

Consolidated Financial Statements of

INTERNATIONAL ROAD DYNAMICS INC.

Years ended November 30, 2007 and 2006



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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, 2007 and 2006 and the consolidated statements of earnings, shareholders' equity, comprehensive income 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Saskatoon, Canada

February 7, 2008

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Balance Sheets

November 30, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash	\$ 1,028,465	\$ 500,118
Accounts receivable (note 3)	10,650,960	15,841,680
Investment tax credits recoverable	328,000	-
Inventory	6,581,626	5,305,854
Future income taxes (note 9)	-	453,000
Prepaid expenses and deposits	426,206	248,906
	<u>19,015,257</u>	<u>22,349,558</u>
Investment tax credits recoverable	3,449,000	4,253,000
Property, plant and equipment (note 4)	7,548,315	4,692,123
Intangible assets (note 5)	230,076	58,621
Equity investment (note 6)	608,688	405,688
	<u>\$ 30,851,336</u>	<u>\$ 31,758,990</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term loans (note 7)	\$ 5,172,258	\$ 6,197,429
Accounts payable and accrued liabilities	3,117,605	3,876,891
Income taxes payable	71,260	309,155
Deferred revenue	49,160	267,830
Current portion of long-term debt (note 8)	802,000	1,747,022
Future income taxes (note 9)	538,000	-
	<u>9,750,283</u>	<u>12,398,327</u>
Deferred revenue	116,011	182,081
Long-term debt (note 8)	3,906,615	2,025,723
Future income taxes (note 9)	324,000	1,827,000
Shareholders' equity:		
Share capital (note 10)	12,004,179	11,916,682
Contributed surplus	149,168	140,843
Retained earnings	4,705,703	3,340,759
Accumulated other comprehensive income (loss)	(104,623)	(72,425)
	<u>16,754,427</u>	<u>15,325,859</u>
	<u>\$ 30,851,336</u>	<u>\$ 31,758,990</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

[Originals Signed by Terry Bergan] Director

[Originals Signed by Ray Harris] Director

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Earnings

Years ended November 30, 2007 and 2006

	2007	2006
Sales	\$ 39,761,786	\$ 34,481,176
Cost of sales	27,096,859	23,339,138
	12,664,927	11,142,038
Administrative and marketing expenses	8,354,837	7,836,496
	4,310,090	3,305,542
Research and development (note 11)	649,513	580,992
Earnings before other expenses (income)	3,660,577	2,724,550
Other expenses (income):		
Foreign exchange (gain) loss	110,677	(145,025)
Amortization	1,068,902	714,939
Interest on short-term debt	458,532	256,641
Interest on long-term debt	216,634	175,353
Interest and other income	(64,940)	(43,795)
Equity earnings (note 6)	(203,000)	(208,200)
	1,586,805	749,913
Earnings before income taxes	2,073,772	1,974,637
Provision for income taxes (note 9)		
Current	1,220,828	335,301
Future	(512,000)	183,000
	708,828	518,301
Net earnings	\$ 1,364,944	\$ 1,456,336
Earnings per share (note 12)		
Basic	\$ 0.10	\$ 0.11
Diluted	\$ 0.10	\$ 0.11

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Shareholders' Equity

Years Ended November 30, 2007 and 2006

	2007	2006
Share capital (note 10):		
Balance, beginning of year	\$ 11,916,682	\$ 11,860,920
Shares issued for expenses	51,722	55,762
Exercise of stock options	35,775	-
Balance, end of year	\$ 12,004,179	\$ 11,916,682
Contributed surplus:		
Balance, beginning of year	\$ 140,843	\$ 119,843
Fair value of stock options granted (note 10)	15,300	21,000
Transferred to share capital	(6,975)	-
Balance, end of year	\$ 149,168	\$ 140,843
Retained earnings:		
Balance, beginning of year	\$ 3,340,759	\$ 1,884,423
Net earnings	1,364,944	1,456,336
Balance, end of year	\$ 4,705,703	\$ 3,340,759
Accumulated other comprehensive income (loss):		
Balance, beginning of year	\$ (72,425)	\$ -
Other comprehensive income (loss)	(32,198)	(72,425)
Balance, end of year	\$ (104,623)	\$ (72,425)
Total retained earnings and accumulated other comprehensive income (loss)	\$ 4,601,080	\$ 3,268,334
Total shareholders' equity	\$ 16,754,427	\$ 15,325,859

Accumulated other comprehensive income is comprised solely of unrealized foreign currency translation losses.

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Comprehensive Income

Years ended November 30, 2007 and 2006

	2007	2006
Net earnings	\$ 1,364,944	\$ 1,456,336
Other comprehensive income (loss)		
Unrealized foreign currency translation gains (losses)	(32,198)	(72,425)
Total comprehensive income	\$ 1,332,746	\$ 1,383,911

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Cash Flows

Years ended November 30, 2007 and 2006

	2007	2006
Cash flows from (used in):		
Operations:		
Net earnings:	\$ 1,364,944	\$ 1,456,336
Items not involving cash:		
Amortization	1,068,902	714,939
Common shares issued for expenses (note 10)	51,722	55,762
Income from equity investment	(203,000)	(208,200)
Provision for future income taxes	(512,000)	183,000
Deferred revenue	(284,740)	(202,988)
Investment tax credits recoverable	476,000	(469,000)
Stock-based compensation	15,300	21,000
Other operating items (note 15)	2,708,269	(4,429,728)
	4,685,397	(2,878,879)
Financing:		
Short-term loans	(1,025,171)	1,256,354
Proceeds on long-term debt	1,701,560	3,000,000
Repayment of long-term debt	(765,690)	(760,787)
Common shares issued for cash	28,800	—
	(60,501)	3,495,567
Investing:		
Additions to property, plant and equipment	(3,852,601)	(987,022)
Additions to intangible assets	(243,948)	(3,375)
	(4,096,549)	(990,397)
Increase (decrease) in cash	528,347	(373,709)
Cash, beginning of year	500,118	873,827
Cash, end of year	\$ 1,028,465	\$ 500,118
Supplemental cash flow disclosure:		
Interest paid	\$ 675,166	\$ 431,994
Income taxes paid	\$ 407,723	\$ 196,472

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

Nature of business:

International Road Dynamics Inc. is a highway traffic management technology company specializing in supplying products and integrated systems to the global Intelligent Transportation Systems (ITS) industry.

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. The most significant estimates are related to the percentage completion of contract projects, the estimated lives of plant and equipment, future income taxes and the net realizable value of assets including receivables and inventory. 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 wholly-owned 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.

Revenue from product sales is recognized when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

(d) Inventory:

Inventory is comprised primarily of materials and is valued at the lower of average cost and net realizable value.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

1. Significant accounting policies - continued:

(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.

(f) Property, plant and equipment:

Additions to property, plant and equipment are recorded at cost.

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 exceptions of work zone rental equipment, where full amortization is recorded when the assets are deployed and with respect to constructed assets where amortization begins when the asset becomes available for use.

(g) 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.

(h) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

1. Significant accounting policies - continued:

(i) 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. Revenue and expenses are translated into Canadian dollars using the approximate rate of exchange on the date of the transactions. The resulting gains or losses are included in the statement of earnings.

The Canadian dollar is considered the functional currency of the Company's subsidiaries International Road Dynamics Corp. (US) and International Road Dynamics South Asia Pvt. Ltd. (India). Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at rates of exchange in effect when assets were acquired or obligations incurred. Revenue and expenses are translated into Canadian dollars using the approximate rate of exchange on the date of the transactions. The resulting gains or losses are included in the statement of earnings.

The functional currency of the Company's subsidiary in Chile - PAT Compania Limitada (PAT Chile) is the Chilean Peso. The financial statements of Pat Chile are translated into Canadian dollars using 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 into Canadian dollars using the approximate rate of exchange on the date 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, is recorded in accumulated other comprehensive income. These adjustments are not recorded in earnings until realized through a reduction in the Company's investment in this operation.

(j) 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 cash flows denominated in a foreign currency.

The Company has elected not to follow hedge accounting and all derivative contracts are marked to market with resulting net gains or losses recognized in net earnings.

(k) 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.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

1. Significant accounting policies - continued:

(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 10. The Company accounts for stock-based compensation using the fair value based method of accounting for awards of stock options. Under this method, the cost of options granted is measured at the estimated fair value using the Black-Scholes option pricing model with an estimate of forfeitures based on historic results. Compensation expense is recognized over the shorter of the vesting period of the options or the period to eligible retirement 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.

(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.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

2. New accounting pronouncements:

(a) Accounting changes:

On December 1, 2006, the Company adopted accounting policies required under newly issued accounting standards by the Canadian Institute of Chartered Accountants. The following provides a summary of the new standards applicable to the Company. On transition there was no impact to the Company, except for the accounting for foreign currency translation, as described below.

(i) Financial instruments:

All financial assets are to be classified as one of the following: held-to-maturity, loans and receivables, held for trading or available-for-sale. All financial liabilities are to be classified as held for trading or other liabilities. Financial assets and liabilities held for trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to maturity, loans and receivables and financial liabilities other than those held-for trading, are measured at amortized cost based on the effective interest method. Available-for-sale instruments are measured at fair value with gains and losses, net of tax, recognized in other comprehensive income.

(ii) Transaction costs:

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Transaction costs on financial assets and liabilities held for trading are expensed as incurred. Transaction costs related to available-for-sale, held to maturity securities and loans are capitalized and amortized over the expected life of the instrument using the effective interest method.

(iii) Derivatives:

Derivatives are carried at fair value and are reported as other receivables when they have a positive fair value and as accrued liabilities when they have a negative fair value. Derivatives may be embedded in other financial instruments. Under the new standards, derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a derivative if it was a free standing instrument; and the combined contract is not held for trading or designated at fair value.

(iv) Hedges:

Under the new standards, there are three types of hedges that qualify for hedge accounting: (i) fair value hedges, (ii) cash flow hedges and (iii) net investment hedges. The Company elected effective September 1, 2006 not to apply hedge accounting.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

2. New accounting pronouncements – continued:

(a) Accounting changes - continued:

(v) Comprehensive income:

A new Statement of Comprehensive Income now forms part of the Company's consolidated financial statements and displays current period net income and other comprehensive income. Accumulated other comprehensive income is a separate component of shareholders' equity.

Prior to the adoption of these new standards, exchange gains and losses arising from the translation of the financial statements of self-sustaining foreign operations were recorded in the cumulative translation account as a separate component of shareholders' equity. Upon adoption of the new standards, the exchange gains and losses are to be recognized retroactively in accumulated other comprehensive income.

(b) Recently issued standards:

(i) Inventories:

In May 2007, the Accounting Standards Board issued Handbook Section 3031, Inventories, which supersedes Handbook Section 3030 and converges with the IASB's recently amended standard IAS 2, Inventories.

The standard introduces significant changes to the measurement and disclosure of inventory. The measurement changes include; the elimination of LIFO, the requirement to measure inventories at the lower of cost and net realizable value, the allocation of overhead based on normal capacity, the use of the specific cost method for inventories that are not ordinarily interchangeable or goods and services produced for specific purposes, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Disclosures of inventories have also been enhanced. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed.

The new standard will apply to the Company effective December 1, 2008. The Company is assessing the impact this standard will have on its consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

2. New accounting pronouncements – continued:

(b) Recently issued standards - continued:

(ii) Accounting changes:

CICA 1506, *Accounting Changes*, issued in July 2006 and effective for the Company on December 1, 2007, revises current standards on changes in accounting policy, estimates or errors. An entity is permitted to change an accounting policy only when it results in financial statements that provide reliable and more relevant information or results from a requirement under a primary source of Canadian GAAP. The guidance also addresses how to account for a change in accounting policy, estimate or corrections of errors, and establishes enhanced disclosures about their effects on the financial statements.

(iii) Financial instruments – presentation and disclosure:

CICA 3862, *Financial Instruments – Disclosure*, and CICA 3863, *Financial Instruments – Presentation*, both issued in December 2006 and effective for the Company on December 1, 2007, revise the current standards on financial instrument disclosure and presentation, and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. CICA 3863 also establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance with classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

(iv) Capital disclosures:

CICA 1535, *Capital Disclosures*, issued in December 2006 and effective for the Company on December 1, 2007, establishes guidelines for the disclosure of information regarding an entity's capital and how it is managed including enhanced disclosure requirements with respect to the objectives, policies and processes for managing capital.

3. Accounts receivable:

	2007	2006
Trade receivables	\$ 8,338,762	\$ 9,700,983
Unbilled revenue	1,914,138	5,529,871
Other	398,060	610,826
	<u>\$ 10,650,960</u>	<u>\$ 15,841,680</u>

Unbilled revenue represents the excess of contract costs and estimated gross profits recognized over billings to date. Trade receivables are net of an allowance for doubtful accounts of \$425,700 (2006 - \$457,450)

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

4. Property, plant and equipment:

	Cost	2007 Accumulated Amortization	Net Book Value	2006 Net Book Value
Land	\$ 275,000	\$ -	\$ 275,000	\$ 275,000
Buildings	4,906,574	866,852	4,039,722	2,132,148
Office equipment	795,003	609,860	185,143	232,164
Automotive	1,156,301	436,289	720,012	683,015
Computer equipment	1,639,167	1,246,878	392,289	352,589
Computer software	1,048,252	1,036,670	11,582	89,934
Manufacturing equipment	2,333,926	704,174	1,629,752	506,484
Work zone rental equipment	578,497	283,682	294,815	420,789
	<u>\$ 12,732,720</u>	<u>\$ 5,184,405</u>	<u>\$ 7,548,315</u>	<u>\$ 4,692,123</u>

Amortization of property, plant and equipment was \$996,409 for 2007 (2006 - \$702,977).

5. Intangible assets:

	Cost	2007 Accumulated Amortization	Net Book Value	2006 Net Book Value
Acquired technology	\$ 248,596	\$ 60,969	\$ 187,627	\$ -
Patent costs	201,793	159,344	42,449	58,621
	<u>\$ 450,389</u>	<u>\$ 220,313</u>	<u>\$ 230,076</u>	<u>\$ 58,621</u>

Amortization of intangible assets was \$72,493 (2006 - \$11,962).

6. Equity Investment in PAT Traffic Brazil:

	2007	2006
Balance – beginning of year	\$ 405,688	\$ 197,488
Equity earnings	203,000	208,200
Balance – end of year	<u>\$ 608,688</u>	<u>\$ 405,688</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

7. Short-term loans:

	2007	2006
Royal Bank of Canada credit facility. Authorized to a maximum of \$8.5 million with interest at bank prime plus 0.55% and secured by a general security agreement on all the assets of the Company	\$ 5,172,258	\$ 6,197,429

The Company has issued letters of credit in the amount of \$136,951 (2006 - \$14,356) as bid and performance guarantees on certain contracts.

8. Long-term debt:

	2007	2006
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 16)	\$ 981,332	\$ 1,050,027
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	2,025,723	2,722,718
Royal Bank of Canada interim credit facility for an amount up to \$1,850,000 to finance the construction of a new manufacturing facility. Interest at Royal Bank of Canada prime plus 1% and secured by the manufacturing facility land and building as well as a second charge on the existing land and building of the Company. (note 16)	1,701,560	—
	4,708,615	3,772,745
Less current portion	802,000	1,747,022
	\$ 3,906,615	\$ 2,025,723

As detailed in note 16, subsequent to year end the Company has closed a mortgage loan with Royal Bank of Canada. The proceeds from the new mortgage loan were used to pay out the interim credit facility and the existing mortgage originally due on August 1, 2007. As a result, the interim credit facility and the mortgage are classified as long term debt at November 30, 2007.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

8. Long-term debt (continued):

The following represents the aggregate principal payments over the next five years based on the revised debt arrangements:

2008	\$	802,000
2009		868,000
2010		567,000
2011		84,000
2012		89,000
Thereafter		2,298,615
	\$	4,708,615

9. Income taxes:

Income tax expense attributable to earnings differs from the amounts computed by applying the combined federal and provincial income tax rate of 35.7% (2006 - 37.9%) to pretax earnings as a result of the following:

	2007	2006
Earnings before income taxes	\$ 2,073,772	\$ 1,974,637
Computed "expected" tax expense	740,354	748,387
Increase (reduction) in income taxes resulting from:		
Non-deductible expenses	69,000	67,000
Manufacturing and processing profits deduction	(35,000)	(26,000)
Equity earnings	(72,000)	(79,000)
Lower rate of tax on foreign income	(52,000)	(59,000)
Change in income tax rates	58,474	(133,086)
	\$ 708,828	\$ 518,301
Effective income tax rate	34.2%	26.2%

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

9. Income taxes (continued):

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

	2007	2006
Current future tax assets and liabilities:		
Non-capital losses available for carryforward	\$ —	\$ 396,000
Unclaimed research and development	—	397,000
Unbilled revenue	(434,000)	(340,000)
Investment tax credits	(104,000)	—
Net current future income tax asset (liability)	\$ (538,000)	\$ 453,000

Future non-current tax assets and liabilities:

Capital loss carryforwards	\$ 70,000	\$ 70,000
Less valuation allowance	(70,000)	(70,000)
Unbilled revenue	—	(1,196,000)
Investment tax credits	(457,000)	(745,000)
Non-capital losses available for carryforward	—	164,000
Property and equipment and intangible assets	133,000	(50,000)
Net non-current future tax liabilities	\$ (324,000)	\$ (1,827,000)

At November 30, 2007 the Company has \$471,000 (2006 - \$471,000) of allowable capital losses available to reduce taxes on future capital gains. In addition, at November 30, 2007, the Company has recognized investment tax credits of \$3,777,000 (2006 - \$4,253,000) as a result of its research and development activities. The Company recognized \$575,000 of these tax credits in the current year (2006 - \$469,000) and utilized \$1,051,000 (2006 - Nil) of available tax credits to reduce income taxes otherwise payable.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

10. Share capital:

(a) Authorized:

An unlimited number of common voting shares.

(b) Share transactions:

	Number of shares	\$ Amount
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
Shares issued in exchange for expenses	31,542	51,722
Shares issued for employee stock options exercised	22,500	35,775
Balance, November 30, 2007	13,930,427	\$ 13,876,385

(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, 2007, 838,165 (2006 – 1,060,665) 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, 2007, the following stock options to officers, employees and others were outstanding:

Exercise Prices	Number Outstanding at November 30, 2007	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at November 30, 2007	Weighted-Average Exercise Price
1.20	75,000	3.00	1.20	50,000	1.20
1.23	100,000	3.00	1.23	66,667	1.23
1.26	95,000	4.00	1.26	31,666	1.26
1.28	745,000	1.25	1.28	536,250	1.28
1.32	277,500	4.18	1.32	-	-
	1,292,500	2.32	1.28	684,583	1.27

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

10. Share capital - continued:

(c) Options - 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, 2005	890,000	\$ 1.28
Options granted	290,000	1.23
Options forfeited	(87,500)	1.25
Outstanding, November 30, 2006	1,092,500	\$ 1.27
Options granted	292,500	1.32
Options exercised	(22,500)	1.28
Options forfeited	(70,000)	1.28
Outstanding, November 30, 2007	1,292,500	\$ 1.28

Outstanding options expire between February 28, 2009 and February 1, 2012.

The fair value of stock options granted during 2007 was estimated using the Black-Scholes option pricing model and estimated forfeiture rates with assumptions of five year weighted average expected option life, expected forfeiture rate of 60%, 20% volatility and risk-free rate of return of 3.9%. During the year the Company recorded stock based compensation expense of \$15,300 (2006 – \$21,000) 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.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

10. Share capital - continued:

(e) Shareholders' rights plan - continued:

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.

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.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

11. Research and development:

	2007	2006
Research and development expenditures	\$ 1,097,513	\$ 1,051,647
Less grants and investment tax credits	(448,000)	(470,655)
	\$ 649,513	\$ 580,992

12. Earnings per share:

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

	2007	2006
Net earnings	\$ 1,364,944	\$ 1,456,336
Weighted average number of common shares outstanding:		
Basic	13,906,276	13,850,636
Effect of stock options	363,058	5,282
Diluted	14,269,334	13,855,918
Earnings per share:		
Basic	\$ 0.10	\$ 0.11
Diluted	\$ 0.10	\$ 0.11

The Company has stock options outstanding to purchase 1,292,500 common shares at November 30, 2007 (2006 – 1,092,500). At November 30, 2007, 1,292,500 of the options available to purchase common shares were included in the computation of diluted earnings per share. At November 30, 2006, 917,500 options to purchase common shares at \$1.26 to \$1.28 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

Years ended November 30, 2007 and 2006

13. Financial instruments:

(a) Foreign currency exchange risk:

The Company contracts the majority of sales in USD. In order to manage exposure related to Canada/U.S. exchange rates, the Company from time to time enters into forward foreign exchange contracts to sell U.S. Dollars.

At November 30, 2007 the Company has sold forward \$5.495 million USD at an average exchange rate of .9988 with a market gain in these contracts of approximately \$48,615 based on the actual exchange rate at November 30, 2007 of .9900. In addition, the Company has sold forward 600,000 Euros at an average exchange rate of 1.4250 with a market loss in these contracts of \$23,640 based on the actual exchange rate of 1.4464 at November 30, 2007.

(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.

Short term loans and long term debt are recorded at the amortized value. The fair value of the short-term loans and long-term debt approximates the carrying amounts since the debt bears interest at current market rates.

14. Segmented information:

The Company operates in one industry segment, the ITS 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:

	2007	2006
Canada	\$ 5,590,213	\$ 6,478,736
United States	22,673,272	18,385,845
Overseas	11,498,301	9,616,595
	<hr/>	<hr/>
	\$ 39,761,786	\$ 34,481,176

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2007 and 2006

15. Statements of cash flows:

Other Operating items	2007	2006
Accounts receivable	\$ 5,158,522	\$ (5,516,067)
Inventory	(1,275,772)	(121,407)
Prepaid expense and deposits	(177,300)	190,915
Accounts payable and accrued liabilities	(759,286)	885,756
Income taxes payable	(237,895)	131,075
	\$ 2,708,269	\$ (4,429,728)

16. Subsequent events:

On December 27, 2007 the Company closed a mortgage loan with Royal Bank of Canada in the amount of \$2,902,500. The proceeds of this mortgage loan were used to pay out the interim credit facility of \$1,701,560 for the construction of the manufacturing facility as well as to pay out the previous mortgage loan of \$981,332 with Royal Bank of Canada which originally came due on August 1, 2007 and was extended to December 2007. The mortgage loan is amortized over 20 years with interest at a fixed rate of 6.144% for a 5 year term and payments of principal and interest of \$20,906 monthly. The mortgage is secured by a first charge on the Company's building and loan and a general security agreement on all the assets of the Company.

In December 2007 the Company acquired, subject to approval by the Chinese regulatory authorities, a 50% interest in Xuzhou-PAT Control Technologies Limited (XPCT) located in Xuzhou, Jiangsu, China. XPCT has been the Company's distributor in China since 2003 and is a design, manufacturing and service company focused on providing high technology ITS solutions to the growing highway and road way infrastructure business throughout China. The purchase price of \$4.5 million is payable \$3.5 million on closing of the transaction December 12, 2007, and \$750,000 payable one year and \$250,000 payable two years after closing. In addition to the purchase price of \$4.5 million, an additional \$250,000 is payable in each of 2009 and 2010 provided XPCT achieves certain net profit targets.

In December 2007 the Company arranged a \$4 million non-revolving term facility with Royal Bank of Canada to finance its acquisition of XPCT. Under the terms of this loan facility, principal payments are not required during the first 12 months, however, interest is payable monthly at Royal Bank of Canada prime rate plus 2%. After this 12 month period the Company can convert this loan to a fixed interest rate loan; the maximum repayment term of this loan is 5 years from December 2008.

17. Comparative figures:

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