

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Balance Sheets

May 31, 2006 with comparative figures for November 30, 2005

"Unaudited"

	2006	2005
Assets		
Current assets:		
Cash	\$ 924,195	\$ 873,827
Accounts receivable	7,357,465	10,398,038
Inventory	4,921,594	5,184,447
Investment tax credits recoverable	230,000	230,000
Prepaid expenses and deposits	435,089	439,821
	13,868,343	17,126,133
Investment tax credit recoverable	3,781,000	3,554,000
Property, plant and equipment	4,418,501	4,408,078
Intangible assets	61,838	67,208
Equity investments	342,488	197,488
	\$ 22,472,170	\$ 25,352,907
Liabilities and Shareholders' Equity		
Current Liabilities:		
Short-term loans	\$ 3,773,382	\$ 4,941,075
Accounts payable and accrued liabilities	1,565,684	2,991,135
Current income taxes payable	318,407	178,080
Deferred revenue	212,665	223,825
Future income taxes	477,000	477,000
Current portion of long-term debt	224,000	484,000
	6,571,138	9,295,115
Long-term debt	1,018,235	1,049,532
Deferred revenue	301,988	429,074
Future income taxes	435,500	714,000
	8,326,861	11,487,721
Shareholders' Equity:		
Share capital	11,888,528	11,860,920
Contributed surplus	129,843	119,843
Foreign currency translation adjustment	(95,569)	-
Retained earnings	2,222,507	1,884,423
	14,145,309	13,865,186
	\$ 22,472,170	\$ 25,352,907

INTERNATIONAL ROAD DYNAMICS INC.

Interim Consolidated Statement of Earnings and Retained Earnings

"Unaudited"

	Three months ended May 31		Six months ended May 31	
	2006	2005	2006	2005
Sales	\$ 7,198,783	\$ 8,648,343	\$ 13,523,219	\$ 15,815,300
Cost of sales	4,435,029	5,811,530	9,104,230	10,811,381
	2,763,754	2,836,813	4,418,989	5,003,919
Administrative and marketing expenses	1,717,837	1,663,480	3,454,775	3,437,530
	1,045,917	1,173,333	964,214	1,566,389
Research and development (net)	175,094	212,242	294,710	349,752
Earnings before undernoted items	870,823	961,091	669,504	1,216,637
Other expenses (income)				
Foreign exchange loss (gain)	(2,161)	18,825	(68,366)	(58,353)
Amortization	168,182	225,404	335,516	417,299
Interest on short-term debt	64,222	63,120	148,827	157,090
Interest on long-term debt	27,048	32,011	55,940	65,753
Interest and other income	(15,988)	(16,697)	(31,449)	(43,322)
Income from equity investment	(26,500)	-	(145,000)	-
	214,803	322,663	295,468	538,467
Earnings before income taxes	656,020	638,428	374,036	678,170
Provision for (recovery of) income taxes				
Current	224,660	47,114	314,452	67,382
Future (recovery)	(16,500)	151,000	(278,500)	82,000
	208,160	198,114	35,952	149,382
Net earnings for the period	447,860	440,314	338,084	528,788
Retained earnings, beginning of period				
As previously reported	1,774,647	1,010,785	1,884,423	1,042,154
Less stock based compensation of prior periods	-	-	-	(119,843)
As restated	1,774,647	1,010,785	1,884,423	922,311
Retained earnings, end of period	\$ 2,222,507	\$ 1,451,099	\$ 2,222,507	\$ 1,451,099
Earnings per share - basic	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.04
- diluted	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.04

INTERNATIONAL ROAD DYNAMICS INC.

Interim Consolidated Statement of Cash Flows

"Unaudited"

	Three months ended May 31		Six months ended May 31	
	2006	2005	2006	2005
Cash provided by (used in):				
Operations:				
Net earnings	\$ 447,860	\$ 440,314	\$ 338,084	\$ 528,788
Items not involving cash:				
Amortization	168,182	225,404	335,516	417,299
Issue of common shares for expenses	12,855	14,459	27,608	30,963
Stock-based compensation	5,000	-	10,000	-
Income from equity investment	(26,500)	-	(145,000)	-
Recovery of future income taxes	(16,500)	(151,000)	(278,500)	(82,000)
Investment tax credits recoverable	(127,000)	(88,000)	(227,000)	(218,000)
Deferred revenue	(85,017)	93,512	(138,246)	83,915
	378,880	534,689	(77,538)	760,965
Change in non-cash working capital:				
Accounts receivable	1,920,657	(333,711)	3,040,573	4,232,785
Inventory	65,109	(394,784)	262,853	(945,575)
Prepaid expenses and deposits	(64,806)	(131,514)	4,732	(108,183)
Accounts payable and accrued liabilities	(805,648)	(683,801)	(1,425,451)	(859,424)
Current income taxes payable	139,392	241,895	140,327	129,276
	1,633,584	(767,226)	1,945,496	3,209,844
Financing:				
Net short-term loans	(832,145)	(289,200)	(1,167,693)	(2,640,200)
Repayment of long-term debt	(148,422)	(144,235)	(291,297)	(288,296)
	(980,567)	(433,435)	(1,458,990)	(2,928,496)
Investing:				
Additions to property, plant and equipment	(196,381)	(269,277)	(340,569)	(426,067)
Foreign currency translation adjustment	(61,820)	-	(95,569)	-
	(258,201)	(269,277)	(436,138)	(426,067)
Increase (decrease) in cash	394,816	(1,469,938)	50,368	(144,719)
Cash, beginning of period	529,379	1,958,042	873,827	632,823
Cash, end of period	\$ 924,195	\$ 488,104	\$ 924,195	\$ 488,104
Supplemental cash flow disclosure:				
Income taxes paid	\$ 85,268	\$ 114,337	\$ 174,125	\$ 114,337
Interest paid	\$ 91,270	\$ 95,131	\$ 204,767	\$ 222,843

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Consolidated Financial Statements

Period ended May 31, 2006

"Unaudited"

1. Significant accounting policies

These interim financial statements are based on the same accounting policies and methods of their application as, and should be read in conjunction with, the most recent audited annual financial statements as of November 30, 2005.

The consolidated balance sheet as at May 31, 2006, and the consolidated statements of earnings and cash flow for the three months and six months then ended have not been independently audited or reviewed, however management believes that all adjustments necessary to present these interim financial statements fairly have been included.

Translation of foreign currencies

During the first quarter of this year it was determined that the operations of PAT Compania Limitada (PAT Chile) were sufficiently independent and profitable to classify it as a self-sustaining foreign operation. Accordingly the method of translating the currency to Canadian Dollars has been changed from the temporal method to the current rate method and any gains or losses arising on translating the financial statements of PAT Chile to Canadian Dollars are recorded as a component of shareholders' equity.

2. Share capital:

	Number of shares	\$ amount
Balance, November 30, 2005	13,831,503	11,860,920
Shares issued in exchange for expenses	22,196	27,608
Balance, May 31, 2006	<u>13,853,699</u>	<u>11,888,528</u>

There are currently 1,030,000 stock options outstanding; each of which may be exercised to purchase one common share of the Company at prices ranging from \$1.20 to \$1.30 per share.

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 the grant. At May 31, 2006, 1,123,165 (2005 – 1,213,165) options remain available to be granted. Stock options become exercisable at dates determined by the Compensation Committee of the Board of Directors.

At May 31, 2006, the following stock options to officers, employees and others were outstanding:

Exercise Price	Number Outstanding at May 31, 2006	Weighted-average Remaining Contractual Life (years)	Number Exercisable at May 31, 2006
\$1.20	75,000	4.50	25,000
\$1.23	100,000	4.50	33,333
\$1.28	845,000	2.75	215,000
\$1.30	10,000	0.50	10,000
	<u>1,030,000</u>		<u>283,333</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Consolidated Financial Statements

Period ended May 31, 2006

"Unaudited"

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, 2005	890,000	\$1.28
Options granted during the period	175,000	\$1.22
Options expired or cancelled during the period	(35,000)	\$1.20
Outstanding, May 31, 2006	1,030,000	\$1.27

3. Contributed Surplus

Compensation costs arising from the issue of stock options are recognized as an expense over the vesting period of the options and credited to contributed surplus. When the options are exercised the fair value amount in contributed surplus is credited to share capital.

	\$
Balance, November 30, 2005	119,843
Stock-based compensation expense for the period	<u>10,000</u>
Balance, May 31, 2006	<u>129,843</u>

4. 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	
	2006	2005	2006	2005
Canada	\$ 860,488	\$ 1,906,673	\$ 1,298,375	\$ 2,820,720
United States	4,239,193	4,657,670	6,828,397	8,205,086
Offshore	2,099,102	2,084,000	5,396,447	4,789,494
	<u>\$ 7,198,783</u>	<u>\$ 8,648,343</u>	<u>\$ 13,523,219</u>	<u>\$ 15,815,300</u>