

**INTERNATIONAL ROAD DYNAMICS INC.**

Notice Of No Auditor Review of Interim Consolidated Financial Statements

Period Ended February 29, 2008

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.

April 22, 2008

[Signed]  
Terry Bergan  
Chief Executive Officer

[Signed]  
Mel Karakochuk  
Chief Financial Officer

# INTERNATIONAL ROAD DYNAMICS INC.

## Interim and Annual Consolidated Balance Sheets

February 29, 2008 with comparative figures for November 30, 2007

	2008 "Unaudited"	2007 Audited
<b>Assets</b>		
Current assets:		
Cash	\$ 841,400	\$ 1,028,465
Accounts receivable	8,604,869	10,650,960
Income taxes receivable	95,615	-
Investment tax credits recoverable	328,000	328,000
Inventory	7,327,136	6,581,626
Prepaid expenses and deposits	679,149	426,206
	17,876,169	19,015,257
Investment tax credits recoverable	3,571,700	3,449,000
Property, plant and equipment	7,532,742	7,548,315
Intangible assets	217,320	230,076
Equity investments (note 3)	4,803,038	608,688
	\$ 34,000,969	\$ 30,851,336
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Short-term loans	\$ 4,956,833	\$ 5,172,258
Accounts payable and accrued liabilities	2,257,826	3,117,605
Income taxes payable	-	71,260
Deferred revenue	22,457	49,160
Current portion of long-term debt (note 4)	5,083,000	802,000
Future income taxes	415,800	538,000
	12,735,916	9,750,283
Deferred revenue	99,322	116,011
Long-term debt (note 4)	4,160,235	3,906,615
Future income taxes	324,000	324,000
	17,319,473	14,096,909
Shareholders' equity:		
Share capital (note 5)	12,018,046	12,004,179
Contributed surplus	157,070	149,168
Retained earnings	4,549,578	4,705,703
Accumulated other comprehensive income	(43,198)	(104,623)
	16,681,496	16,754,427
	\$ 34,000,969	\$ 30,851,336

See accompanying notes to consolidated financial statements.

**INTERNATIONAL ROAD DYNAMICS INC.**

## Interim Consolidated Statement of Earnings

"Unaudited"

	Three months ended February 29 & 28	
	2008	2007
Sales	\$ 6,932,067	\$ 8,296,050
Cost of sales	4,718,917	5,505,565
	2,213,150	2,790,485
Administrative and marketing expenses	1,934,794	1,927,659
	278,356	862,826
Research and development (net)	140,823	138,223
Earnings before other expenses (income)	137,533	724,603
Other expenses (income)		
Foreign exchange loss	58,148	4,425
Amortization	304,801	221,655
Interest on short-term debt	115,774	97,613
Interest on long-term debt	143,198	62,422
Interest and other income	(71,462)	(13,427)
Equity earnings (note 3)	(85,000)	(145,000)
	465,459	227,688
Earnings (loss) before income taxes	(327,926)	496,915
Provision for (recovery of) income taxes		
Current	(49,601)	170,054
Future	(122,200)	(60,600)
	(171,801)	109,454
Net earnings (loss) for the period	(156,125)	387,461
Earnings (loss) per share - basic	\$ (0.01)	\$ 0.03
- diluted	\$ (0.01)	\$ 0.03

See accompanying notes to consolidated financial statements.

**INTERNATIONAL ROAD DYNAMICS INC.**

## Interim Consolidated Statements of Shareholders' Equity

"Unaudited"

	Three months ended February 29 & 28	
	2008	2007
Share capital (note 5):		
Balance, beginning of period	\$ 12,004,179	\$ 11,916,682
Shares issued for expenses	13,867	12,518
Balance, end of period	\$ 12,018,046	\$ 11,929,200
Contributed surplus:		
Balance, beginning of period	\$ 149,168	\$ 140,843
Stock based compensation	7,902	3,825
Balance, end of period	\$ 157,070	\$ 144,668
Retained earnings:		
Balance, beginning of period	\$ 4,705,703	\$ 3,340,759
Net earnings (loss)	(156,125)	387,461
Balance, end of period	\$ 4,549,578	\$ 3,728,220
Accumulated other comprehensive income (loss):		
Balance, beginning of period	\$ (104,623)	\$ (72,425)
Other comprehensive income	61,425	16,090
Balance, end of period	\$ (43,198)	\$ (56,335)
Total retained earnings and accumulated other comprehensive income (loss)	\$ 4,506,380	\$ 3,671,885
Total shareholders' equity	\$ 16,681,496	\$ 15,745,753

Accumulated other comprehensive income (loss) is comprised solely of net unrealized foreign currency translation losses.

See accompanying notes to consolidated financial statements.

**INTERNATIONAL ROAD DYNAMICS INC.**

## Interim Consolidated Statement of Comprehensive Income (Loss)

"Unaudited"

	Three months ended February 29 & 28	
	2008	2007
Net earnings (loss)	\$ (156,125)	\$ 387,461
Other comprehensive income		
Unrealized foreign currency translation gains	61,425	16,090
Total comprehensive income (loss)	\$ (94,700)	\$ 403,551

See accompanying notes to consolidated financial statements.

**INTERNATIONAL ROAD DYNAMICS INC.**

## Interim Consolidated Statement of Cash Flows

"Unaudited"

	Three months ended February 29 & 28	
	2008	2007
Cash provided by (used in):		
Operations:		
Net earnings (loss)	\$ (156,125)	\$ 387,461
Items not involving cash:		
Amortization	304,801	221,655
Common shares issued for expenses	13,867	12,518
Stock-based compensation	7,902	3,825
Income from equity investments	(85,000)	(145,000)
Recovery of future income taxes	(122,200)	(60,600)
Investment tax credits recoverable	(122,700)	(111,200)
Deferred revenue	(43,392)	120,024
Other operating items (note 7)	82,409	1,635,344
	<u>(120,438)</u>	<u>2,064,027</u>
Financing:		
Net short-term loans	(215,425)	(1,308,639)
Proceeds on long-term debt	6,402,500	-
Repayment of long-term debt	(2,867,880)	(186,531)
	<u>3,319,195</u>	<u>(1,495,170)</u>
Investing:		
Investment in Xuzhou-PAT Control Technologies Limited	(3,548,376)	-
Capital distribution from PAT Traffic Brazil	439,026	-
Additions to property, plant and equipment	(271,129)	(213,440)
Additions to intangible assets	(5,343)	(243,921)
	<u>(3,385,822)</u>	<u>(457,361)</u>
Increase (decrease) in cash	(187,065)	111,496
Cash, beginning of period	1,028,465	500,118
Cash, end of period	<u>\$ 841,400</u>	<u>\$ 611,614</u>
Supplemental cash flow disclosure:		
Interest paid	\$ 229,322	\$ 160,035
Income taxes paid	\$ 117,274	\$ 212,296

See accompanying notes to consolidated financial statements.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Consolidated Financial Statements

Period ended February 29, 2008

"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, 2007.

The consolidated balance sheet as at February 29, 2008, and the consolidated statements of earnings, shareholders' equity, comprehensive income 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.

## 2. New accounting pronouncements

Effective December 1, 2007 the Company adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA").

### *Accounting changes - CICA 1506*

This standard prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Changes in accounting policies are only permitted if they result from the initial application of a primary source of Generally Accepted Accounting Principles ("GAAP") or if they result in the financial statements providing reliable and more relevant information.

### *Capital disclosures - CICA 1535*

This standard 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 and whether it has complied with any externally imposed capital requirements to which it is subject.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and, to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, purchase and cancel shares previously issued, return capital to shareholders or sell assets to reduce debt. The Company considers the items included in the consolidated statement of shareholders' equity as capital.

Under the terms of its credit facilities with Royal Bank of Canada, the Company is required to maintain a ratio of total liabilities to tangible net worth of not greater than 1.75:1. At February 29, 2008 the Company is in compliance with this covenant.

### *Financial instruments - CICA 3862 and 3863*

These standards increase the disclosure required with respect to the significance of financial instruments and the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. This includes disclosure about credit risk, liquidity risk and market risk.

The Board of Directors is responsible to ensure that management identifies the principal risks of the Company's business and for the implementation of appropriate measures for dealing with and managing these risks.

The Company is exposed to various financial instrument related risks. The following are the types of risk exposures and methods of managing these risks.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Consolidated Financial Statements

Period ended February 29, 2008

"Unaudited"

## 2. New accounting pronouncements - continued:

Credit risk:

The Company is exposed to credit risk from customers. Accounts receivable include amounts due from customers in both the government and private industry sectors which exposes the Company to risk of non payment. Government accounts are considered secure and are normally not subjected to extensive credit reviews. Industry accounts are subjected to internal credit review in order 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.

Currency fluctuation risk:

The majority of the Company's sales are denominated in U.S. dollars and Euros, while the majority of its costs are denominated in Canadian dollars. Fluctuations in the value of the U.S. dollar and the Euro compared to the Canadian dollar can affect earnings and cash flow.

A significant portion of the Company's expenses are denominated in U.S. dollars; this provides a natural hedge for a portion of the U.S. dollar currency exposure. In addition, from time to time the Company enters into forward foreign exchange contracts to sell U.S. dollars or Euros to hedge its net accounts receivable denominated in these foreign currencies. The term of these forward contracts is of a short term nature with the objective of matching the expected payments from customers.

The Company also has exposure to other currencies including the Indian Rupee, Chilean Peso, Brazilian Real and Chinese Yuan primarily as a result of its subsidiary operations in those countries. The Company's investments in these subsidiaries are not hedged as those currency positions are considered to be long-term in nature.

Interest rate risk:

The Company is exposed to fluctuations in interest rates. The Company manages this risk by ensuring that a portion of its borrowings are on a fixed rate basis. At February 29, 2008 approximately 39% of borrowings are on a fixed rate basis. The Company does not use derivative financial instruments to mitigate interest rate risk.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they become due. The Company facilitates this in part by maintaining a line of credit in the amount of \$8.5 million with Royal Bank of Canada. At February 29, 2008 the remaining amount available to be drawn under this credit facility is approximately \$3.2 million.

The Company has not yet adopted the following accounting standard issued by the CICA.

### *Inventories - CICA 3031*

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.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Consolidated Financial Statements

Period ended February 29, 2008

"Unaudited"

## 2. New accounting pronouncements - continued:

This 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.

## 3. Equity investments

	Three months ended February 29 & 28	
	2008	2007
<b>PAT Traffic Brazil:</b>		
Balance - beginning of period	\$ 608,688	\$ 405,688
Equity earnings	22,000	145,000
Distributions	(439,026)	-
Balance - end of period	191,662	550,688
<b>Xuzhou-PAT Control Technologies Limited:</b>		
Balance - beginning of period	\$ -	\$ -
Net assets acquired including acquisition costs of \$48,376	4,548,376	-
Equity earnings	63,000	-
Balance - end of period	4,611,376	-
Total equity investments	\$ 4,803,038	\$ 550,688

### Business acquisition

On December 12, 2007 the Company acquired, subject to approval by the Chinese regulatory authorities, 50% of the common shares of 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. Of the purchase price of \$4.5 million, \$3.5 million was paid on closing of the transaction December 12, 2007 and \$1 million is financed by a vendor loan with \$750,000 payable December 12, 2008 and \$250,000 payable December 12, 2009. 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.

The results of XPCT's operations have been included in the Company's consolidated financial statements from the date of acquisition using the equity method of accounting. The estimated fair value of the assets acquired and the liabilities assumed are summarized in the table below:

Cash	\$	361,307
Other current assets		2,707,587
Buildings and equipment		254,578
Intangible assets		1,163,556
Goodwill		1,196,734
Current liabilities		(834,946)
Future income tax liability		(300,440)
Net assets acquired including costs of acquisition	\$	4,548,376

The Company has completed its initial valuation of certain acquired assets and liabilities however the allocation of the purchase price has not been finalized and may change.

Intangible assets will be amortized over their estimated economic lives.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Consolidated Financial Statements

Period ended February 29, 2008

"Unaudited"

## 4. Long-term debt

In December 2007 the Company arranged a \$4 million non-revolving demand 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. At February 29, 2008 the Company had drawn \$3.5 million under this facility; this entire amount is included in the current portion of long-term debt. The remaining \$1 million of the XPCT purchase price is financed by a vendor loan which is repayable, along with interest at a rate of 7%, in the amounts of \$750,000 at December 12, 2008 and \$250,000 at December 12, 2009.

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 for the construction of the manufacturing facility as well as to pay out the previous mortgage loan 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 land and building and a general security agreement on all the assets of the Company.

The following represents the aggregate principal payments over the next five years and thereafter at February 29, 2008 based on the revised debt arrangements:

2008	\$	5,083,000
2009		1,139,000
2010		368,000
2011		93,000
2012		98,000
Thereafter		2,462,235
	\$	9,243,235

## 5. Share capital:

	Number of shares	\$ Amount
Balance, November 30, 2007	13,930,427	12,004,179
Shares issued in exchange for expenses	9,245	13,867
Balance, February 29, 2008	13,939,672	12,018,046

There are currently 1,194,500 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 February 29, 2008, 936,165 (2007 - 768,165) 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 February 29, 2008

"Unaudited"

### 5. 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, 2007	1,292,500	\$1.28
Options cancelled or expired during the period	(98,000)	\$1.29
Outstanding, February 29, 2008	1,194,500	\$1.28

At February 29, 2008, the following stock options to officers, employees and others were outstanding:

Exercise Price	Number Outstanding at February 29, 2008	Weighted-average Remaining Contractual Life (years)	Number Exercisable at February 29, 2008
\$1.20	75,000	2.75	75,000
\$1.23	100,000	2.75	100,000
\$1.26	95,000	3.75	31,667
\$1.28	662,000	1.00	658,250
\$1.32	262,500	3.93	87,500
	1,194,500	2.12	952,417

### 6. 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 February 29 & 28	
	2008	2007
Canada	\$ 931,169	\$ 1,427,614
United States	3,848,108	3,484,258
Offshore	2,152,790	3,384,178
	\$ 6,932,067	\$ 8,296,050

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Consolidated Financial Statements

Period ended February 29, 2008

"Unaudited"

## 7. Statement of cash flows

Other operating items	Three months ended February 29 & 28	
	2008	2007
Accounts receivable	\$ 2,107,516	\$ 3,108,021
Income taxes receivable	(95,615)	-
Inventory	(745,510)	(812,903)
Prepaid expenses and deposits	(252,943)	5,213
Accounts payable and accrued liabilities	(859,779)	(622,745)
Income taxes payable	(71,260)	(42,242)
	<u>\$ 82,409</u>	<u>\$ 1,635,344</u>

## 8. Fair value of financial assets and liabilities

Financial assets of the Company consist of cash and accounts receivable. Cash is classified as "held for trading" and measured at fair value and accounts receivable is classified as "loans and receivables" and measured at amortized cost. Financial liabilities of the Company consist of accounts payable and accrued liabilities, short-term loans, current portion of long-term debt and long-term debt; these are classified as "other" and are measured at amortized cost.

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 since the debt bears interest at current market rates.

At February 29, 2008 the Company has forward contracts to sell \$4.595 million U.S. Dollars and \$505 thousand Euros. These contracts mature within the next 60 days and have a nominal value at February 29, 2008.

## 9. Comparative figures

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