assets	836,259	932,671
Common shares issued for expenses (note 9)	59,862	45,408
Loss (income) from equity investment	(197,488)	92,340
Provision for (recovery of) future income taxes	75,000	(509,000)
Deferred revenue	134,293	(322,603)
Investment tax credits recoverable	(410,000)	(920,000)
Change in non-cash working capital:		
Accounts receivable	1,555,429	573,894
Inventory	6,906	(635,477)
Prepaid expenses and deposits	(96,990)	(152,914)
Accounts payable and accrued liabilities	(194,434)	(168,600)
Income taxes payable	63,218	25,196
	2,794,167	(1,956,169)
Financing:		
Short-term loans	(1,353,200)	1,459,275
Increase in long-term debt	—	1,000,000
Repayment of long-term debt	(575,353)	(158,907)
Common shares issued for cash	19,000	164,787
	(1,909,553)	2,465,155
Investing:		
Additions to property, plant and equipment	(643,610)	(736,334)
Equity investment	—	(61,772)
	(643,610)	(798,106)
Increase (decrease) in cash	241,004	(289,120)
Cash, beginning of year	632,823	921,943
Cash, end of year	\$ 873,827	\$ 632,823
Supplemental cash flow disclosure:		
Interest paid	\$ 441,457	\$ 351,300
Income taxes paid	\$ 104,228	\$ 91,186

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2005 and 2004

1. Significant accounting policies:

The consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and revenues and expenses for each year presented. Changes in estimates and assumptions will occur based on the passage of time and the occurrence of certain future events.

(a) Principles of consolidation:

The consolidated financial statements include the financial statements of the Company and its subsidiaries, PAT Compania Limitada (Chile), International Road Dynamics Corporation (US) and IRD South Asia Pvt Ltd. (India). All significant inter-company accounts and transactions have been eliminated.

(b) Cash:

Cash consists of balances with financial institutions which have an original term to maturity of three months or less.

(c) Revenue recognition:

Revenue from contract projects is recorded on the percentage of completion basis.

The Company makes estimates of the percentage of completion of each project by comparing the actual costs incurred to the total estimated costs for the project. These estimates of total cost are subject to change, which would have an impact on the timing of revenue recognized.

Revenue which relates to service obligations originally extending beyond one year is deferred and recorded as a liability on the balance sheet. This revenue is recognized in the period during which the service is provided.

(d) Inventory:

Inventory is valued at the lower of cost and net realizable value.

(e) Equity investment:

Equity investments over which the Company is able to exercise significant influence are accounted for using the equity method whereby the investment is initially recorded at cost and the investment is increased or decreased to reflect the Company's proportionate share of the earnings or losses of the investee.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2005 and 2004

1. Significant accounting policies - continued:

(f) Amortization:

Amortization is computed over the expected useful lives of the assets at 5% on buildings, 20% and 25% on office equipment and manufacturing equipment respectively, 30% on automotive and computer equipment and 100% on computer software based on the declining balance method. Work zone rental equipment is amortized on a straight-line basis over the number of deployed months to a maximum of 60 months. In the year of acquisition one-half of the normal rate is taken on net additions, with the exception of work zone rental equipment, where full depreciation is recorded when the assets are deployed.

(g) Translation of foreign currencies:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities, denominated in foreign currencies are translated into Canadian dollars at historical rates of exchange. Revenue and expenses are translated into Canadian dollars using the approximate rate of exchange on the date of the transactions. Revenues and expenses of foreign subsidiaries are translated at the average exchange rate for the year. The resulting gains or losses are included in the statements of operations.

(h) Derivative financial instruments and hedging transactions:

Derivative financial instruments are utilized by the Company to reduce exposure to fluctuations in foreign currency exchange rates. The Company may enter into foreign exchange contracts to hedge anticipated sales denominated in a foreign currency. The Company formally documents relationships between hedging instruments and hedged items, including linking all derivatives to specific assets and liabilities or to specific commitments or anticipated transactions.

The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items. Gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated foreign currency denominated transactions are deferred and recognized in the same period as the corresponding hedged items. Gains or losses associated with derivative instruments which have been terminated prior to maturity are deferred under current assets or liabilities on the balance sheet and recognized in earnings in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold or extinguished prior to the termination of the related derivative instrument or the hedge is no longer effective or it is no longer probable that the anticipated transaction will occur substantially as and when identified on the inception of the hedging relationship, any realized or unrealized gain or loss on such derivative instrument is recognized in earnings.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2005 and 2004

1. Significant accounting policies - continued:

(i) Intangible assets:

Intangible assets include amounts related to patents and acquired technologies and are amortized on a straight-line basis over a period of ten to fifteen years based on the expected future lives of the intangible assets. A half year amortization is taken for additions in the first half of the year and additions in the second half of the year are not amortized until the following year.

The carrying value of intangible assets is periodically assessed by management and if management determines that the carrying value can not be recovered from future cash flows, the unrecoverable amount is written off against current earnings.

(j) Research and development costs:

The Company expenses research and development costs during the year in which they are incurred. Research and development tax credits are recognized in earnings when the Company has reasonable assurance that they will be utilized.

(k) Warranty costs:

The Company provides for future warranty costs based on management's estimate of future warranty liabilities. These estimates are subjective and actual warranty costs may vary from amounts estimated. Actual costs incurred are charged against the provision for future warranty costs.

(l) Future income taxes:

Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in operations in the period which includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

(m) Stock based compensation:

The Company has a stock based compensation plan, which is described in note 9. Effective December 1, 2004, the Company retroactively adopted the fair value based method of accounting for awards of stock options, whereby the fair value of stock options granted using the Black-Scholes option pricing model, are expensed over the vesting period of the options with a corresponding increase to contributed surplus. Consideration paid on the exercise of stock options is credited to share capital with a corresponding transfer from contributed surplus to share capital for amounts previously credited to contributed surplus on the initial expensing of the related stock option. Previously, no compensation expense was recognized when stock options were granted and any consideration paid on the exercise of stock options was credited to share capital.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2005 and 2004

1. Significant accounting policies - continued:

(n) Earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed using the treasury stock method, which is similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised at the beginning of the year and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

2. Business acquisitions and investments:

During the year, the Company increased its investment in PAT Traffic Brazil from 37% to 40% and recorded an increase in its proportional share of the equity of PAT Traffic Brazil of \$197,488. In 2004, the Company acquired a 37% equity interest in PAT Traffic Brazil at a cost of \$61,772. Further, in 2004 the Company financed an inventory transfer to PAT Traffic Brazil in the form of a loan in the amount of \$45,100. The Company recorded a decrease of the equity and loan account of \$92,340 in 2004 to reflect the Company's proportionate share of losses during that year.

3. Accounts receivable:

	2005	2004
Trade receivables	\$ 7,630,504	\$ 7,492,225
Unbilled revenue	2,478,373	3,749,130
Other	289,161	712,112
	<u>\$ 10,398,038</u>	<u>\$ 11,953,467</u>

Unbilled revenue represents the excess of contract costs and estimated gross profits recognized over billings to date.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2005 and 2004

4. Property, plant and equipment:

	2005		2004	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 275,000	\$ —	\$ 275,000	\$ 275,000
Buildings	2,818,255	663,664	2,154,591	2,261,365
Office equipment	838,177	599,686	238,491	257,092
Automotive	1,649,478	1,018,036	631,442	667,019
Computer equipment	1,391,436	982,018	409,418	485,281
Computer software	845,220	792,969	52,251	53,756
Manufacturing equipment	608,649	394,710	213,939	235,736
Work zone rental equipment	587,266	154,320	432,946	341,604
	<u>\$ 9,013,481</u>	<u>\$ 4,605,403</u>	<u>\$ 4,408,078</u>	<u>\$ 4,576,853</u>

Amortization of property, plant and equipment was \$813,442 for 2005 and \$738,055 for 2004.

5. Intangible assets:

	2005		2004	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Acquired technology	\$ 100,146	\$ 98,788	\$ 1,358	\$ 11,798
Patent costs	202,618	136,768	65,850	79,284
	<u>\$ 302,764</u>	<u>\$ 235,556</u>	<u>\$ 67,208</u>	<u>\$ 91,082</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2005 and 2004

6. Short-term loans:

	2005	2004
Royal Bank credit facility. Authorized to a maximum of \$7.5 million with interest at bank prime plus 0.65% and secured by a general security agreement on all the assets of the Company. In 2004, the loans included \$2,000,000 (CDN \$2,373,200) denominated in US currency	\$ 4,941,075	\$ 6,294,275

The Company has issued letters of credit in the amount of \$58,066 (US \$49,659) (2004 - \$1,121,500) as bid and performance guarantees on certain contracts.

The Company also has a revolving project financing facility, authorized to a maximum of \$1.2 million with interest at bank prime plus 3.0% and secured by a first charge on certain accounts receivable and certain unbilled revenue and a second charge on all remaining assets of the Company. This facility was not utilized during the 2004 and 2005 fiscal years.

7. Long-term debt:

	2005	2004
Royal Bank mortgage repayable in monthly installments of \$11,381 including interest at a fixed rate of 6.733%. Secured by first charge on the building and a general security agreement. Due August 1, 2007	\$ 1,112,094	\$ 1,172,620
Royal Bank term loan repayable in monthly instalments of \$42,000 plus interest at a rate of prime plus 1.25%. Secured by a general security agreement on the assets of the Company	412,000	916,000
Other long-term debt with various repayment terms and a weighted average interest rate of 7.25%. Secured by certain assets of the Company	9,438	20,265
	1,533,532	2,108,885
Less current portion	484,000	578,700
	\$ 1,049,532	\$ 1,530,185

The following represents the expected aggregate principal payments over the next two years:

2006	\$	484,000
2007		1,049,532
	\$	1,533,532

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2005 and 2004

8. Income taxes:

Income tax expense attributable to earnings differs from the amounts computed by applying the combined federal and provincial income tax rate of 39% (2004 - 39%) to pretax earnings as a result of the following:

	2005	2004
Earnings (loss) before income taxes	\$ 1,204,752	\$ (1,296,248)
Computed "expected" tax expense (recovery)	469,853	(505,537)
Increase (reduction) in income taxes resulting from:		
Non-deductible expenses	96,000	96,000
Manufacturing and processing profits deduction	(16,000)	66,000
Large corporations tax	—	10,000
Current year tax assessments	(28,213)	36,000
Non-taxable income from equity investments	(77,000)	—
Reduction due to lower rate of tax on foreign income	(202,000)	(81,627)
	\$ 242,640	\$ (379,164)

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below.

	2005	2004
Current future tax assets and liabilities:		
Future tax assets:		
Non-capital loss carryforwards	\$ —	\$ 247,000
Unclaimed research and development	400,000	638,000
	400,000	885,000
Future tax liabilities:		
Unbilled revenue	(831,000)	(1,290,000)
Investment tax credits	(46,000)	(101,000)
	(877,000)	(1,391,000)
Net current future income tax liability	\$ (477,000)	\$ (506,000)
Future non-current tax assets and liabilities:		
Future tax assets:		
Capital loss carryforwards	\$ 92,000	\$ 92,000
Less valuation allowance	(92,000)	(92,000)
	—	—
Future tax liabilities:		
Investment tax credits	(726,000)	(602,000)
Property and equipment and intangible assets	12,000	(8,000)
	(714,000)	(610,000)
Net non-current future tax liabilities	\$ (714,000)	\$ (610,000)

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2005 and 2004

8. Income taxes – continued:

At November 30, 2005 the Company has \$471,000 of allowable capital losses available to reduce taxes on future capital gains. In addition, at November 30, 2005 the Company has recognized investment tax credits of \$3,784,000 as a result of its research and development activities. The Company recognized \$410,000 of these tax credits in the current year (2004 - \$920,000).

9. Share capital:

(a) Authorized and issued capital:

	2005	2004
Common voting shares. Authorized an unlimited number of shares, issued 13,831,503 shares (13,747,614 shares issued at November 30, 2004)	\$ 11,860,920	\$ 11,782,058

(b) Share transactions:

The Company had the following common share transactions during the 2005 and 2004 fiscal years:

	Number of shares	\$ Amount
Balance, November 30, 2003	13,566,177	\$ 11,571,863
Shares issued in exchange for expenses	40,770	45,408
Shares issued for employee stock options exercised	140,667	164,787
Balance, November 30, 2004	13,747,614	\$ 11,782,058
Shares issued in exchange for expenses	63,889	59,862
Shares issued for stock options exercised	20,000	19,000
Balance, November 30, 2005	13,831,503	\$ 11,860,920

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2005 and 2004

9. Share capital - continued:

(c) 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 officers, employees and others options to purchase common shares at prices based on the market price of shares as determined on the date of the grant. At November 30, 2005, 1,263,165 (2004 – 1,198,165) options remain available to be granted. Stock options become exercisable at dates determined by the Compensation Committee of the Board of Directors. Subsequent to the end of the year, 175,000 options were granted, 100,000 at \$1.23 and 75,000 at \$1.20. These options expire on November 30, 2010.

At November 30, 2005, the following stock options to officers, employees and others were outstanding:

Exercise Prices	Number Outstanding at November 30, 2005	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at November 30, 2005	Weighted-Average Exercise Price
\$1.01	10,000	0.50	\$1.01	10,000	\$1.01
\$1.28	870,000	3.25	\$1.28	3,750	\$1.28
\$1.30	10,000	1.00	\$1.30	10,000	\$1.30
	890,000			23,750	

The Company has granted stock options to 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 granted	—	—
Options exercised	(20,000)	0.95
Options expired and cancelled	(65,000)	1.41
Outstanding, November 30, 2005	890,000	\$ 1.28

Outstanding options expire between May 31, 2006 and February 28, 2009.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2005 and 2004

9. Share capital - continued:

The Company adopted, as required, CICA Handbook Section 3870, "Stock-based Compensation and other Stock-based Payments" in the current year and applied its provisions retroactively without restatement of prior periods. Under this new standard the cumulative fair value of awarded options since December 1, 2002, the effective date of the CICA standard requiring calculation and disclosure but not the expensing of stock-based compensation, in the amount of \$119,843 has been charged to the current year's opening retained earnings. The fair value of stock options issued during 2004 was estimated using the Black-Scholes option pricing model with assumptions of three year weighted average expected 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 costs of using this approach would be to increase the net loss by \$117,000, (reduction to net earnings of \$2,843 for the 2003 fiscal year). On a per share basis, the 2004 pro forma net loss per share, after recognizing the fair value of the stock options would be \$0.08 per share basic and diluted.

(d) Shareholders' rights plan:

The Company adopted a Shareholder Rights Plan (the "Plan"), which was approved by the shareholders at its annual meeting held on April 23, 1998. The Plan was established to deter coercive take-over tactics and to prevent an acquirer from gaining control of the Company without offering a fair price to all of the Company's shareholders. The Plan provides the Board of Directors and the shareholders of the Company with more time to fully consider any unsolicited takeover bid for the Company, and more time for the Board of Directors to pursue, if appropriate, other alternatives to maximize shareholder value.

Under the Plan, the Company will distribute one right in respect of each common share. The rights become exercisable eight trading days after the first public announcement of the acquisition of 20% of the common shares of the Company by any person or the announcement of a person's intention to commence a take-over bid, other than a "permitted bid" which would result in such person acquiring 20% of the Company's common shares. Each right may be exercised at a price of \$20 to purchase that number of common shares of the Company which have a market value equal to two times the exercise price of the rights.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2005 and 2004

9. Share capital - continued:

The requirements of a "permitted bid" include the following:

- the bid must be made by take-over bid circular to all holders of the Company's common shares;
- the bid must be subject to an irrevocable condition that no shares shall be taken up or paid for prior to a date which is not less than 60 days after the date of the bid and only if more than 50% of the outstanding common shares held by shareholders ("independent shareholders") other than the offeror and its related parties have been tendered to the bid;
- the bid must provide that shares may be deposited at any time during the bid period and that any shares so deposited may be withdrawn at any time during such period; and;
- if more than 50% of the common shares held by independent shareholders are tendered to the bid, the offeror must extend the bid for 10 days to allow shareholders who did not tender initially to take advantage of the bid if they so choose.

The Plan had an initial term of three years. The Plan contains a provision that, at or prior to the first annual meeting of shareholders following the third anniversary of the date of the Plan, the Board may submit a resolution to the shareholders approving the extension of the Plan for a further three years. At the Company's annual meeting held on May 12, 2005, the shareholders approved the extension of the Plan for a further three years. The extended Plan contains a provision that, at or prior to the first annual meeting of shareholders following the third anniversary of the date of the extended Plan, the Board may submit a resolution to the shareholders approving the extension of the Plan for a further three years.

(e) Normal Course Issuer Bid:

On January 31, 2005, the Toronto Stock Exchange approved a Normal Course Issuer Bid for the period from February 1, 2005 to January 31, 2006 for the purchase and cancellation of up to 600,000 common shares, representing 4.36% of its 13,747,614 shares then outstanding. To date, no shares have been purchased under this Issuer Bid.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2005 and 2004

10. Research and development:

	2005	2004
Research and development expenditures	\$ 945,797	\$ 1,937,586
Less grants and investment tax credits	412,098	922,508
	\$ 533,699	\$ 1,015,078

11. Earnings per share:

The computations for basic and diluted earnings per share are as follows:

	2005	2004
Net earnings (loss)	\$ 962,112	\$ (917,084)
Weighted average number of common shares outstanding:		
Basic	13,786,258	13,690,622
Effect of stock options	2,701	8,572
Diluted	13,788,959	13,699,194
Earnings per share:		
Basic	\$ 0.07	\$ (0.07)
Diluted	\$ 0.07	\$ (0.07)

The Company has stock options outstanding to purchase 890,000 common shares at November 30, 2005 (2004 – outstanding stock options to purchase 975,000 common shares). 880,000 of these options to purchase common shares at \$1.28 to \$1.30 per share (2004 – 945,000 options to purchase common shares at \$1.16 to \$1.60 per share) were excluded from the computation of diluted earnings per share because the options exercise price was greater than the average market price of the common shares for the reporting period.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2005 and 2004

12. Financial instruments:

(a) Foreign currency exchange risk:

The Company contracts the majority of sales in U.S. dollars. In order to manage exposure related to Canada/U.S. exchange rates, the Company from time to time enters into forward foreign exchange contracts. At November 30, 2005, the Company had sold forward \$4.35 million USD at an average exchange rate of 1.1937 with a market value gain in these contracts of approximately \$106,200 based on the actual exchange rate at November 30, 2005 of 1.1693. As these contracts have been designated as hedging instruments for accounting purposes, this gain has been deferred and will be recognized in earnings in 2006 and 2007, the same periods as the corresponding hedged items. At November 30, 2005, the Company also had sold forward \$4.3 million USD at an average exchange rate of 1.1646 with a market value loss in this contract of approximately \$20,200 based on the actual exchange rate at November 30, 2005 of 1.1693. As this contract has not been designated as a hedge for accounting purposes, this loss has been recognized and included in accounts payable at the end of the 2005 fiscal year. At November 30, 2004 the Company had sold forward \$2.6 million USD at an average exchange rate of \$1.2813. The market value gain inherent on these foreign exchange contracts was approximately \$246,300 based on an actual exchange rate at November 30, 2004 of 1.1866. As these contracts were not designated as hedges for accounting purposes, this gain was recognized and included in accounts receivable at the end of the 2004 fiscal year.

(b) Credit risk:

Accounts receivable include amounts due from customers in both the government and private industry sectors which are subject to normal industry credit risks. Government accounts are considered secure and are normally not subjected to extensive credit reviews. Industry accounts are subjected to internal credit reviews to minimize risk of non-payment. Additionally, export sales to non-government customers are insured to the extent of 90% of the invoiced amount. The cost of this insurance is included in the statement of operations.

(c) Fair value of financial assets and liabilities:

The carrying amounts of the Company's financial assets and liabilities including cash, accounts receivable and accounts payable and accrued liabilities approximate fair value due to the short-term maturity of these items.

The fair value of the short-term loans and long-term debt approximates the carrying amounts due to recent negotiations or variable rates based on prime.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2005 and 2004

13. 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:

	2005	2004
Canada	\$ 6,097,223	\$ 1,996,935
United States	18,102,648	19,623,964
Overseas	9,350,333	9,735,143
	<u>\$ 33,550,204</u>	<u>\$ 31,356,042</u>

14. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.