

Consolidated Financial Statements of

INTERNATIONAL ROAD DYNAMICS INC.

Years ended November 30, 2008 and 2007



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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, 2008 and 2007 and the consolidated statements of earnings (loss), comprehensive income, shareholders' equity, 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, 2008 and 2007 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

April 27, 2009

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Balance Sheets

November 30, 2008 and 2007

| | 2008 | 2007 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 449,863 | \$ 1,028,465 |
| Accounts receivable | 10,892,544 | 8,736,822 |
| Unbilled revenue | 6,430,933 | 4,359,630 |
| Income taxes receivable | 134,320 | - |
| Investment tax credits recoverable (note 9) | - | 328,000 |
| Inventory | 6,920,145 | 6,581,626 |
| Prepaid expenses and deposits | 709,385 | 426,206 |
| | <u>25,537,190</u> | <u>21,460,749</u> |
| Investment tax credits recoverable (note 9) | 4,633,001 | 3,449,000 |
| Property, plant and equipment (note 4) | 6,919,540 | 7,548,315 |
| Intangible assets (note 5) | 163,252 | 230,076 |
| Equity investments (note 6) | 5,754,421 | 608,688 |
| | <u>\$ 43,007,404</u> | <u>\$ 33,296,828</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Short-term loans (note 7) | \$ 7,327,708 | \$ 5,172,258 |
| Accounts payable and accrued liabilities | 5,291,353 | 3,117,605 |
| Income taxes payable | - | 71,260 |
| Deferred revenue | 2,695,695 | 2,178,656 |
| Current portion of long-term debt (note 8) | 5,189,000 | 802,000 |
| Future income taxes (note 9) | 883,000 | 538,000 |
| | <u>21,386,756</u> | <u>11,879,779</u> |
| Deferred revenue | 386,236 | 432,007 |
| Long-term debt (note 8) | 3,496,739 | 3,906,615 |
| Future income taxes (note 9) | 76,000 | 324,000 |
| Shareholders' equity: | | |
| Share capital (note 10) | 12,060,115 | 12,004,179 |
| Contributed surplus | 186,707 | 149,168 |
| Retained earnings | 4,164,980 | 4,705,703 |
| Accumulated other comprehensive income (loss) | 1,249,871 | (104,623) |
| | <u>17,661,673</u> | <u>16,754,427</u> |
| | <u>\$ 43,007,404</u> | <u>\$ 33,296,828</u> |

Subsequent event (note 8)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Terry Bergan, Director (signed)

Ray Harris, Director (signed)

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Earnings (Loss)

Years ended November 30, 2008 and 2007

| | 2008 | 2007 |
|--|---------------|---------------|
| Sales | \$ 38,674,552 | \$ 39,761,786 |
| Cost of sales | 27,531,297 | 27,096,859 |
| | 11,143,255 | 12,664,927 |
| Administrative and marketing expenses | 8,726,522 | 8,354,837 |
| | 2,416,733 | 4,310,090 |
| Research and development (note 11) | 862,916 | 649,513 |
| Earnings before other expenses (income) | 1,553,817 | 3,660,577 |
| Other expenses (income): | | |
| Foreign exchange (gain) loss | (195,183) | 110,677 |
| Amortization | 1,057,629 | 1,068,902 |
| Interest on short-term debt | 398,191 | 458,532 |
| Interest on long-term debt | 575,600 | 216,634 |
| Interest and other income | (134,018) | (64,940) |
| Equity loss (earnings) (note 6) | 529,286 | (203,000) |
| | 2,231,505 | 1,586,805 |
| Earnings (loss) before income taxes | (677,688) | 2,073,772 |
| Provision (recovery) for income taxes (note 9) | (136,965) | 708,828 |
| Net earnings (loss) | \$ (540,723) | \$ 1,364,944 |
| Earnings (loss) per share (note 12) | | |
| Basic | \$ (0.04) | \$ 0.10 |
| Diluted | \$ (0.04) | \$ 0.10 |

Consolidated Statements of Comprehensive Income

Years ended November 30, 2008 and 2007

| | 2008 | 2007 |
|--|--------------|--------------|
| Net earnings (loss) | \$ (540,723) | \$ 1,364,944 |
| Other comprehensive income (loss) | | |
| Unrealized foreign currency translation gains (losses) | 1,354,494 | (32,198) |
| Total comprehensive income | \$ 813,771 | \$ 1,332,746 |

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Shareholders' Equity

Years ended November 30, 2008 and 2007

| | 2008 | 2007 |
|---|---------------|---------------|
| Share capital (note 10): | | |
| Balance, beginning of year | \$ 12,004,179 | \$ 11,916,682 |
| Shares issued for expenses | 55,936 | 51,722 |
| Exercise of stock options | - | 35,775 |
| Balance, end of year | \$ 12,060,115 | \$ 12,004,179 |
| Contributed surplus: | | |
| Balance, beginning of year | \$ 149,168 | \$ 140,843 |
| Fair value of stock options granted (note 10) | 37,539 | 15,300 |
| Transferred to share capital | - | (6,975) |
| Balance, end of year | \$ 186,707 | \$ 149,168 |
| Retained earnings: | | |
| Balance, beginning of year | \$ 4,705,703 | \$ 3,340,759 |
| Net earnings (loss) | (540,723) | 1,364,944 |
| Balance, end of year | \$ 4,164,980 | \$ 4,705,703 |
| Accumulated other comprehensive income (loss): | | |
| Balance, beginning of year | \$ (104,623) | \$ (72,425) |
| Other comprehensive income (loss) | 1,354,494 | (32,198) |
| Balance, end of year | \$ 1,249,871 | \$ (104,623) |
| Total retained earnings and accumulated other comprehensive income (loss) | \$ 5,414,851 | \$ 4,601,080 |
| Total shareholders' equity | \$ 17,661,673 | \$ 16,754,427 |

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

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Cash Flows

Years ended November 30, 2008 and 2007

| | 2008 | 2007 |
|---|--------------|--------------|
| Cash flows from (used in): | | |
| Operations: | | |
| Net earnings (loss): | \$ (540,723) | \$ 1,364,944 |
| Items not involving cash: | | |
| Amortization | 1,057,629 | 1,068,902 |
| Common shares issued for expenses (note 10) | 55,936 | 51,722 |
| Loss (earnings) from equity investments | 529,286 | (203,000) |
| Provision (recovery) for future income taxes | 97,000 | (512,000) |
| Deferred revenue | 471,268 | 2,160,752 |
| Investment tax credits recoverable | (856,001) | 476,000 |
| Stock-based compensation | 37,539 | 15,300 |
| Other operating items (note 15) | (3,091,730) | 262,777 |
| | (2,239,796) | 4,685,397 |
| Financing: | | |
| Short-term loans | 2,155,450 | (1,025,171) |
| Proceeds on long-term debt | 6,402,500 | 1,701,560 |
| Repayment of long-term debt | (3,425,376) | (765,690) |
| Common shares issued for cash | - | 28,800 |
| | 5,132,574 | (60,501) |
| 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 | (356,073) | (3,852,601) |
| Additions to intangible assets | (5,957) | (243,948) |
| | (3,471,380) | (4,096,549) |
| Increase (decrease) in cash | (578,602) | 528,347 |
| Cash, beginning of year | 1,028,465 | 500,118 |
| Cash, end of year | \$ 449,863 | \$ 1,028,465 |
| Supplemental cash flow disclosure: | | |
| Interest paid | \$ 906,141 | \$ 675,166 |
| Income taxes paid | \$ 100,240 | \$ 407,723 |

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

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, determination of future income taxes and utilization of investment tax credits and the net realizable value of assets including receivables and inventory and the recoverability of plant and equipment and investments. 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 (IRD Corp.) and IRD South Asia Pvt Ltd. (IRDSA). 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.

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

1. Significant accounting policies - continued:

(d) Inventory:

Inventory is comprised primarily of materials and is valued at the lower of average 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.

The Company regularly reviews the carrying value of its investments. Should there be a decline in value that is other than a temporary decline, the Company measures the amount of a write-down to the estimated fair value determined based on discounted future cash flows from the investment. The loss is recognized as an expense.

(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.

(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 four to fifteen years based on the expected future lives of the intangible assets.

(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, 2008 and 2007

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 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, are recorded in accumulated other comprehensive income (loss). These adjustments are not recorded in earnings until realized through a reduction in the Company's investment in this operation.

The functional currency of the Company's equity investment in Xuzhou-PAT Control Technologies Limited (XPCT) is the Chinese Renminbi. Goodwill and purchase adjustments to reflect the fair values of assets acquired and liabilities assumed at date of acquisition are treated as though they were included in the XPCT financial statements. The financial statements of XPCT, including the adjustments to reflect the fair values of assets acquired and liabilities assumed, 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, are recorded in accumulated other comprehensive income (loss). These adjustments are not recorded in earnings until realized through a reduction in the Company's investment in this operation.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

1. Significant accounting policies - continued:

(j) 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.

Financial assets of the Company consist of cash, accounts receivable and unbilled revenue. Cash is classified as "held for trading" and measured at fair value and accounts receivable and unbilled revenue are 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 liabilities" and are measured at amortized cost.

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.

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.

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 also be embedded in other financial instruments. 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.

(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, 2008 and 2007

1. Significant accounting policies - continued:

(l) Future income taxes:

Future income taxes are recognized for the future income tax consequences attributable to losses available for carryforward and 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 and losses available for carryforward 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, 2008 and 2007

2. New accounting pronouncements adopted:

On December 1, 2007, 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 additional disclosure for capital and financial instruments, as described below.

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 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 new disclosure requirements are presented in note 16.

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 new disclosure requirements are presented in note 13.

3. Recently issued standards:

The Company has not yet adopted the following accounting standards issued by the CICA and is currently reviewing these standards to determine the potential impact on its consolidated financial statements.

Inventories - CICA 3031

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

3. Recently issued standards – continued:

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. This new standard will apply to the Company effective December 1, 2008.

Goodwill and Intangible Assets – CICA 3064

In February 2008, the CICA issued Section 3064, “Goodwill and Intangible Assets”, which replaces Section 3062, “Goodwill and Other Intangible Assets”, and Section 3450, “Research and Development Costs”. The standard introduces guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The Section harmonizes Canadian standards with International Financial Reporting Standards (IFRS) and applies to annual and interim financial statements beginning on or after October 1, 2008.

IFRS

In February 2008, the CICA Accounting Standards Board announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, differences in accounting policies will have to be addressed.

4. Property, plant and equipment:

| | | 2008 | | 2007 |
|----------------------------|----------------------|-----------------------------|---------------------|---------------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Land | \$ 275,000 | \$ – | \$ 275,000 | \$ 275,000 |
| Buildings | 4,834,533 | 1,052,574 | 3,781,959 | 4,039,722 |
| Office equipment | 856,739 | 656,998 | 199,741 | 185,143 |
| Automotive | 1,149,161 | 520,087 | 629,074 | 720,012 |
| Computer equipment | 1,721,862 | 1,373,604 | 348,258 | 392,289 |
| Computer software | 1,073,215 | 1,059,257 | 13,958 | 11,582 |
| Manufacturing equipment | 2,549,028 | 1,048,899 | 1,500,129 | 1,629,752 |
| Work zone rental equipment | 578,497 | 407,076 | 171,421 | 294,815 |
| | <u>\$ 13,038,035</u> | <u>\$ 6,118,495</u> | <u>\$ 6,919,540</u> | <u>\$ 7,548,315</u> |

Amortization of property, plant and equipment was \$984,848 for 2008 (2007 - \$996,409).

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

5. Intangible assets:

| | Cost | 2008 Accumulated Amortization | Net Book Value | 2007 Net Book Value |
|---------------------|-------------------|-------------------------------------|-------------------|---------------------------|
| Acquired technology | \$ 248,596 | \$ 121,943 | \$ 126,653 | \$ 187,627 |
| Patent costs | 207,750 | 171,151 | 36,599 | 42,449 |
| | <u>\$ 456,346</u> | <u>\$ 293,094</u> | <u>\$ 163,252</u> | <u>\$ 230,076</u> |

Amortization of intangible assets was \$72,781 (2007 - \$72,493).

6. Equity investments:

| | 2008 | 2007 |
|--|--------------|------------|
| PAT Traffic Brazil | | |
| Balance – beginning of year | \$ 608,688 | \$ 405,688 |
| Equity earnings (loss) | (169,662) | 203,000 |
| Distributions | (439,026) | – |
| Balance – end of year | \$ – | \$ 608,688 |
| Xuzhou-PAT Control Technologies Limited | | |
| Net assets acquired including acquisition costs | \$ 4,548,376 | \$ – |
| Currency gain on financial statement translation | 1,565,669 | – |
| Equity loss | (359,624) | – |
| Balance – end of year | 5,754,421 | – |
| Total equity investments | \$ 5,754,421 | \$ 608,688 |

As a result of a sales tax reassessment received by Pat Traffic Brazil from the State of Sao Paulo subsequent to November 30, 2008, the Company has recorded a loss reducing the carrying value of its investment in Pat Traffic Brazil to nil at November 30, 2008. The Company has received a legal opinion confirming that its liability with respect to unpaid sales taxes is limited to its investment in the capital of Pat Traffic Brazil.

Business acquisition

On December 12, 2007 the Company acquired 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 roadway 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 as described in note 8. 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.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

6. Equity investments – continued:

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 | | 3,920,818 |
| Buildings and equipment | | 254,578 |
| Land use rights | | 109,556 |
| Intangible assets | | 347,000 |
| Goodwill | | 1,517,653 |
| Current liabilities | | (1,838,846) |
| Future income tax liability | | (123,690) |
| Net assets acquired including costs of acquisition | \$ | 4,548,376 |

The difference between the fair value of assets and liabilities acquired and their carrying value as reported by XPCT relates primarily to amounts reflected above for intangible assets and goodwill. Intangible assets will be amortized over their estimated economic lives of 12 years.

7. Short-term loans:

| | 2008 | 2007 |
|--|--------------|--------------|
| 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 (note 8) | \$ 7,327,708 | \$ 5,172,258 |

The Company has issued letters of credit in the amount of \$381,936 (2007 - \$136,951) as bid and performance guarantees on certain contracts. In addition the Company has a credit facility in the amount of \$200,000 US with Royal Bank of Canada that is guaranteed by Export Development Canada for the support of a performance guarantee provided by its subsidiary PAT Chile.

Subsequent to November 30, 2008 the Company has arranged an additional facility in the amount of \$750,000 US with Royal Bank of Canada that is guaranteed by Export Development Canada for performance guarantees provided by its subsidiary IRDSA.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

8. Long-term debt:

| | 2008 | 2007 |
|--|--------------|--------------|
| Royal Bank of Canada non-revolving demand facility for an amount up to \$4,000,000 to finance the acquisition of XPCT with interest payable monthly at Royal Bank of Canada prime rate plus 2%. Monthly principal repayments begin September 30, 2009 and continue for a maximum term to December 2013. This loan can be converted to a fixed interest rate term loan after August 31, 2009. | \$ 3,500,000 | \$ - |
| Royal Bank of Canada mortgage repayable in monthly instalments of \$20,906 including interest at a fixed rate of 6.144%. Due December 1, 2013 | 2,838,739 | 981,332 |
| Royal Bank of Canada term loan repayable in monthly instalments of \$71,181 including interest at a fixed rate of 6.53%. Due June 30, 2010 | 1,347,000 | 2,025,723 |
| Vendor loan to finance the acquisition of XPCT, with interest payable at 7% per annum. Due December 12, 2008 - \$750,000 and December 12, 2009 - \$250,000 | 1,000,000 | - |
| 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. | - | 1,701,560 |
| | 8,685,739 | 4,708,615 |
| Less current portion | 5,189,000 | 802,000 |
| | \$ 3,496,739 | \$ 3,906,615 |

The Company's mortgage of \$2.839 million due December 2013 is secured by a first charge on the Company's land and building in Canada and a general security agreement on all the assets of the Company in Canada and the United States. The carrying amounts of the land and building are \$3.896 million and \$40.222 million for all the assets of the Company. The Company's short term loans, demand facility and term loan with the Royal Bank of Canada are also secured by a general security agreement on the assets of the Company held in Canada and the United States.

Under the terms and conditions of its credit facilities with Royal Bank of Canada the Company is subject to certain covenants. These covenants require that the Company not exceed a certain maximum ratio of total liabilities to tangible net worth and that it maintain a certain minimum level of fixed charge coverage. At November 30, 2008 the Company was in breach of these covenants. Subsequent to November 30, 2008 Royal Bank of Canada agreed to tolerate the breach of these covenants as of the fiscal year ending November 30, 2008 and the first quarter ending February 28, 2009. In addition, Royal Bank of Canada and the Company agreed to amend the existing covenants beginning the first quarter of 2009 and add a third covenant requiring the Company to maintain a minimum amount of earnings before interest, taxes, depreciation and amortization (EBITDA) at the end of each fiscal quarter. The Company expects to be in compliance with these new covenants during fiscal 2009.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

8. Long-term debt - continued:

The payment due December 12, 2008 with respect to the Vendor loan is currently in dispute and the outcome is not determinable at this time.

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

| Fiscal year ended November 30: | |
|--------------------------------|---------------------|
| 2009 | \$ 5,189,000 |
| 2010 | 825,000 |
| 2011 | 91,000 |
| 2012 | 97,000 |
| 2013 | 103,000 |
| Thereafter | 2,380,739 |
| | <u>\$ 8,685,739</u> |

9. Income taxes:

Income tax expense attributable to earnings (loss) differs from the amounts computed by applying the combined federal and provincial income tax rate of 32.3% (2007 – 35.7%) to pretax earnings (loss) as a result of the following:

| | 2008 | 2007 |
|--|---------------------|---------------------|
| <u>Earnings (loss) before income taxes</u> | <u>\$ (677,688)</u> | <u>\$ 2,073,772</u> |
| Computed "expected" tax expense (recovery) | (219,000) | 740,000 |
| Increase (reduction) in income taxes resulting from: | | |
| Non-deductible expenses | 122,000 | 69,000 |
| Manufacturing and processing profits deduction | 10,000 | (35,000) |
| Equity loss (earnings) | 171,000 | (72,000) |
| Lower rate of tax on foreign income | 60,000 | (52,000) |
| Change in income tax rates | (280,965) | 58,828 |
| | <u>\$ (136,965)</u> | <u>\$ 708,828</u> |

| | 2008 | 2007 |
|--|---------------------|-------------------|
| The provision (recovery) for income taxes is comprised of: | | |
| Provision (recovery) for current income taxes | \$ (233,965) | \$ 1,220,828 |
| Provision (recovery) for future income taxes | 97,000 | (512,000) |
| | <u>\$ (136,965)</u> | <u>\$ 708,828</u> |

| | | |
|---------------------------|-------|-------|
| Effective income tax rate | 20.2% | 34.2% |
|---------------------------|-------|-------|

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

9. Income taxes (continued):

The tax effects of temporary differences and non-capital losses carried forward that give rise to significant portions of the future tax assets and future tax liabilities are presented below.

| | 2008 | 2007 |
|--|---------------------|---------------------|
| Current future tax liabilities: | | |
| Unbilled revenue | \$ (883,000) | \$ (434,000) |
| Investment tax credits | – | (104,000) |
| Net current future income tax liability | \$ (883,000) | \$ (538,000) |
| Future non-current tax assets (liabilities): | | |
| Capital loss carryforwards | \$ 61,000 | \$ 70,000 |
| Less valuation allowance | (61,000) | (70,000) |
| Investment tax credits | (627,000) | (457,000) |
| Non-capital losses available for carryforward | 488,000 | – |
| Property and equipment and intangible assets | 63,000 | 133,000 |
| Net non-current future tax liabilities | \$ (76,000) | \$ (324,000) |

At November 30, 2008 the Company has \$1,876,686 of non-capital losses which can be carried forward for 20 years and \$471,000 (2007 - \$471,000) of allowable capital losses available to reduce taxes on future capital gains. In addition, at November 30, 2008, the Company has recognized investment tax credits of \$4,633,001 (2007 - \$3,777,000) as a result of its research and development activities.

Investment tax credits can be carried forward and used to reduce federal and provincial taxes of future years. Federal investment tax credits earned prior to 2006 can be carried forward for 10 years while those earned in 2006 and later years may be carried forward for 20 years. Saskatchewan investment tax credits can be carried forward for 10 years.

Investment tax credits available for carry forward at November 30, 2008 expire as follows:

| Years | Federal | Saskatchewan | Total |
|--------------|---------------------|---------------------|---------------------|
| 2010 – 2015 | \$ 1,771,072 | \$ 1,422,073 | \$ 3,193,145 |
| 2016 – 2020 | – | 711,993 | 711,993 |
| After 2020 | 727,863 | – | 727,863 |
| Total | \$ 2,498,935 | \$ 2,134,066 | \$ 4,633,001 |

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

10. Share capital:

(a) Authorized:

An unlimited number of common voting shares.

(b) Share transactions:

| | Number of shares | Amount |
|--|------------------|---------------|
| 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 | 12,004,179 |
| Shares issued in exchange for expenses | 46,961 | 55,936 |
| Balance, November 30, 2008 | 13,977,388 | \$ 12,060,115 |

(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, 2008, 818,665 (2007 – 838,165) 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, 2008, the following stock options to officers, employees and others were outstanding:

| Exercise Prices | Number Outstanding at November 30, 2008 | Options Outstanding | | Options Exercisable | |
|-----------------|---|---|---------------------------------|---|---------------------------------|
| | | Weighted-Average Remaining Contractual Life (years) | Weighted-Average Exercise Price | Number Exercisable at November 30, 2008 | Weighted-Average Exercise Price |
| \$ 1.20 | 75,000 | 2.00 | \$ 1.20 | 75,000 | \$ 1.20 |
| 1.23 | 100,000 | 2.00 | 1.23 | 100,000 | 1.23 |
| 1.26 | 75,000 | 3.00 | 1.26 | 50,000 | 1.26 |
| 1.28 | 647,000 | 0.25 | 1.28 | 643,250 | 1.28 |
| 1.29 | 185,000 | 4.42 | 1.29 | – | – |
| 1.32 | 230,000 | 3.17 | 1.32 | 76,667 | 1.32 |
| | 1,312,000 | 1.74 | \$ 1.28 | 944,917 | \$ 1.27 |

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

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, 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 |
| Options granted | 185,000 | 1.29 |
| Options forfeited | (165,500) | 1.29 |
| Outstanding, November 30, 2008 | 1,312,000 | \$ 1.28 |

Outstanding options expire between February 28, 2009 and May 1, 2013.

The fair value of stock options granted during 2008 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%, 30% volatility and risk-free rate of return of 3.0%. During the year the Company recorded stock based compensation expense of \$37,539 (2007 – \$15,300) along with a corresponding increase in contributed surplus in shareholders' equity.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

10. Share capital (continued):

(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.

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 16, 2007, 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, 2008 and 2007

11. Research and development:

| | 2008 | 2007 |
|--|--------------|--------------|
| Research and development expenditures | \$ 1,347,916 | \$ 1,097,513 |
| Less grants and investment tax credits | (485,000) | (448,000) |
| | \$ 862,916 | \$ 649,513 |

12. Earnings (loss) per share:

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

| | 2008 | 2007 |
|---|--------------|--------------|
| Net earnings (loss) | \$ (540,723) | \$ 1,364,944 |
| Weighted average number of common shares outstanding: | | |
| Basic | 13,952,622 | 13,906,276 |
| Effect of stock options | – | 363,058 |
| Diluted | 13,952,622 | 14,269,334 |
| Earnings (loss) per share: | | |
| Basic | \$ (0.04) | \$ 0.10 |
| Diluted | \$ (0.04) | \$ 0.10 |

The Company has stock options outstanding to purchase 1,312,000 common shares at November 30, 2008 (2007 – 1,292,500). At November 30, 2008, none (2007 - 1,292,500) of the options available to purchase common shares were included in the computation of diluted loss per share.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

13. Financial assets and liabilities:

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:

Credit risk:

Credit risk arises from the potential that a customer or counterparty will fail to meet its contractual obligations. The Company is exposed to credit risk from its customers on its trade receivables. The Company is also exposed to credit risk relating to forward currency exchange contracts which it manages by dealing with Royal Bank of Canada, the largest Canadian bank. The maximum exposure to credit risk is represented by the carrying amount of its receivables and the balance of foreign exchange contracts.

Accounts receivable is comprised of both trade and non-trade accounts. An allowance for doubtful accounts is established when there is a reasonable expectation that the Company will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of the accounts receivable is reduced through the use of an allowance account, and the amount of any change in the allowance is recognized in the statement of earnings. Accounts receivable are net of an allowance for doubtful accounts of \$372,100 (2007 - \$425,700). In the past 5 years, bad debts have not been significant.

Accounts receivable include amounts due from customers in both the government and private industry sectors which exposes the Company to risk of nonpayment. 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. Canadian export sales to non-government customers, not otherwise secured by Letter of Credit, are generally insured by Export Development Canada to the extent of 90% of the invoiced amount. The following table provides a breakdown of accounts receivable as described above:

| | 2008 | 2007 |
|-----------------------------------|----------------------|---------------------|
| Government | \$ 3,952,290 | \$ 2,286,267 |
| Non-Government | | |
| Secured | | |
| Letter of credit | 186,707 | 59,429 |
| Export Development Canada insured | 2,511,191 | 2,968,477 |
| Other | 4,242,356 | 3,422,649 |
| | <u>\$ 10,892,544</u> | <u>\$ 8,736,822</u> |

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

13. Financial assets and liabilities - continued:

Currency fluctuation risk:

Foreign currency risk arises as a result of fluctuations in exchange rates. The majority of the Company's sales are denominated in U.S. dollars while the majority of its costs are denominated in Canadian dollars. Fluctuations in the value of the U.S. dollar compared to the Canadian dollar can affect earnings and cash flow.

Approximately 70% of the Company's sales are denominated in U.S. dollars. During the fiscal year 2008 the Canadian dollar strengthened against the U.S. dollar by approximately 4% compared to fiscal year 2007. This resulted in a decrease in the Canadian dollar value of the Company's U.S. dollar denominated sales of approximately \$1.1 million during the 2008 fiscal year. This impact is partially offset by the corresponding lower value of U.S. dollar denominated expenses.

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.

At November 30, 2008 the Company has foreign currency exchange contracts to sell \$1.8 million U.S. dollars. These contracts mature within the next 31 days and have a nominal value at November 30, 2008.

The Company also has exposure to other currencies including the Indian Rupee, Chilean Peso, Brazilian Real and Chinese Renminbi 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.

The following table illustrates the Company's exposure to exchange risk and the pre-tax effects on earnings and other comprehensive income (OCI) of reasonably possible changes in the relevant foreign currency. This analysis assumes all other variables remain constant.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2008 and 2007

13. Financial assets and liabilities - continued:

| | Carrying Amount of Asset (Liability) at November 30, 2008 | Foreign Exchange Risk 5% increase in Canadian \$ Income OCI | |
|--|---|---|--------------|
| Net US dollar foreign currency exposure | \$ 5,220,000 | \$ (261,000) | \$ – |
| US dollar foreign currency forward contracts | \$ (18,000) | \$ 112,000 | \$ – |
| Net Indian Rupee foreign currency exposure | \$ 416,000 | \$ (20,800) | \$ – |
| Net Chilean Peso foreign currency exposure | \$ 255,000 | \$ – | \$ (12,750) |
| Net Euro foreign currency exposure | \$ 458,000 | \$ (22,900) | \$ – |
| Net Chinese Renminbi foreign currency exposure | \$ 5,754,000 | \$ – | \$ (287,700) |

Interest rate risk:

Interest rate risk arises because of the fluctuation in interest rates. Fluctuations in interest rates impact the future cash flows and fair values of various financial instruments. 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 November 30, 2008 approximately 32% of borrowings are on a fixed rate basis. The Company's cash flow is exposed to interest fluctuations due to its variable interest rate instruments. As at November 30, 2008, a 1% increase or decrease in interest rates, with all other variables held constant, would have resulted in an increase or decrease of \$67,181 to the Company's net earnings for the year. 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 November 30, 2008 the remaining amount available to be drawn under this credit facility is approximately \$0.8 million.

Under the terms of its credit facilities with Royal Bank of Canada, the Company is required to meet certain covenants as disclosed in note 8.

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Notes to Consolidated Financial Statements

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13. Financial assets and liabilities - continued:

The table below presents a maturity analysis of the Company's financial liabilities based on the expected cash flows from the date of the balance sheet to the contractual maturity date. The amounts represent the contractual undiscounted cash flows.

| | Carrying Amount of Liability at November 30, 2008 | Contractual Cash Flows Including Interest | < 1 year | 1 to 3 years | 3 to 5 years | Over 5 years |
|---|---|--|----------|-----------------|-----------------|-----------------|
| Short-term loans | \$ 7,328 | \$ 7,661 | \$ 7,661 | \$ - | \$ - | \$ - |
| Accounts payable and accrued liabilities | \$ 5,291 | \$ 5,291 | \$ 5,291 | \$ - | \$ - | \$ - |
| Long-term debt | \$ 8,686 | \$ 9,848 | \$ 9,563 | \$ 285 | \$ - | \$ - |

* Assumes balance is outstanding for 365 days

The sensitivity analyses discussed and illustrated above for currency, interest rate and liquidity risk should be used with caution as the changes are hypothetical and are not predictive of true performance. The above sensitivities are calculated with reference to period-end balances and will change due to fluctuation in the balances throughout the year. In addition, for the purpose of the sensitivity analyses, the effect of a variation in a particular assumption on the fair value of the financial instrument was calculated independently of any change in another assumption. Actual changes in one factor may contribute to changes in another factor, which may magnify or counteract the effect on the fair value of the financial instrument.

Fair value:

The carrying amounts of the Company's financial assets and liabilities including cash, accounts receivable, unbilled revenue 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 approximates the carrying amounts since the debt bears interest at current market rates. The fair value of long-term debt as at November 30, 2008 was \$8.948 million as compared to \$8.686 million in carrying value. The fair value of the Company's fixed long-term debt was estimated based on discounted future cash flows using current rates for similar debt subject to similar rates and maturities.

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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:

| | 2008 | 2007 |
|---------------|----------------------|----------------------|
| Canada | \$ 4,567,135 | \$ 5,590,213 |
| United States | 20,143,393 | 22,673,272 |
| Overseas | 13,964,025 | 11,498,301 |
| | <u>\$ 38,674,553</u> | <u>\$ 39,761,786</u> |

15. Statements of cash flows:

Other operating items

| | 2008 | 2007 |
|--|-----------------------|-------------------|
| Accounts receivable | \$ (2,366,897) | \$ 1,542,789 |
| Unbilled revenue | (2,071,303) | 1,170,241 |
| Income taxes receivable | (134,320) | – |
| Inventory | (338,519) | (1,275,772) |
| Prepaid expense and deposits | (283,179) | (177,300) |
| Accounts payable and accrued liabilities | 2,173,748 | (759,286) |
| Income taxes payable | (71,260) | (237,895) |
| | <u>\$ (3,091,730)</u> | <u>\$ 262,777</u> |

16. Management of capital:

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 meet certain covenants as disclosed in note 8.

17. Comparative figures:

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