

# **INTERNATIONAL ROAD DYNAMICS INC.**

Notice Of No Auditor Review of Interim Consolidated Financial Statements

Period Ended May 31, 2007

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

July 5, 2007

[Signed]  
Terry Bergan  
Chief Executive Officer

[Signed]  
Mel Karakochuk  
Chief Financial Officer

# INTERNATIONAL ROAD DYNAMICS INC.

Interim and Annual Consolidated Balance Sheets

May 31, 2007 with comparative figures for November 30, 2006

	2007 "Unaudited"	2006 Audited
<b>Assets</b>		
Current assets:		
Cash	\$ 927,935	\$ 500,118
Accounts receivable	12,202,194	15,841,680
Inventory	7,059,096	5,305,854
Future income taxes	453,000	453,000
Prepaid expenses and deposits	289,388	248,906
	20,931,613	22,349,558
Investment tax credit recoverable	4,491,172	4,253,000
Property, plant and equipment	5,984,095	4,692,123
Intangible assets	266,320	58,621
Equity investment	775,688	405,688
	\$ 32,448,888	\$ 31,758,990
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Short-term loans	\$ 5,100,982	\$ 6,197,429
Accounts payable and accrued liabilities	4,120,809	3,876,891
Current income taxes payable	465,095	309,155
Deferred revenue	483,855	267,830
Current portion of long-term debt	2,238,550	1,747,022
	12,409,291	12,398,327
Long-term debt	1,651,477	2,025,723
Deferred revenue	195,062	182,081
Future income taxes	1,753,820	1,827,000
	16,009,650	16,433,131
Shareholders' Equity:		
Share capital (note 2)	11,962,300	11,916,682
Contributed surplus (note 3)	148,493	140,843
Accumulated other comprehensive income	(113,732)	(72,425)
Retained earnings	4,442,177	3,340,759
	16,439,238	15,325,859
	\$ 32,448,888	\$ 31,758,990

**INTERNATIONAL ROAD DYNAMICS INC.**

## Interim Consolidated Statement of Earnings and Retained Earnings

"Unaudited"

	Three months ended May 31		Six months ended May 31	
	2007	2006	2007	2006
Sales	\$ 11,124,165	\$ 7,198,783	\$ 19,420,215	\$ 13,523,219
Cost of sales	7,636,319	4,435,029	13,141,884	9,104,230
	3,487,846	2,763,754	6,278,331	4,418,989
Administrative and marketing expenses	2,340,057	1,717,837	4,267,716	3,454,775
	1,147,789	1,045,917	2,010,615	964,214
Research and development (net)	94,732	175,094	232,955	294,710
Earnings before undernoted items	1,053,057	870,823	1,777,660	669,504
Other expenses (income)				
Foreign exchange loss (gain)	(13,883)	(2,161)	(9,458)	(68,366)
Amortization	229,692	168,182	451,347	335,516
Interest on short-term debt	118,727	64,222	216,340	148,827
Interest on long-term debt	50,479	27,048	112,901	55,940
Interest and other income	(37,905)	(15,988)	(51,332)	(31,449)
Income from equity investment	(225,000)	(26,500)	(370,000)	(145,000)
	122,110	214,803	349,798	295,468
Earnings before income taxes	930,947	656,020	1,427,862	374,036
Provision for (recovery of) income taxes				
Current	229,570	224,660	399,624	314,452
Future (recovery)	(12,580)	(16,500)	(73,180)	(278,500)
	216,990	208,160	326,444	35,952
Net earnings for the period	713,957	447,860	1,101,418	338,084
Retained earnings, beginning of period	3,728,220	1,774,647	3,340,759	1,884,423
Retained earnings, end of period	\$ 4,442,177	\$ 2,222,507	\$ 4,442,177	\$ 2,222,507
Earnings per share - basic	\$ 0.05	\$ 0.03	\$ 0.08	\$ 0.02
- diluted	\$ 0.05	\$ 0.03	\$ 0.08	\$ 0.02

# INTERNATIONAL ROAD DYNAMICS INC.

## Interim Consolidated Statement of Cash Flows

"Unaudited"

	Three months ended May 31		Six months ended May 31	
	2007	2006	2007	2006
Cash provided by (used in):				
Operations:				
Net earnings	\$ 713,957	\$ 447,860	\$ 1,101,418	\$ 338,084
Items not involving cash:				
Amortization	229,692	168,182	451,347	335,516
Issue of common shares	13,260	12,855	25,778	27,608
Stock-based compensation	3,825	5,000	7,650	10,000
Income from equity investment	(225,000)	(26,500)	(370,000)	(145,000)
Recovery of future income taxes	(12,580)	(16,500)	(73,180)	(278,500)
Investment tax credits recoverable	(126,972)	(127,000)	(238,172)	(227,000)
Deferred revenue	108,982	(85,017)	229,006	(138,246)
	705,164	378,880	1,133,847	(77,538)
Change in non-cash working capital:				
Accounts receivable	490,158	1,858,837	3,598,179	2,945,004
Inventory	(940,339)	65,109	(1,753,242)	262,853
Prepaid expenses and deposits	(45,695)	(64,806)	(40,482)	4,732
Accounts payable and accrued liabilities	866,663	(805,648)	243,918	(1,425,451)
Current income taxes payable	198,182	139,392	155,940	140,327
	1,274,133	1,571,764	3,338,160	1,849,927
Financing:				
Net short-term loans	212,192	(832,145)	(1,096,447)	(1,167,693)
Repayment of long-term debt	(197,569)	(148,422)	(384,100)	(291,297)
Increase in long-term debt	501,382	0	501,382	0
Proceeds from exercise of stock options	19,840	0	19,840	0
	535,845	(980,567)	(959,325)	(1,458,990)
Investing:				
Additions to property, plant and equipment	(1,493,657)	(196,381)	(1,707,097)	(340,569)
Additions to intangible assets	0		(243,921)	0
	(1,493,657)	(196,381)	(1,951,018)	(340,569)
Increase in cash	316,321	394,816	427,817	50,368
Cash, beginning of period	611,614	529,379	500,118	873,827
Cash, end of period	\$ 927,935	\$ 924,195	\$ 927,935	\$ 924,195
Supplemental cash flow disclosure:				
Income taxes paid	\$ 31,388	\$ 85,268	\$ 243,684	\$ 174,125
Interest paid	\$ 169,206	\$ 91,270	\$ 329,241	\$ 204,767

# INTERNATIONAL ROAD DYNAMICS INC.

## Notes to Interim Consolidated Financial Statements

Period ended May 31, 2007

"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, 2006.

The consolidated balance sheet as at May 31, 2007, and the consolidated statements of earnings and cash flow for the three 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.

Prior to the adoption of the financial instruments standards at January 1, 2007, exchange gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation were recorded as a foreign currency translation adjustment as a separate component to shareholders equity. Upon adoption of the new standards, the exchange gains and losses are to be recognized as accumulated other comprehensive income.

### 2. Share capital:

	Number of shares	\$ amount
Balance, November 30, 2006	13,876,385	11,916,682
Shares issued in exchange for expenses	18,774	25,778
Shares issued on exercise of options	15,500	19,840
Balance, May 31, 2007	<u>13,910,659</u>	<u>11,962,300</u>

There are currently 1,309,500 stock options outstanding; each of which may be exercised to purchase one common share of the Company at prices ranging from \$1.20 to \$1.32 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, 2007, 828,165 (2006 - 1,113,165) 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 May 31, 2007

"Unaudited"

## 2. Share capital - continued

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, 2006	1,092,500	\$1.27
Options granted during the period	292,500	\$1.32
Options cancelled or expired during the period	(60,000)	\$1.28
Options exercised during the period	(15,500)	\$1.28
Outstanding, May 31, 2007	1,309,500	\$1.28

At May 31, 2007, the following stock options to officers, employees and others were outstanding:

Exercise Price	Number Outstanding at May 31, 2007	Weighted-average Remaining Contractual Life (years)	Number Exercisable at May 31, 2007
\$1.20	75,000	3.50	50,000
\$1.23	100,000	3.50	66,667
\$1.26	95,000	4.50	0
\$1.28	752,000	1.75	543,250
\$1.32	287,500	4.68	0
	1,309,500		659,917

## 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 transferred to share capital.

Balance, November 30, 2006	\$ 140,843
Stock-based compensation expense for the period	<u>7,650</u>
Balance, May 31, 2007	<u>\$ 148,493</u>

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Consolidated Financial Statements

Period ended May 31, 2007

"Unaudited"

## 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	
	2007	2006	2007	2006
Canada	\$ 1,802,344	\$ 860,488	\$ 3,229,957	\$ 1,298,375
United States	6,732,871	4,239,193	10,217,129	6,828,397
Offshore	2,588,950	2,099,102	5,973,129	5,396,447
	<u>\$ 11,124,165</u>	<u>\$ 7,198,783</u>	<u>\$ 19,420,215</u>	<u>\$ 13,523,219</u>

## 5. Comparative Figures

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