

**INTERNATIONAL ROAD DYNAMICS INC.**

Notice of No Auditor Review of Interim Consolidated Financial Statements  
Period Ended May 31, 2009

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

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

July 13, 2009

[Signed]  
Terry Bergan  
Chief Executive Officer

[Signed]  
Mel Karakochuk  
Chief Financial Officer

**INTERNATIONAL ROAD DYNAMICS INC.**

Interim and Annual Consolidated Balance Sheets

May 31, 2009 with comparative figures for November 30, 2008

	2009 "Unaudited"	2008 Audited
<b>Assets</b>		
Current assets:		
Cash	\$ 1,281,655	\$ 449,863
Accounts receivable	9,984,990	10,892,544
Unbilled revenue	4,113,324	6,430,933
Income taxes receivable	-	134,320
Inventory	7,389,132	6,920,145
Prepaid expenses and deposits	569,847	709,385
	23,338,948	25,537,190
Investment tax credits recoverable	4,757,833	4,633,001
Property, plant and equipment	6,649,677	6,919,540
Intangible assets	123,186	163,252
Equity investments (note 3)	5,195,772	5,754,421
	\$ 40,065,416	\$ 43,007,404
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Short-term loans	\$ 5,040,540	\$ 7,327,708
Accounts payable and accrued liabilities	5,194,701	5,291,353
Income taxes payable	862	-
Deferred revenue	2,869,426	2,695,695
Current portion of long-term debt (note 4)	5,482,000	5,189,000
Future income taxes	681,185	883,000
	19,268,714	21,386,756
Deferred revenue	295,036	386,236
Long-term debt (note 4)	2,821,883	3,496,739
Future income taxes	76,000	76,000
	22,461,633	25,345,731
Shareholders' equity:		
Share capital (note 5)	12,071,009	12,060,115
Contributed surplus	203,339	186,707
Retained earnings	4,753,308	4,164,980
Accumulated other comprehensive income	576,127	1,249,871
	17,603,783	17,661,673
	\$ 40,065,416	\$ 43,007,404

See accompanying notes to consolidated financial statements.

## INTERNATIONAL ROAD DYNAMICS INC.

Interim Consolidated Statements of Earnings (Loss)

"Unaudited"

	Three months ended May 31		Six months ended May 31	
	2009	2008	2009	2008
Sales	\$ 11,634,513	9,225,553	\$ 22,636,827	\$ 16,157,620
Cost of sales	8,379,350	6,665,500	15,839,028	11,384,417
	3,255,163	2,560,053	6,797,799	4,773,203
Administrative and marketing expenses	2,558,574	2,391,671	4,796,847	4,326,465
	696,589	168,382	2,000,952	446,738
Research and development (net)	127,973	184,490	269,929	325,313
Earnings before other expenses (income)	568,616	(16,108)	1,731,023	121,425
Other expenses (income)				
Foreign exchange loss	425,916	56,163	638,361	114,311
Amortization	254,936	273,454	508,310	550,005
Interest on short-term debt	43,050	85,905	145,009	201,679
Interest on long-term debt	140,282	153,851	255,131	297,049
Interest and other (income)	(14,951)	(28,574)	3,848	(100,036)
Equity loss (earnings) (note 3)	(243,110)	131,179	(128,314)	139,278
	606,123	671,978	1,422,345	1,202,286
Earnings (loss) before income taxes	(37,507)	(688,086)	308,678	(1,080,861)
Provision for (recovery of) income taxes				
Current	32,554	(49,732)	246,336	(99,333)
Future	(191,700)	(139,235)	(306,522)	(251,535)
	(159,146)	(188,967)	(60,186)	(350,868)
Net earnings (loss) for the period	121,639	(499,119)	368,864	(729,993)
Earnings (loss) per share				
Basic	\$ 0.01	(0.03)	\$ 0.03	\$ (0.05)
Diluted	\$ 0.01	(0.03)	\$ 0.03	\$ (0.05)

Interim Consolidated Statements of Comprehensive Income (loss)

"Unaudited"

	Three months ended May 31		Six months ended May 31	
	2009	2008	2009	2008
Net earnings (loss)	\$ 121,639	\$ (499,119)	\$ 368,864	\$ (729,993)
Other comprehensive income (loss)				
Unrealized foreign currency translation gain (loss)	(1,001,557)	77,268	(673,744)	237,709
Total comprehensive loss	\$ (879,918)	\$ (421,851)	\$ (304,880)	\$ (492,284)

See accompanying notes to consolidated financial statements.

**INTERNATIONAL ROAD DYNAMICS INC.**Interim Consolidated Statements of Shareholders' Equity  
"Unaudited"

	Three months ended May 31		Six months ended May 31	
	2009	2008	2009	2008
Share capital (note 5):				
Balance, beginning of period	\$ 12,071,009	\$ 12,018,046	\$ 12,060,115	\$ 12,004,179
Shares issued for expenses	-	14,029	10,894	27,896
Balance, end of period	\$ 12,071,009	\$ 12,032,075	\$ 12,071,009	\$ 12,032,075
Contributed surplus:				
Balance, beginning of period	\$ 191,428	\$ 157,070	\$ 186,707	\$ 149,168
Stock based compensation	11,911	8,749	16,632	16,651
Balance, end of period	\$ 203,339	\$ 165,819	\$ 203,339	\$ 165,819
Retained earnings:				
Balance, beginning of period	\$ 4,631,669	\$ 4,474,829	\$ 4,164,980	\$ 4,705,703
Retrospective change in accounting for inventory (note 2)	-	-	219,464	-
Balance, beginning of period restated	\$ 4,631,669	\$ 4,474,829	\$ 4,384,444	\$ 4,705,703
Net earnings (loss)	121,639	(499,119)	368,864	(729,993)
Balance, end of period	\$ 4,753,308	\$ 3,975,710	\$ 4,753,308	\$ 3,975,710
Accumulated other comprehensive income (loss):				
Balance, beginning of period	\$ 1,577,684	\$ 55,818	\$ 1,249,871	\$ (104,623)
Other comprehensive income	(1,001,557)	77,268	(673,744)	237,709
Balance, end of period	\$ 576,127	\$ 133,086	\$ 576,127	\$ 133,086
Total retained earnings and accumulated other comprehensive income	\$ 5,329,435	\$ 4,108,796	\$ 5,329,435	\$ 4,108,796
Total shareholders' equity	\$ 17,603,783	\$ 16,306,690	\$ 17,603,783	\$ 16,306,690

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

See accompanying notes to consolidated financial statements.

## INTERNATIONAL ROAD DYNAMICS INC.

### Interim Consolidated Statements of Cash Flows

"Unaudited"

	Three months ended May 31		Six months ended May 31	
	2009	2008	2009	2008
Cash provided by (used in):				
Operations:				
Net earnings (loss)	\$ 121,639	\$ (499,119)	\$ 368,864	\$ (729,993)
Items not involving cash:				
Amortization	254,936	273,454	508,310	550,005
Common shares issued for expenses	-	14,029	10,894	27,896
Stock-based compensation	11,911	8,749	16,632	16,651
Loss (earnings) from equity investments	(243,110)	131,179	(128,314)	139,278
Recovery of future income taxes	(191,700)	(139,235)	(306,522)	(251,535)
Investment tax credits recoverable	(59,351)	(107,793)	(124,832)	(230,493)
Deferred revenue	910,382	(948)	82,531	(44,340)
Other operating items (note 7)	1,940,495	(260,182)	3,271,634	(177,773)
	2,745,202	(579,866)	3,699,197	(700,304)
Financing:				
Net short-term loans	(1,685,240)	681,369	(2,287,168)	465,944
Proceeds on long-term debt	-	-	-	6,402,500
Repayment of long-term debt	(231,330)	(203,280)	(381,856)	(3,071,160)
	(1,916,570)	478,089	(2,669,024)	3,797,284
Investing:				
Investment in Xuzhou-PAT Control Technologies Limited	-	-	-	(3,548,376)
Capital distribution from PAT Traffic Brazil	-	-	-	439,026
(Additions)/disposal to property, plant and equipment	574	(28,670)	(198,381)	(299,799)
Additions to intangible assets	-	(934)	-	(6,277)
	574	(29,604)	(198,381)	(3,415,426)
Increase (decrease) in cash	829,206	(131,381)	831,792	(318,446)
Cash, beginning of period	452,449	841,400	449,863	1,028,465
Cash, end of period	\$ 1,281,655	\$ 710,019	\$ 1,281,655	\$ 710,019
Supplemental cash flow disclosure:				
Interest paid	\$ 165,248	\$ 222,256	\$ 364,556	\$ 451,578
Income taxes paid (recovered)	\$ (1,657)	\$ 17,726	\$ 111,154	\$ 135,000

See accompanying notes to consolidated financial statements.

## **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, 2008, except as outlined in note 2.

The consolidated balance sheet as at May 31, 2009, and the consolidated statements of earnings (loss), comprehensive income, shareholders' equity, and cash flow for the six 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**

On December 1, 2008, 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.

### *Inventories - CICA 3031*

This 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 Company adopted the new inventory requirements retrospectively without restatement. It reassessed the method whereby it was allocating costs of labor and overhead resulting in an increase in the carrying value of inventory of \$324,171 and an adjustment of \$219,464 (net of tax of \$104,707) to opening retained earnings. The impact of this change in methodology is an increase in net earnings reported in the first half of 2009 of \$72,318.

### *Goodwill and Intangible Assets – CICA 3064*

This standard introduces guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. Adoption of this standard has no impact on amounts included in the financial statements.

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

### *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. The Company is currently assessing the impact of this announcement on its financial statements. IFRS will be effective for the Company's financial statements for the fiscal year ending November 30, 2012.

**INTERNATIONAL ROAD DYNAMICS INC.**  
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Financial Instruments – Disclosures, Section 3862

This section has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements for publicly accountable enterprises and other entities that choose to apply this section. These amendments will apply to the company effective November 30, 2009.

**3. Equity investments**

	Three months ended May 31		Six months ended May 31	
	2009	2008	2009	2008
<b>PAT Traffic Brazil:</b>				
Balance - beginning of period	\$ -	\$ 191,662	\$ -	\$ 608,688
Equity earnings	-	(47,000)	-	(25,000)
Distributions	-	-	-	(439,026)
Balance - end of period	-	144,662	-	144,662
<b>Xuzhou-PAT Control Technologies Limited:</b>				
Balance - beginning of period	\$ 5,713,420	\$ 4,617,293	\$ 5,754,421	\$ -
Net assets acquired including acquisition costs of \$48,376	-	-	-	4,548,376
Currency gain (loss) on financial statement translation	(760,758)	170,391	(686,963)	269,407
Equity earnings (loss)	243,110	(84,179)	128,314	(114,278)
Balance - end of period	5,195,772	4,703,505	5,195,772	4,703,505
Total equity investments	\$ 5,195,772	\$ 4,848,167	\$ 5,195,772	\$ 4,848,167

The Company had sales to Xuzhou-Pat Control Technologies Limited of \$1,210,100 in the quarter (2008 - \$45,537) and \$1,451,300 for the first six months (2008 - \$438,166). At May 31, 2009 accounts receivable from Xuzhou-Pat Control Technologies Limited was \$1,451,078 (2008 - \$38,254).

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**4. Long-term debt**

	May 31 2009	November 30 2008
Royal Bank of Canada non-revolving demand facility for an amount up to \$3,500,000 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	\$ 3,500,000
Royal Bank of Canada mortgage repayable in monthly installments of \$20,906 including interest at a fixed rate of 6.144%. Due December 1, 2013	2,798,997	2,838,739
Royal Bank of Canada term loan repayable in monthly installments of \$71,181 including interest at a fixed rate of 6.53%. Due July 30, 2010	958,600	1,347,000
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	1,000,000
GE Capital loan repayable in monthly installments of \$1,055 including interest at a fixed rate of 4% due November 6, 2012	46,286	
	8,303,883	8,685,739
Less current portion	5,482,000	5,189,000
	<b>\$ 2,821,883</b>	<b>\$ 3,496,739</b>

The Company's mortgage of \$2.8 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 \$3.8 million and \$36.5 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.

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:

Due within 1 year	\$ 5,482,000
Due between 1 and 2 years	174,000
Due between 2 and 3 years	107,000
Due between 3 and 4 years	107,287
Due between 4 and 5 years	2,433,596
	<b>\$ 8,303,883</b>

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**5. Share capital:**

	Number of shares	\$ Amount
Balance, November 30, 2008	13,977,388	12,060,115
Shares issued in exchange for expenses	20,949	10,894
Balance, May 31, 2009	13,998,337	12,071,009

There are currently 950,000 stock options outstanding; each of which may be exercised to purchase one common share of the Company at prices ranging from \$1.20 to \$1.32 per share.

Under the terms of a stock option plan approved by the shareholders in May, 1997 and amended in 1998, the Company is authorized to grant directors, officers, employees and others options to purchase common shares at prices based on the market price of shares as determined on the date of the grant. At May 31, 2009, 1,180,665 (2008 – 756,165) options remain available to be granted. Stock options become exercisable at dates determined by the Compensation Committee of the Board of Directors.

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, 2008	1,312,000	\$1.28
Options granted during the period	525,000	\$1.20
Options cancelled or expired during the period	(887,000)	\$1.27
Outstanding, May 31, 2009	950,000	\$1.25

At May 31, 2009, the following stock options to officers, employees and others were outstanding:

Exercise Price	Number Outstanding at May 31, 2009	Weighted- average Remaining Contractual Life (years)	Number Exercisable at May 31, 2009
\$1.20	525,000	9.75	525,000
\$1.26	45,000	2.50	30,000
\$1.29	155,000	3.92	-
\$1.32	225,000	2.67	150,000
	950,000	6.78	705,000

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**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 May 31		Six months ended May 31	
	2009	2008	2009	2008
Canada	\$ 782,919	\$ 980,479	\$ 2,020,101	\$ 1,911,648
United States	\$ 4,962,020	\$ 4,808,718	\$ 10,410,887	\$ 8,656,826
Offshore	\$ 5,889,574	\$ 3,436,356	\$ 10,205,839	\$ 5,589,146
	\$ 11,634,513	\$ 9,225,553	\$ 22,636,827	\$ 16,157,620

**7. Statement of cash flows**

Other operating items

	Three months ended May 31		Six months ended May 31	
	2009	2008	2009	2008
Accounts receivable	\$ 496,402	\$ (82,677)	\$ 920,773	\$ (2,023,488)
Unbilled revenue	\$ 1,018,278	\$ (1,238,904)	\$ 2,317,609	\$ 2,809,423
Income taxes receivable	\$ 33,349	\$ (67,458)	\$ 134,320	\$ (163,073)
Inventory	\$ 304,802	\$ (99,471)	\$ (144,816)	\$ (844,981)
Prepaid expenses and deposits	\$ 35,231	\$ (39,040)	\$ 139,538	\$ (291,983)
Accounts payable and accrued liabilities	\$ 51,571	\$ 1,267,368	\$ (96,652)	\$ 407,589
Income taxes payable	\$ 862	\$ -	\$ 862	\$ (71,260)
	\$ 1,940,495	\$ (260,182)	\$ 3,271,634	\$ (177,773)

**8. 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 principal risks and the measures for managing these risks are as discussed in the audited annual financial statements as of November 30, 2008 and there have been no changes in these risks and the methods of managing these risks.

The Company hedges a portion of its future U.S. dollar cash flow. At May 31, 2009 the Company had in place \$3 million U.S. dollars in forward currency contracts at an average exchange rate of \$1.1353 Canadian per U.S. dollar with a gain of \$129,080 on these contracts based on the actual exchange rate at May 31, 2009 of \$1.0923 Canadian per U.S. dollar. Gains and losses on all foreign exchange contracts are recognized in earnings at the end of each reporting period.

## **9. 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. These covenants require that the Company maintain a certain minimum level of fixed charge coverage measured on an annual basis and not exceed a certain maximum ratio of total liabilities to tangible net worth, and that it maintains a minimum amount of earnings before interest, taxes, depreciation and amortization (EBITDA) on a quarterly basis. At May 31, 2009 the Company is in compliance with these covenants.