

Consolidated Financial Statements of

INTERNATIONAL ROAD DYNAMICS INC.

Years ended November 30, 2006 and 2005



KPMG LLP
Chartered Accountants
600 - 128 Fourth Avenue South
Saskatoon SK S7K 1M8

Telephone (306) 934-6200
Fax (306) 934-6233
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of International Road Dynamics Inc. as at November 30, 2006 and 2005 and the consolidated statements of earnings 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Saskatoon, Canada

February 7, 2007

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Balance Sheets

November 30, 2006 and 2005

	2006	2005
Assets		
Current assets:		
Cash	\$ 500,118	\$ 873,827
Accounts receivable (note 3)	15,841,680	10,398,038
Investment tax credits recoverable	–	230,000
Inventory	5,305,854	5,184,447
Future income taxes (note 8)	453,000	–
Prepaid expenses and deposits	248,906	439,821
	<u>22,349,558</u>	<u>17,126,133</u>
Investment tax credits recoverable	4,253,000	3,554,000
Property, plant and equipment (note 4)	4,692,123	4,408,078
Intangible assets (note 5)	58,621	67,208
Equity investment	405,688	197,488
	<u>\$ 31,758,990</u>	<u>\$ 25,352,907</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term loans (note 6)	\$ 6,197,429	\$ 4,941,075
Accounts payable and accrued liabilities	3,876,891	2,991,135
Income taxes payable	309,155	178,080
Deferred revenue	267,830	223,825
Current portion of long-term debt (note 7)	1,747,022	484,000
Future income taxes (note 8)	–	477,000
	<u>12,398,327</u>	<u>9,295,115</u>
Deferred revenue	182,081	429,074
Long-term debt (note 7)	2,025,723	1,049,532
Future income taxes (note 8)	1,827,000	714,000
Shareholders' equity:		
Share capital (note 9)	11,916,682	11,860,920
Contributed surplus	140,843	119,843
Cumulative translation account	(72,425)	–
Retained earnings	3,340,759	1,884,423
	<u>15,325,859</u>	<u>13,865,186</u>
	<u>\$ 31,758,990</u>	<u>\$ 25,352,907</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Terry Bergan Director

Ray Harris Director

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statement of Earnings and Retained Earnings

Years ended November 30, 2006 and 2005

	2006	2005
Sales	\$ 34,481,176	\$ 33,550,204
Cost of sales	23,339,138	23,378,272
	11,142,038	10,171,932
Administrative and marketing expenses	7,836,496	7,412,287
	3,305,542	2,759,645
Research and development (note 10)	580,992	533,699
Earnings before other expenses (income)	2,724,550	2,225,946
Other expenses (income):		
Foreign exchange (gain) loss	(145,025)	14,738
Amortization	714,939	836,259
Interest on short-term debt	256,641	316,054
Interest on long-term debt	175,353	125,070
Interest and other income	(43,795)	(73,439)
Income from equity investment	(208,200)	(197,488)
	749,913	1,021,194
Earnings before income taxes	1,974,637	1,204,752
Provision for income taxes (note 8)		
Current	335,301	167,640
Future	183,000	75,000
	518,301	242,640
Net earnings	1,456,336	962,112
Retained earnings, beginning of year	1,884,423	922,311
Retained earnings, end of year	\$ 3,340,759	\$ 1,884,423
Earnings per share (note 11)		
Basic	\$ 0.11	\$ 0.07
Diluted	\$ 0.11	\$ 0.07

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statement of Cash Flows

Years ended November 30, 2006 and 2005

	2006	2005
Cash flows from (used in):		
Operations:		
Net earnings:	\$ 1,456,336	\$ 962,112
Items not involving cash:		
Amortization of property, plant and equipment and intangible assets	714,939	836,259
Common shares issued for expenses (note 9)	55,762	59,862
Income from equity investment	(208,200)	(197,488)
Provision for future income taxes	183,000	75,000
Deferred revenue	(202,988)	134,293
Investment tax credits recoverable	(469,000)	(410,000)
Stock-based compensation	21,000	-
Change in non-cash working capital:		
Accounts receivable	(5,516,067)	1,555,429
Inventory	(121,407)	6,906
Prepaid expenses and deposits	190,915	(96,990)
Accounts payable and accrued liabilities	885,756	(194,434)
Income taxes payable	131,075	63,218
	(2,878,879)	2,794,167
Financing:		
Short-term loans	1,256,354	(1,353,200)
Proceeds on long-term debt	3,000,000	-
Repayment of long-term debt	(760,787)	(575,353)
Common shares issued for cash	-	19,000
	3,495,567	(1,909,553)
Investing:		
Additions to property, plant and equipment	(987,022)	(643,610)
Additions to intangible assets	(3,375)	-
	(990,397)	(643,610)
Increase (decrease) in cash	(373,709)	241,004
Cash, beginning of year	873,827	632,823
Cash, end of year	\$ 500,118	\$ 873,827
Supplemental cash flow disclosure:		
Interest paid	\$ 431,994	\$ 441,457
Income taxes paid	\$ 196,472	\$ 104,228

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2006 and 2005

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 (PAT 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 recognized in the period in which the service is provided.

(d) Inventory:

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

(e) Equity investments:

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

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 statement of earnings.

The Chilean peso is the functional currency of PAT Chile. The method of translating this currency to Canadian dollars is the current rate method. Under this method, all assets and liabilities are translated to Canadian dollars at exchange rates in effect at the balance sheet date and all revenue and expenses are translated at rates in effect at the time of the transactions. Exchange gains and losses arising from this translation, representing the net unrealized foreign currency translation gain (loss) on the Company's investment in PAT Chile are recorded in the cumulative translation account of shareholders' equity. Adjustments to the cumulative translation account are not recorded in earnings until realized through a reduction in the Company's investment in such operations.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

1. Significant accounting policies - continued:

(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.

For those foreign exchange contracts that have been designated as hedges for accounting purposes, 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.

Gains and losses on all other foreign exchange contracts are recognized in earnings at the end of each reporting period.

(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.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

1. Significant accounting policies - continued:

(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) 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.

(l) Stock based compensation:

The Company has a stock based compensation plan, which is described in note 9. The Company accounts for stock-based compensation using 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.

(m) 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.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

2. Investment in PAT Traffic Brazil:

During the year the Company recorded its proportional share of the earnings and increase in equity of PAT Traffic Brazil of \$208,200 (2005 - \$197,488). During 2005 the Company increased its investment in PAT Traffic Brazil from 37% to 40%.

3. Accounts receivable:

	2006		2005	
Trade receivables	\$	9,700,983	\$	7,630,504
Unbilled revenue		5,529,871		2,478,373
Other		610,826		289,161
	\$	15,841,680	\$	10,398,038

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

4. Property, plant and equipment:

	2006		2005	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 275,000	\$ -	\$ 275,000	\$ 275,000
Buildings	2,899,037	766,889	2,132,148	2,154,591
Office equipment	812,386	580,222	232,164	238,491
Automotive	1,856,552	1,173,537	683,015	631,442
Computer equipment	1,466,392	1,113,803	352,589	409,418
Computer software	1,025,087	935,153	89,934	52,251
Manufacturing equipment	1,034,527	528,043	506,484	213,939
Work zone rental equipment	578,497	157,708	420,789	432,946
	\$ 9,947,478	\$ 5,255,355	\$ 4,692,123	\$ 4,408,078

Amortization of property, plant and equipment was \$702,977 for 2006 and \$813,442 for 2005.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

5. Intangible assets:

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Acquired technology	\$ 100,146	\$ 100,146	\$ -	\$ 1,358
Patent costs	205,994	147,373	58,621	65,850
	<u>\$ 306,140</u>	<u>\$ 247,519</u>	<u>\$ 58,621</u>	<u>\$ 67,208</u>

6. Short-term loans:

	2006	2005
Royal Bank of Canada credit facility. Authorized to a maximum of \$7.5 million with interest at bank prime plus 0.55% and secured by a general security agreement on all the assets of the Company	\$ 6,197,429	\$ 4,941,075

The Company has issued letters of credit in the amount of \$14,356 (2005 - \$58,066) as bid and performance guarantees on certain contracts.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

7. Long-term debt:

	2006	2005
Royal Bank of Canada mortgage repayable in monthly instalments of \$11,381 including interest at a fixed rate of 6.733%. Secured by a first charge on the building and a general security agreement. Due August 1, 2007 (note 14)	\$ 1,050,027	\$ 1,112,094
Royal Bank of Canada 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
Royal Bank of Canada term loan repayable in monthly instalments of \$71,181 including interest at a fixed rate of 6.53%. Secured by a general security agreement on the assets of the Company. Due June 30, 2010	2,722,718	–
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
	3,772,745	1,533,532
Less current portion	1,747,022	484,000
	\$ 2,025,723	\$ 1,049,532

The following represents the aggregate principal payments over the next four years based on the current debt obligations:

2007	\$ 1,747,022
2008	743,896
2009	793,952
2010	487,875
	\$ 3,772,745

As detailed in note 14, the Company has signed a letter of intent with the Royal Bank of Canada agreeing to the terms and conditions of a new mortgage loan that will be used in part to pay out the existing mortgage loan which expires August 1, 2007.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

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 37.9% (2005 - 39%) to pretax earnings as a result of the following:

	2006	2005
Earnings before income taxes	\$ 1,974,637	\$ 1,204,752
Computed "expected" tax expense	748,387	469,853
Increase (reduction) in income taxes resulting from:		
Non-deductible expenses	67,000	96,000
Manufacturing and processing profits deduction	(26,000)	(16,000)
Current year tax assessments	—	(28,213)
Non-taxable income from equity investments	(79,000)	(77,000)
Reduction due to lower rate of tax on foreign income	(59,000)	(202,000)
Reduction due to lower income tax rates	(133,086)	—
	\$ 518,301	\$ 242,640

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

	2006	2005
Current future tax assets and liabilities:		
Future tax assets:		
Non-capital losses available for carryforward	\$ 396,000	\$ —
Unclaimed research and development	397,000	400,000
	793,000	400,000
Future tax liabilities:		
Unbilled revenue	(340,000)	(831,000)
Investment tax credits	—	(46,000)
	(340,000)	(877,000)
Net current future income tax asset (liability)	\$ 453,000	\$ (477,000)
Future non-current tax assets and liabilities:		
Future tax assets:		
Capital loss carryforwards	\$ 70,000	\$ 92,000
Less valuation allowance	(70,000)	(92,000)
	—	—
Future tax assets (liabilities):		
Unbilled revenue	(1,196,000)	—
Investment tax credits	(745,000)	(726,000)
Non-capital losses available for carryforward	164,000	—
Property and equipment and intangible assets	(50,000)	12,000
	(1,827,000)	(714,000)
Net non-current future tax liabilities	\$ (1,827,000)	\$ (714,000)

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

8. Income taxes – continued:

At November 30, 2006 the Company has \$471,000 of allowable capital losses available to reduce taxes on future capital gains. In addition, at November 30, 2006 the Company has recognized \$1,690,000 of non-capital losses which are available to reduce future years taxable income up to and including the 2026 fiscal year. Also, at November 30, 2006, the Company has recognized investment tax credits of \$4,253,000 as a result of its research and development activities. The Company recognized \$469,000 of these tax credits in the current year (2005 - \$410,000).

9. Share capital:

(a) Authorized and issued capital:

	2006	2005
Common voting shares. Authorized an unlimited number of shares, issued 13,876,385 shares (13,831,503 shares issued at November 30, 2005)	\$ 11,916,682	\$ 11,860,920

(b) Share transactions:

The Company had the following common share transactions during the 2006 and 2005 fiscal years:

	Number of shares	\$ Amount
Balance, November 30, 2004	13,747,614	\$ 11,782,058
Shares issued in exchange for expenses	63,889	59,862
Shares issued for employee stock options exercised	20,000	19,000
Balance, November 30, 2005	13,831,503	\$ 11,860,920
Shares issued in exchange for expenses	44,882	55,762
Balance, November 30, 2006	13,876,385	\$ 11,916,682

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

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, 2006, 1,060,665 (2005 – 1,263,165) options remain available to be granted. Stock options become exercisable at dates determined by the Compensation Committee of the Board of Directors.

At November 30, 2006, the following stock options to officers, employees and others were outstanding:

Exercise Prices	Number Outstanding at November 30, 2006	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at November 30, 2006	Weighted-Average Exercise Price
1.20	75,000	4.00	1.20	25,000	1.20
1.23	100,000	4.00	1.23	33,333	1.23
1.26	115,000	5.00	1.26	—	—
1.28	802,500	2.25	1.28	353,750	1.28
	1,092,500			412,083	

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, 2004	975,000	\$ 1.28
Options granted	—	—
Options exercised	(20,000)	.95
Options expired and cancelled	(65,000)	1.41
Outstanding, November 30, 2005	890,000	\$ 1.28
Options granted	290,000	1.23
Options exercised	—	—
Options expired and cancelled	(87,500)	1.25
Outstanding, November 30, 2006	1,092,500	\$ 1.27

Outstanding options expire between February 28, 2009 and November 30, 2011.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

9. Share capital - continued:

The fair value of stock options issued during 2006 was estimated using the Black-Scholes option pricing model with assumptions of five year weighted average expected option life, expected forfeiture rate of 60%, 21% volatility and risk-free rate of return of 3.4%. As a result, the Company recorded stock based compensation expense of \$21,000 during 2006 (2005 – Nil) along with a corresponding increase in contributed surplus in shareholders' equity.

(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.

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.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

9. Share capital - continued:

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 June 29, 2006, the Toronto Stock Exchange approved a Normal Course Issuer Bid for the period from July 3, 2006 to June 30, 2007 for the purchase and cancellation of up to 600,000 common shares, representing 4.33% of its 13,853,699 shares then outstanding. To date, no shares have been purchased under this Issuer Bid.

10. Research and development

	2006	2005
Research and development expenditures	\$ 1,051,647	\$ 945,797
Less grants and investment tax credits	470,655	412,098
	<u>\$ 580,992</u>	<u>\$ 533,699</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

11. Earnings per share:

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

	2006	2005
Net earnings	\$ 1,456,336	\$ 962,112
Weighted average number of common shares outstanding:		
Basic	13,850,636	13,786,258
Effect of stock options	5,282	2,701
Diluted	13,855,918	13,788,959
Earnings per share:		
Basic	\$ 0.11	\$ 0.07
Diluted	\$ 0.11	\$ 0.07

The Company has stock options outstanding to purchase 1,092,500 common shares at November 30, 2006 (2005 – outstanding stock options to purchase 890,000 common shares). 917,500 of these options to purchase common shares at \$1.26 to \$1.28 per share (2005 – 880,000 options to purchase common shares at \$1.28 to \$1.30 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.

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.

Effective September 1, 2006, the Company ceased, on a prospective basis, designating foreign exchange contracts as hedges for accounting purposes. At November 30, 2006 the Company has sold forward \$5.9 million USD at an average exchange rate of 1.1417 with a market gain in these contracts of approximately \$43,500 based on the actual exchange rate at November 30, 2006 of 1.1343. This gain has been recorded in the statement of earnings and included in accounts receivable as at November 30, 2006.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

12. Financial instruments - continued:

(a) Foreign currency exchange risk - continued:

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 had been designated as hedging instruments for accounting purposes, this gain was deferred and recognized in earnings in 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 had not been designated as a hedge for accounting purposes, this loss was recorded in the statement of earnings and included in accounts payable at November 30, 2005.

(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 generally insured to the extent of 90% of the invoiced amount. The cost of this insurance is included in the statement of earnings.

(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.

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:

	2006	2005
Canada	\$ 6,478,736	\$ 6,097,223
United States	18,385,845	18,102,648
Overseas	9,616,595	9,350,333
	<u>\$ 34,481,176</u>	<u>\$ 33,550,204</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements - continued

Years ended November 30, 2006 and 2005

14. Subsequent events:

In December, 2006 the Company signed a license agreement with respect to certain patented products used in IRD's portable work zone safety installations. Under this agreement the Company will pay license fees of \$125,000 USD in December 2006, \$25,000 USD in June 2007, \$25,000 in December 2007 and \$40,000 USD in December 2008, as well as an 8% royalty on sales within the United States on the sale of certain work zone safety systems.

In January, 2007 the Company signed a letter of intent to enter into a contract for the construction of a new manufacturing facility to replace its current leased premises. The Company signed an agreement in February, 2007 with the Royal Bank of Canada for an interim credit facility in the amount of \$1,850,000 to finance construction of the manufacturing facility. This credit facility provides for interest at Royal Bank of Canada prime plus 1% and is secured by the manufacturing facility land and building as well as a second charge on the existing land and building of the Company.

In February, 2007 the Company signed a letter of intent with the Royal Bank of Canada setting out the terms and conditions for a mortgage loan in the amount of \$2,902,500. The proceeds of the mortgage loan will be used to pay out the interim credit facility of \$1,850,000 as well as to pay out the current mortgage loan which comes due August 1, 2007. The new mortgage loan will have an amortization period of 20 years with a rate of interest to be determined at the time that the funds have all been advanced.

On February 1, 2007, the Company granted 292,500 options to certain employees of the Company. These options are exercisable at \$1.32 per share over a three year period and expire on February 1, 2012. Fifty percent of the shares received upon the options being exercised are subject to a twelve month hold period.

15. Comparative figures:

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