

**INTERNATIONAL ROAD DYNAMICS INC.**

Notice of No Auditor Review of Interim Consolidated Financial Statements  
Period Ended August 31, 2011

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.

October 13, 2011

[Signed]  
Terry Bergan  
Chief Executive Officer

[Signed]  
Mel Karakochuk  
Chief Financial Officer

INTERNATIONAL ROAD DYNAMICS INC.  
Interim and Annual Consolidated Balance Sheets  
August 31, 2011 with comparative figures for November 30, 2010

	2011 Unaudited	2010 Audited
<b>Assets</b>		
Current assets:		
Cash	\$ 789,746	\$ 667,724
Accounts receivable	10,630,864	11,079,295
Unbilled revenue	4,678,037	4,025,218
Income taxes receivable	319,162	347,442
Inventory (note 3)	7,154,137	7,187,770
Prepaid expenses and deposits	1,059,232	601,811
	24,631,178	23,909,260
Investment tax credits recoverable	3,453,690	3,267,486
Future income taxes	1,323,801	738,000
Property, plant and equipment	2,119,031	6,151,430
Equity investment (note 4)	4,666,111	5,118,780
	\$ 36,193,811	\$ 39,184,956
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Short-term loans (note 5)	\$ 7,354,982	\$ 5,732,459
Accounts payable and accrued liabilities	4,694,734	5,360,417
Current portion of long-term debt (note 6)	890,000	6,328,234
Current portion of deferred income (note 7)	2,554,538	2,500,007
	15,494,254	19,921,117
Long-term debt (note 6)	409,668	-
Deferred income (note 7)	3,041,676	535,404
	18,945,598	20,456,521
Shareholders' equity:		
Share capital (note 8)	12,071,009	12,071,009
Contributed surplus	258,233	246,587
Retained earnings	4,863,485	6,099,579
Accumulated other comprehensive income (loss)	55,486	311,260
	17,248,213	18,728,435
	\$ 36,193,811	\$ 39,184,956

See accompanying notes to interim consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.  
Interim Consolidated Statements of Earnings (Loss)  
Unaudited

	Three months ended August 31		Nine months ended August 31	
	2011	2010	2011	2010
Sales	\$ 10,119,038	\$ 13,294,024	\$ 29,752,750	\$ 33,740,063
Cost of sales	7,114,591	8,933,705	22,626,152	23,553,529
	3,004,447	4,360,319	7,126,598	10,186,534
Administrative and marketing expenses	2,480,087	2,704,580	7,386,295	7,422,722
	524,360	1,655,739	(259,697)	2,763,812
Research and development (net)	230,498	217,857	741,198	446,754
Earnings (loss) before other expenses (income)	293,862	1,437,882	(1,000,895)	2,317,058
Other expenses (income)				
Foreign exchange loss (gain)	(107)	34,955	60,465	(32,646)
Amortization	190,708	241,240	582,313	677,402
Interest on short-term debt	79,415	62,216	232,882	173,977
Interest on long-term debt	31,789	103,654	198,246	326,540
Other income	(116,233)	(7,255)	(182,212)	(7,660)
XPCT (note 4)	(163,821)	(81,151)	(198,791)	27,441
	21,751	353,659	692,903	1,165,054
Earnings (loss) before income taxes	272,111	1,084,223	(1,693,798)	1,152,004
Provision for (recovery of) income taxes				
Current	(123,123)	36,197	128,097	117,196
Future	174,874	339,792	(585,801)	249,792
	51,751	375,989	(457,704)	366,988
Net earnings (loss) for the period	\$ 220,360	\$ 708,234	\$ (1,236,094)	\$ 785,016
Earnings (loss) per share				
Basic	\$ 0.01	\$ 0.05	\$ (0.09)	\$ 0.06
Diluted	\$ 0.01	\$ 0.05	\$ (0.09)	\$ 0.06

Interim Consolidated Statements of Comprehensive Income (Loss)

	Three months ended August 31		Nine months ended August 31	
	2011	2010	2011	2010
Net earnings (loss)	\$ 220,360	\$ 708,234	\$ (1,236,094)	\$ 785,016
Other comprehensive income (loss)				
Unrealized foreign currency translation gain (loss)	100,635	165,419	(255,774)	(128,427)
Total comprehensive income (loss)	\$ 320,995	\$ 873,653	\$ (1,491,868)	\$ 656,589

See accompanying notes to interim consolidated financial statements.

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

	Three months ended August 31		Nine months ended August 31	
	2011	2010	2011	2010
Share capital (note 8):				
Balance, beginning and end of period	\$ 12,071,009	\$ 12,071,009	\$ 12,071,009	\$ 12,071,009
Contributed surplus:				
Balance, beginning of period	\$ 254,351	\$ 234,691	\$ 246,587	\$ 222,795
Fair value of stock options granted	3,882	5,948	11,646	17,844
Balance, end of period	\$ 258,233	\$ 240,639	\$ 258,233	\$ 240,639
Retained earnings:				
Balance, beginning of period	\$ 4,643,125	\$ 5,726,459	\$ 6,099,579	\$ 5,649,677
Net earnings (loss)	220,360	708,234	(1,236,094)	785,016
Balance, end of period	\$ 4,863,485	\$ 6,434,693	\$ 4,863,485	\$ 6,434,693
Accumulated other comprehensive income (loss):				
Balance, beginning of period	\$ (45,149)	\$ 210,877	\$ 311,260	\$ 504,723
Other comprehensive income (loss)	100,635	165,419	(255,774)	(128,427)
Balance, end of period	\$ 55,486	\$ 376,296	\$ 55,486	\$ 376,296
Total retained earnings and accumulated other comprehensive income	\$ 4,918,971	\$ 6,810,989	\$ 4,918,971	\$ 6,810,989
Total shareholders' equity	\$ 17,248,213	\$ 19,122,637	\$ 17,248,213	\$ 19,122,637

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

See accompanying notes to interim consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.  
Interim Consolidated Statements of Cash Flows  
Unaudited

	Three months ended August 31		Nine months ended August 31	
	2011	2010	2011	2010
Cash provided by (used in):				
Operations:				
Net earnings (loss)	\$ 220,360	\$ 708,234	\$ (1,236,094)	\$ 785,016
Items not involving cash:				
Amortization	190,708	241,240	582,313	677,402
Fair value of stock options granted	3,882	5,948	11,646	17,844
XPCT	(163,821)	(81,151)	(198,791)	27,441
Future income taxes recoverable	174,874	339,792	(585,801)	249,792
Investment tax credits recoverable	(70,656)	(109,016)	(186,204)	(279,692)
Deferred revenue (note 7)	(1,138)	107,686	(379,644)	(283,483)
Deferred gain on sale of property (note 7)	(63,234)	-	(94,851)	-
Other operating items (note 10)	(1,201,060)	171,483	(1,250,313)	(793,446)
	(910,085)	1,384,216	(3,337,739)	400,874
Financing:				
Net short-term loans	2,023,613	(1,125,110)	1,622,523	991,917
Repayment of long-term debt	(955,852)	(287,553)	(4,728,566)	(1,125,296)
	1,067,761	(1,412,663)	(3,106,043)	(133,379)
Investing:				
Dividend received from Xuzhou-PAT Control Technologies Limited	149,985	-	149,985	-
Net proceeds on sale of property	42,508	-	6,559,133	-
Net additions to property, plant and equipment	(30,166)	(213,077)	(143,314)	(614,925)
	162,327	(213,077)	6,565,804	(614,925)
Increase (decrease) in cash	320,003	(241,524)	122,022	(347,430)
Cash, beginning of period	469,743	1,054,221	667,724	1,160,127
Cash, end of period	\$ 789,746	\$ 812,697	\$ 789,746	\$ 812,697
Supplemental cash flow disclosure:				
Interest paid	\$ 111,204	\$ 152,321	\$ 431,128	\$ 451,968
Income taxes paid (received)	\$ (111,612)	\$ 23,710	\$ (64,479)	\$ 316,115

See accompanying notes to interim consolidated financial statements.

## **INTERNATIONAL ROAD DYNAMICS INC.**

Notes to Interim Consolidated Financial Statements

Period ended August 31, 2011

Unaudited

---

### **1. Significant accounting policies:**

These interim consolidated 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 consolidated financial statements for the year ended November 30, 2010.

The interim consolidated balance sheet as at August 31, 2011, and the interim consolidated statements of earnings (loss), comprehensive income (loss), shareholders' equity, and cash flows for the nine months then ended have not been independently audited or reviewed, however management believes that all adjustments necessary to present these interim consolidated financial statements fairly have been included.

### **2. New accounting pronouncements:**

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.

*Business Combinations* – CICA 1582; *Consolidated Financial Statements and Non-Controlling Interest* – CICA 1601 and 1602

The Accounting Standards Board has issued a series of new standards, CICA 1582, *Business Combinations*, CICA 1601, *Consolidated Financial Statements*, and CICA 1602, *Non-Controlling Interests* with the objective of harmonizing Canadian accounting for business combinations with U.S. and international standards. These standards need to be implemented concurrently and become effective December 1, 2011. In the event of a business combination, the Company will assess whether to early adopt the new accounting standards in order to minimize the amount of retroactive application when the Company adopts IFRS.

*International Financial Reporting Standards (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.

**INTERNATIONAL ROAD DYNAMICS INC.**

Notes to Interim Consolidated Financial Statements

Period ended August 31, 2011

Unaudited

**3. Inventory:**

	August 31 2011	November 30 2010
Raw materials	\$ 490,244	\$ 673,285
Original equipment manufacturer materials	4,408,253	4,146,991
Work in process	1,629,954	1,651,166
Finished goods	1,388,685	1,312,493
Provision for excess and obsolete inventory	(762,999)	(596,165)
	<u>\$ 7,154,137</u>	<u>\$ 7,187,770</u>

During the quarter, inventory expensed within cost of sales was \$5,173,307 (2010 - \$6,358,613) and \$15,831,590 for the first nine months (2010 - \$14,628,101). During the quarter the Company recorded inventory write downs within cost of sales of \$113,757 (2010 - \$133,184) and \$173,757 in the first nine months (2010 - \$158,184)

**4. Equity investment:**

	Three Months Ended August 31		Nine Months Ended August 31	
	2011	2010	2011	2010
<b>Xuzhou-PAT Control Technologies Limited:</b>				
Balance - beginning of period	\$ 4,557,167	\$ 4,952,539	\$ 5,118,780	\$ 5,093,970
Currency gain (loss) on financial statement translation	95,108	8,283	18,525	(24,556)
Equity earnings (loss)	163,821	81,151	(321,209)	(27,441)
Dividend received	(149,985)	-	(149,985)	-
Balance - end of period	<u>\$ 4,666,111</u>	<u>\$ 5,041,973</u>	<u>\$ 4,666,111</u>	<u>\$ 5,041,973</u>

The Company had no sales to Xuzhou-PAT Control Technologies Limited during the quarter (2010 - \$703,900) and sales of \$1,446,460 for the first nine months (2010 - \$1,773,600). At August 31, 2011 accounts receivable from Xuzhou-PAT Control Technologies Limited was \$1,116,000 (2010 - \$1,122,000).

	Three Months Ended August 31		Nine Months Ended August 31	
	2011	2010	2011	2010
<b>Other expenses (income) - XPCT:</b>				
Equity loss (earnings)	\$ (163,821)	\$ (81,151)	\$ 321,209	\$ 27,441
Gain on settlement of vendor loan (note 6)	-	-	(520,000)	-
	<u>\$ (163,821)</u>	<u>\$ (81,151)</u>	<u>\$ (198,791)</u>	<u>\$ 27,441</u>

**INTERNATIONAL ROAD DYNAMICS INC.**  
Notes to Interim Consolidated Financial Statements  
Period ended August 31, 2011  
Unaudited

**4. Equity investment – continued:**

The equity loss for the nine months ended August 31, 2011 includes charges of \$507,650 for values assigned on acquisition related to receivables and inventory subject to the dispute with the vendor. In conjunction with the settlement of claims against the vendor as described in Note 6, the Company recorded a gain on settlement of the vendor loan in the amount of \$520,000.

**5. Short-term loans:**

	August 31 2011	November 30 2010
Royal Bank of Canada credit facility. Authorized to a maximum of \$8.5 million with interest at bank prime plus 1.55%	\$ 6,390,246	\$ 4,784,117
HDFC Bank Limited credit facility. Authorized to a maximum of 50.0 million Indian Rupees, of which 45.4 million Indian Rupees was drawn at August 31, 2011 with interest at 10.75% and secured by a standby letter of credit issued by Royal Bank of Canada and guaranteed by Export Development Canada	964,736	948,342
	<b>\$ 7,354,982</b>	<b>\$ 5,732,459</b>

**6. Long-term debt:**

	August 31 2011	November 30 2010
Royal Bank of Canada term loan, repayable in monthly instalments of \$78,430 including interest at a fixed rate of 5.65%. Due February 28, 2013	\$ 1,299,668	\$ 2,656,302
Royal Bank of Canada mortgage repayable in monthly instalments of \$20,906 including interest at a fixed rate of 6.144%.	-	2,671,932
Vendor loan to finance the acquisition of XPCT, with interest payable at 7% per annum.	-	1,000,000
	1,299,668	6,328,234
Less current portion	890,000	6,328,234
	<b>\$ 409,668</b>	<b>\$ -</b>

**6. Long-term debt – continued:**

The Company's short-term loans and term loan with the Royal Bank of Canada are 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 maintain a certain minimum level of fixed charge coverage as measured on an annual basis, and that it not exceed a certain maximum ratio of total liabilities to tangible net worth on a quarterly basis.

At November 30, 2010, the Company was not in compliance with the annual fixed charge coverage covenant; this constituted an event of default under the terms of the credit facilities, and therefore, amounts owing under the credit facilities with Royal Bank of Canada were included in the current portion of long-term debt.

In July 2011 the Company's credit facilities agreement with Royal Bank of Canada was amended. The amended agreement provides that the annual fixed charge coverage covenant will be effective commencing with the fiscal year ending November 30, 2012. The Company is in compliance with the liabilities to tangible net worth quarterly covenant at August 31, 2011 and expects to be in compliance with the fixed charge coverage covenant at November 30, 2012. As a result, the amount of \$409,668 being the portion of long-term debt repayable beyond 12 months is classified as long-term debt at August 31, 2011. The amended credit facilities agreement also provided that the Company repay \$750,000 of the term loan with Royal Bank of Canada in August 2011.

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

Due within 1 year	\$	890,000
Due between 1 and 2 years		409,668
	\$	1,299,668

During the second quarter, the Company paid down the full value of the mortgage in conjunction with the sale/leaseback transaction described in note 7.

In February 2011, the Company agreed to a settlement of the vendor loan associated with the XPCT acquisition in December, 2007. Under the settlement arrangement, the Company paid \$700,000 of the outstanding vendor loan of \$1,000,000 and accrued interest of \$220,000 as final settlement of the XPCT purchase price. In addition, the Company has agreed to discontinue various claims against the vendor relating to the acquisition of XPCT.

**INTERNATIONAL ROAD DYNAMICS INC.**  
Notes to Interim Consolidated Financial Statements  
Period ended August 31, 2011  
Unaudited

**7. Deferred income:**

	August 31 2011	November 30 2010
Deferred gain on sale of property	\$ 2,940,447	\$ -
Deferred revenue	2,655,767	3,035,411
	5,596,214	3,035,411
Less current portion		
Deferred gain on sale of property	252,936	-
Deferred revenue	2,301,602	2,500,007
	2,554,538	2,500,007
	<u>\$ 3,041,676</u>	<u>\$ 535,404</u>

Deferred revenue represents payments received in advance from customers.

In April 2011, the Company sold its head office and manufacturing facility for net proceeds of \$6,516,625 and recorded a deferred gain of \$3,035,298 on the transaction. The Company also entered into a twelve-year net lease agreement with the purchaser of the property. The deferred gain is being amortized over the term of the lease. During the quarter and nine months ended the gain on sale recognized in other income was \$63,234 and \$94,851.

The following represents the aggregate scheduled payments for the term of the lease:

Due within 1 year	\$ 579,000
Due between 1 and 2 years	579,000
Due between 2 and 3 years	579,000
Due between 3 and 4 years	579,000
Due between 4 and 5 years	579,000
Thereafter	3,832,953
	<u>\$ 6,727,953</u>

**8. Share capital:**

	Number of Shares	Amount
Balance, August 31, 2011 and November 30, 2010	13,998,337	\$ 12,071,009

There are currently 972,500 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.

**INTERNATIONAL ROAD DYNAMICS INC.**

Notes to Interim Consolidated Financial Statements

Period ended August 31, 2011

Unaudited

**8. Share capital – continued:**

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 August 31, 2011, 1,158,165 (2010 – 1,110,665) options remain available to be granted. Stock options are granted by and become exercisable at dates determined by the Compensation Committee of the Board of Directors.

	Number of Common Shares Issuable	Weighted-Average Exercise Price
Outstanding, November 30, 2010	1,020,000	\$1.24
Options cancelled or expired during the period	(47,500)	\$1.31
Outstanding, August 31, 2011	972,500	\$1.24

At August 31, 2011, the following stock options to officers, employees and others were outstanding:

Exercise Price	Number Outstanding at August 31, 2011	Weighted-average Remaining Contractual Life (years)	Number Exercisable at August 31, 2011
\$1.20	600,000	6.87	575,000
\$1.26	45,000	0.25	45,000
\$1.29	135,000	1.67	135,000
\$1.32	192,500	0.42	192,500
	972,500	4.56	947,500

**9. 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		Nine Months Ended	
	August 31		August 31	
	2011	2010	2011	2010
Canada	\$ 946,328	\$ 1,851,920	\$ 2,675,078	\$ 5,849,957
United States	5,995,162	7,259,583	15,882,630	16,318,407
Offshore	3,177,548	4,182,521	11,195,042	11,571,699
Total	\$ 10,119,038	\$ 13,294,024	\$ 29,752,750	\$ 33,740,063

**INTERNATIONAL ROAD DYNAMICS INC.**  
Notes to Interim Consolidated Financial Statements  
Period ended August 31, 2011  
Unaudited

**10. Statement of cash flows:**

Other operating items	Three months ended August 31		Nine months ended August 31	
	2011	2010	2011	2010
Accounts receivable	\$ 117,393	\$ 1,386,552	\$ 174,132	\$ 3,000,982
Unbilled revenue	(586,264)	(1,400,604)	(652,819)	(1,024,851)
Income taxes receivable	32,531	-	28,280	-
Inventory	(245,969)	616,400	103,198	(601,831)
Prepaid expenses and deposits	(55,706)	(112,223)	(457,421)	(477,823)
Accounts payable and accrued liabilities	(463,045)	(331,129)	(445,683)	(1,491,004)
Income taxes payable	-	12,487	-	(198,919)
	\$ (1,201,060)	\$ 171,483	\$ (1,250,313)	\$ (793,446)

**11. 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 consolidated financial statements as of November 30, 2010 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 August 31, 2011 the Company had in place \$3.3 million USD in forward currency contracts at an average exchange rate of \$0.9782 Canadian per U.S. dollar with a nominal loss on these contracts based on the actual exchange rate at August 31, 2011. In addition, the Company had in place \$200 thousand USD in a forward currency contract at an exchange rate of 468.5 CLP (Chilean pesos) per U.S. dollar with a nominal gain on this contract based on the actual exchange rate at August 31, 2011. Gains and losses on all foreign exchange contracts are recognized in earnings at the end of each reporting period.

**12. Comparative figures:**

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