

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Balance Sheets

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

	2006	2005
	"Unaudited"	"Audited"
Assets		
Current assets:		
Cash	\$ 922,706	\$ 873,827
Accounts receivable	9,568,913	10,398,038
Inventory	5,517,512	5,184,447
Investment tax credits recoverable	230,000	230,000
Prepaid expenses and deposits	433,509	439,821
	16,672,640	17,126,133
Investment tax credits recoverable	3,907,000	3,554,000
Property, plant and equipment	4,589,522	4,408,078
Intangible assets	60,803	67,208
Equity investments	350,688	197,488
	\$ 25,580,653	\$ 25,352,907
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term loans	\$ 2,513,281	\$ 4,941,075
Accounts payable and accrued liabilities	2,661,944	2,991,135
Current income taxes payable	400,061	178,080
Deferred revenue	178,054	223,825
Future income taxes	477,000	477,000
Current portion of long-term debt	752,000	484,000
	6,982,340	9,295,115
Long-term debt (note 2)	3,204,000	1,049,532
Deferred revenue	289,836	429,074
Future income taxes	557,800	714,000
	11,033,976	11,487,721
Shareholders' equity:		
Share capital (note 3)	11,904,455	11,860,920
Contributed surplus (note 4)	134,843	119,843
Foreign currency translation adjustment	(77,208)	-
Retained earnings	2,584,587	1,884,423
	14,546,677	13,865,186
	\$ 25,580,653	\$ 25,352,907

INTERNATIONAL ROAD DYNAMICS INC.

Interim Consolidated Statement of Earnings and Retained Earnings

"Unaudited"

	Three months ended August 31		Nine months ended August 31	
	2006	2005	2006	2005
Sales	\$ 9,147,334	\$ 10,081,600	\$ 22,670,553	\$ 25,896,900
Cost of sales	6,412,563	7,077,611	15,516,793	17,888,992
	2,734,771	3,003,989	7,153,760	8,007,908
Administrative and marketing expenses	1,753,064	1,829,876	5,207,839	5,267,406
	981,707	1,174,113	1,945,921	2,740,502
Research and development (net)	155,514	137,672	450,224	487,424
Earnings before undernoted items	826,193	1,036,441	1,495,697	2,253,078
Other expenses (income)				
Foreign exchange loss (gain)	3,669	65,542	(64,697)	7,189
Amortization	169,023	226,661	504,539	643,960
Interest on short-term debt	47,007	80,953	195,834	238,043
Interest on long-term debt	51,415	29,064	107,355	94,817
Interest and other income	(2,755)	(12,360)	(34,204)	(55,682)
Income from equity investment	(8,200)	-	(153,200)	-
	260,159	389,860	555,627	928,327
Earnings before income taxes	566,034	646,581	940,070	1,324,751
Provision for (recovery of) income taxes				
Current	81,654	56,271	396,106	123,653
Future (recovery)	122,300	183,500	(156,200)	265,500
	203,954	239,771	239,906	389,153
Net earnings for the period	362,080	406,810	700,164	935,598
Retained earnings, beginning of period				
As previously reported	2,222,507	1,451,099	1,884,423	1,042,154
Less stock based compensation of prior periods	-	-	-	(119,843)
As restated	2,222,507	1,451,099	1,884,423	922,311
Retained earnings, end of period	\$ 2,584,587	\$ 1,857,909	\$ 2,584,587	\$ 1,857,909
Earnings per share - basic	\$ 0.03	\$ 0.03	\$ 0.05	\$ 0.07
- diluted	\$ 0.03	\$ 0.03	\$ 0.05	\$ 0.07

INTERNATIONAL ROAD DYNAMICS INC.

Interim Consolidated Statement of Cash Flows

"Unaudited"

	Three months ended August 31		Nine months ended August 31	
	2006	2005	2006	2005
Cash provided by (used in):				
Operations:				
Net earnings	\$ 362,080	\$ 406,810	\$ 700,164	\$ 935,598
Items not involving cash:				
Amortization	169,023	226,661	504,539	643,960
Issue of common shares for expenses	15,927	14,734	43,535	45,697
Stock-based compensation	5,000	-	15,000	-
Income from equity investment	(8,200)	-	(153,200)	-
Recovery of future income taxes	122,300	183,500	(156,200)	265,500
Investment tax credits recoverable	(126,000)	(82,000)	(353,000)	(300,000)
Deferred revenue	(46,763)	13,167	(185,009)	97,082
	493,367	762,872	415,829	1,687,837
Change in non-cash working capital:				
Accounts receivable	(2,211,448)	(2,902,706)	829,125	1,330,079
Inventory	(595,918)	483,282	(333,065)	(462,293)
Prepaid expenses and deposits	1,580	1,961	6,312	(106,222)
Accounts payable and accrued liabilities	1,096,260	148,585	(329,191)	(710,839)
Current income taxes payable	81,654	51,362	221,981	16,638
	(1,134,505)	(1,454,644)	810,991	1,755,200
Financing:				
Net short-term loans	(1,260,101)	1,908,580	(2,427,794)	(731,620)
Proceeds on long-term debt	3,000,000	-	3,000,000	-
Repayment of long-term debt	(286,235)	(144,825)	(577,532)	(433,121)
	1,453,664	1,763,755	(5,326)	(1,164,741)
Investing:				
Additions to property, plant and equipment	(339,009)	(89,732)	(679,578)	(515,799)
Foreign currency translation adjustment	18,361	-	(77,208)	-
Intangible assets	-	(4,807)	-	(4,807)
	(320,648)	(94,539)	(756,786)	(520,606)
Increase (decrease) in cash	(1,489)	214,572	48,879	69,853
Cash, beginning of period	924,195	488,104	873,827	632,823
Cash, end of period	\$ 922,706	\$ 702,676	\$ 922,706	\$ 702,676
Supplemental cash flow disclosure:				
Income taxes paid	\$ -	\$ 4,909	\$ 174,125	\$ 107,015
Interest paid	\$ 98,422	\$ 110,017	\$ 303,189	\$ 332,860

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Consolidated Financial Statements

Period ended August 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 August 31, 2006, and the consolidated statements of earnings and cash flow for the three months and nine 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. Long-term debt

During the third quarter of this year the Company borrowed \$3 Million under a new term loan facility with the Royal Bank of Canada. Proceeds from this term loan were used to repay \$160,000 of a previous term loan, with the remaining proceeds used to reduce amounts owing under the short term credit facility. The term loan is repayable in monthly instalments of \$71,181 including interest at a rate of 6.53%.

3. Share capital:

	Number of shares	\$ amount
Balance, November 30, 2005	13,831,503	11,860,920
Shares issued in exchange for expenses	35,723	43,535
Balance, August 31, 2006	<u>13,867,226</u>	<u>11,904,455</u>

There are currently 987,500 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 August 31, 2006, 1,165,665 (2005 – 1,253,165) 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 Interim Consolidated Financial Statements

Period ended August 31, 2006

"Unaudited"

3. Share capital - continued

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

Exercise Price	Number Outstanding at August 31, 2006	Weighted-average Remaining Contractual Life (years)	Number Exercisable at August 31, 2006
\$1.20	75,000	4.25	25,000
\$1.23	100,000	4.25	33,333
\$1.28	802,500	2.50	353,750
\$1.30	10,000	0.25	10,000
	987,500		422,083

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	(77,500)	\$1.24
Outstanding, August 31, 2006	987,500	\$1.27

4. 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	15,000
Balance, August 31, 2006	\$ 134,843

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Consolidated Financial Statements

Period ended August 31, 2006

"Unaudited"

5. 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	
	2006	2005	2006	2005
Canada	\$ 1,553,094	\$ 1,899,981	\$ 2,851,469	\$ 4,721,527
United States	5,637,776	6,376,972	12,466,173	14,581,232
Offshore	1,956,464	1,804,647	7,352,911	6,594,141
	<u>\$ 9,147,334</u>	<u>\$ 10,081,600</u>	<u>\$ 22,670,553</u>	<u>\$ 25,896,900</u>