

**INTERNATIONAL ROAD DYNAMICS INC.**

Notice of No Auditor Review of Interim Consolidated Financial Statements  
Period Ended May 31, 2010

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 14, 2010

[Signed]  
Terry Bergan  
Chief Executive Officer

[Signed]  
Mel Karakochuk  
Chief Financial Officer

INTERNATIONAL ROAD DYNAMICS INC.  
Interim and Annual Consolidated Balance Sheets  
May 31, 2010 with comparative figures for November 30, 2009

	2010 Unaudited	2009 Audited
<b>Assets</b>		
Current assets:		
Cash	\$ 1,054,221	\$ 1,160,127
Accounts receivable	11,769,008	13,644,445
Unbilled revenue	3,506,020	3,881,773
Inventory (note 3)	7,643,308	6,372,901
Prepaid expenses and deposits	837,561	471,961
	24,810,118	25,531,207
Investment tax credits recoverable	3,779,423	3,608,747
Future income taxes	443,000	353,000
Property, plant and equipment	6,444,485	6,495,847
Intangible assets	52,822	87,950
Equity investment (note 4)	4,952,539	5,093,970
	\$ 40,482,387	\$ 41,170,721
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Short-term loans (note 5)	\$ 7,458,824	\$ 5,341,797
Accounts payable and accrued liabilities	5,317,662	6,477,537
Income taxes payable	32,877	244,283
Deferred revenue	2,263,991	2,882,594
Current portion of long-term debt (note 6)	1,950,000	2,343,000
	17,023,354	17,289,211
Deferred revenue	332,661	105,227
Long-term debt (note 6)	4,883,336	5,328,079
	22,239,351	22,722,517
Shareholders' equity:		
Share capital (note 7)	12,071,009	12,071,009
Contributed surplus	234,691	222,795
Retained earnings	5,726,459	5,649,677
Accumulated other comprehensive income	210,877	504,723
	18,243,036	18,448,204
	\$ 40,482,387	\$ 41,170,721

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.  
Interim Consolidated Statements of Earnings  
Unaudited

	Three months ended May 31		Six months ended May 31	
	2010	2009	2010	2009
Sales	\$ 11,911,910	\$ 11,634,513	\$ 20,446,039	\$ 22,636,827
Cost of sales	8,491,142	8,379,350	14,619,824	15,839,028
	3,420,768	3,255,163	5,826,215	6,797,799
Administrative and marketing expenses	2,607,558	2,558,574	4,718,142	4,796,847
	813,210	696,589	1,108,073	2,000,952
Research and development (net)	117,770	127,973	228,897	269,929
Earnings before other expenses (income)	695,440	568,616	879,176	1,731,023
Other expenses (income)				
Foreign exchange loss (gain)	(10,738)	425,916	(67,601)	638,361
Amortization	235,593	254,936	436,162	508,310
Interest on short-term debt	55,126	43,050	111,761	145,009
Interest on long-term debt	107,285	140,282	222,886	255,131
Other expense (income)	9,498	(14,951)	(405)	3,848
Equity loss (income) (note 4)	(6,269)	(243,110)	108,592	(128,314)
	390,495	606,123	811,395	1,422,345
Earnings (loss) before income taxes	304,945	(37,507)	67,781	308,678
Provision for (recovery of) income taxes				
Current	28,318	32,554	80,999	246,336
Future	19,000	(191,700)	(90,000)	(306,522)
	47,318	(159,146)	(9,001)	(60,186)
Net earnings for the period	\$ 257,627	\$ 121,639	\$ 76,782	\$ 368,864
Earnings per share				
Basic	\$ 0.02	\$ 0.01	\$ 0.01	\$ 0.03
Diluted	\$ 0.02	\$ 0.01	\$ 0.01	\$ 0.03

Interim Consolidated Statements of Comprehensive Income (Loss)  
Unaudited

	Three months ended May 31		Six months ended May 31	
	2010	2009	2010	2009
Net earnings	\$ 257,627	\$ 121,639	\$ 76,782	\$ 368,864
Other comprehensive income (loss)				
Unrealized foreign currency translation loss	(136,303)	(1,001,557)	(293,846)	(673,744)
Total comprehensive income (loss)	\$ 121,324	\$ (879,918)	\$ (217,064)	\$ (304,880)

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	
	2010	2009	2010	2009
Share capital (note 7):				
Balance, beginning of period	\$ 12,071,009	\$ 12,071,009	\$ 12,071,009	\$ 12,060,115
Shares issued for expenses	-	-	-	10,894
<b>Balance, end of period</b>	<b>\$ 12,071,009</b>	<b>\$ 12,071,009</b>	<b>\$ 12,071,009</b>	<b>\$ 12,071,009</b>
Contributed surplus:				
Balance, beginning of period	\$ 228,743	\$ 191,428	\$ 222,795	\$ 186,707
Fair value of stock options granted	5,948	11,911	11,896	16,632
<b>Balance, end of period</b>	<b>\$ 234,691</b>	<b>\$ 203,339</b>	<b>\$ 234,691</b>	<b>\$ 203,339</b>
Retained earnings:				
Balance, beginning of period	\$ 5,468,832	\$ 4,631,669	\$ 5,649,677	\$ 4,164,980
Retrospective change in accounting for inventory (note 3)	-	-	-	219,464
Net earnings	257,627	121,639	76,782	368,864
<b>Balance, end of period</b>	<b>\$ 5,726,459</b>	<b>\$ 4,753,308</b>	<b>\$ 5,726,459</b>	<b>\$ 4,753,308</b>
Accumulated other comprehensive income:				
Balance, beginning of period	\$ 347,180	\$ 1,577,684	\$ 504,723	\$ 1,249,871
Other comprehensive loss	(136,303)	(1,001,557)	(293,846)	(673,744)
<b>Balance, end of period</b>	<b>\$ 210,877</b>	<b>\$ 576,127</b>	<b>\$ 210,877</b>	<b>\$ 576,127</b>
<b>Total retained earnings and accumulated other comprehensive income</b>	<b>\$ 5,937,336</b>	<b>\$ 5,329,435</b>	<b>\$ 5,937,336</b>	<b>\$ 5,329,435</b>
<b>Total shareholders' equity</b>	<b>\$ 18,243,036</b>	<b>\$ 17,603,783</b>	<b>\$ 18,243,036</b>	<b>\$ 17,603,783</b>

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	
	2010	2009	2010	2009
Cash provided by (used in):				
Operations:				
Net earnings	\$ 257,627	\$ 121,639	\$ 76,782	\$ 368,864
Items not involving cash:				
Amortization	235,593	254,936	436,162	508,310
Common shares issued for expenses	-	-	-	10,894
Fair value of stock options granted	5,948	11,911	11,896	16,632
Loss (earnings) from equity investments	(6,269)	(243,110)	108,592	(128,314)
Provision (recovery) for future income taxes	19,000	(191,700)	(90,000)	(306,522)
Investment tax credits recoverable	(105,976)	(59,351)	(170,676)	(124,832)
Deferred revenue	(183,037)	910,382	(391,169)	82,531
Other operating items (note 9)	(632,630)	1,940,495	(964,929)	3,271,634
	(409,744)	2,745,202	(983,342)	3,699,197
Financing:				
Net short-term loans	1,062,140	(1,685,240)	2,117,027	(2,287,168)
Repayment of long-term debt	(422,065)	(231,330)	(837,743)	(381,856)
	640,075	(1,916,570)	1,279,284	(2,669,024)
Investing:				
Net additions to property, plant and equipment	(342,220)	574	(401,848)	(198,381)
	(342,220)	574	(401,848)	(198,381)
Increase (decrease) in cash	(111,889)	829,206	(105,906)	831,792
Cash, beginning of period	1,166,110	452,449	1,160,127	449,863
Cash, end of period	\$ 1,054,221	\$ 1,281,655	\$ 1,054,221	\$ 1,281,655
Supplemental cash flow disclosure:				
Interest paid	\$ 144,911	\$ 165,248	\$ 299,647	\$ 364,556
Income taxes paid (recovered)	\$ 39,564	\$ (1,657)	\$ 292,405	\$ 111,154

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, 2009.

The consolidated balance sheet as at May 31, 2010, and the consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows 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:**

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 US 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  
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**3. Inventory:**

	May 31 2010	November 30 2009
Raw materials	\$ 846,246	\$ 724,675
Original equipment manufacturer materials	3,756,515	2,797,308
Work in process	1,801,578	2,383,122
Finished goods	1,934,911	1,138,899
Provision for excess and obsolete inventory	(695,942)	(671,103)
	<b>\$ 7,643,308</b>	<b>\$ 6,372,901</b>

During the quarter inventory expensed within cost of sales was \$5,466,938 (2009 - \$5,557,255) and \$8,269,488 for the first six months (2009 - \$9,315,998). The Company also recorded inventory write downs during the quarter within cost of sales of \$25,000 (2009 - \$25,000) and \$25,000 in the first six months (2009 - \$50,000).

The Company adopted the accounting standard Inventories, CICA 3031 in fiscal 2009 retrospectively without restatement. This resulted 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.

**4. Equity investment:**

	Three months ended May31		Six months ended May31	
	2010	2009	2010	2009
<b>Xuzhou-PAT Control Technologies Limited:</b>				
Balance - beginning of period	\$ 5,029,094	\$ 5,713,420	\$ 5,093,970	\$ 5,754,421
Currency gain (loss) on financial statement translation	(82,824)	(760,758)	(32,839)	(686,963)
Equity earnings (loss)	6,269	243,110	(108,592)	128,314
Balance - end of period	<b>\$ 4,952,539</b>	<b>\$ 5,195,772</b>	<b>\$ 4,952,539</b>	<b>\$ 5,195,772</b>

The Company had sales to Xuzhou-PAT Control Technologies Limited of \$697,700 during the quarter (2009 - \$1,210,100) and \$1,069,700 for the first six months (2009 - \$1,451,300). At May 31, 2010 accounts receivable with normal trade terms from Xuzhou-PAT Control Technologies Limited was \$963,500 (2009 - \$1,451,100).

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**5. Short-term loans:**

	May 31 2010	November 30 2009
Royal Bank of Canada credit facility. Authorized to a maximum of \$8.5 million with interest at bank prime plus 1.35% and secured by a general security agreement	\$ 6,622,097	\$ 5,341,797
HDFC Bank Limited credit facility. Authorized to a maximum of 50.0 million Indian Rupees, of which 36.8 million Indian Rupees was drawn at May 31, 2010, with interest at 8.0% and secured by a standby letter of credit issued by Royal Bank of Canada and guaranteed by Export Development Canada	836,727	-
	<b>\$ 7,458,824</b>	<b>\$ 5,341,797</b>

**6. Long-term debt:**

	May 31 2010	November 30 2009
Royal Bank of Canada term loan, repayable in monthly instalments of \$78,430 including interest at a fixed rate of 5.65%. Due December 31, 2013	\$ 3,045,341	\$ 3,423,737
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	2,715,576	2,757,945
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	72,419	489,397
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
	<b>\$ 6,833,336</b>	<b>\$ 7,671,079</b>
Less current portion	1,950,000	2,343,000
	<b>\$ 4,883,336</b>	<b>\$ 5,328,079</b>

The Company's mortgage of \$2.716 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 \$3.629 million and \$34.513 million for the assets of the Company in Canada and the United States. 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.

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**6. Long-term debt – continued:**

Under the terms and conditions of its credit facilities with Royal Bank of Canada the Company is subject to certain covenants. At May 31, 2010 the Company is in compliance with these covenants and also expects to be in compliance over the next twelve months.

The payments due December 12, 2008 and 2009 with respect to the Vendor loan are 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	\$	1,950,000
Due between 1 and 2 years		929,000
Due between 2 and 3 years		983,000
Due between 3 and 4 years		2,971,336
	\$	6,833,336

**7. Share capital:**

	Number of shares	Amount
Balance, May 31, 2010 & November 30, 2009	13,998,337	\$ 12,071,009

There are currently 1,025,000 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, 2010, 1,105,665 (2009 – 1,180,665) options remain available to be granted. Stock options become exercisable at dates determined by the Compensation Committee of the Board of Directors.

	Number of Common Shares Issuable	Weighted-average Exercise Price
Outstanding, May 31, 2010 & November 30, 2009	1,025,000	\$1.24

**INTERNATIONAL ROAD DYNAMICS INC.**

Notes to Interim Consolidated Financial Statements

Period ended May 31, 2010

Unaudited

**7. Share capital – continued:**

At May 31, 2010, the following stock options to officers, employees and others were outstanding:

Exercise Price	Number Outstanding at May 31, 2010	Weighted-average Remaining Contractual Life (years)	Number Exercisable at May 31, 2010
\$1.20	600,000	8.12	550,000
\$1.26	45,000	1.50	45,000
\$1.29	155,000	2.92	103,333
\$1.32	225,000	1.67	225,000
	1,025,000	5.63	923,333

**8. 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		Six Months Ended	
	May 31		May 31	
	2010	2009	2010	2009
Canada	\$ 2,548,979	\$ 782,919	\$ 3,998,037	\$ 2,020,101
United States	5,148,095	4,962,020	9,058,824	10,410,887
Offshore	4,214,836	5,889,574	7,389,178	10,205,839
Total	\$ 11,911,910	\$ 11,634,513	\$ 20,446,039	\$ 22,636,827

**9. Statement of cash flows:**

Other operating items

	Three months ended May 31		Six months ended May 31	
	2010	2009	2010	2009
Accounts receivable	\$ (290,804)	\$ 496,402	\$ 1,614,430	\$ 920,773
Unbilled revenue	455,983	1,018,278	375,753	2,317,609
Income taxes receivable	-	33,349	-	134,320
Inventory	(251,949)	304,802	(1,218,231)	(144,816)
Prepaid expenses and deposits	(293,340)	35,231	(365,600)	139,538
Accounts payable and accrued liabilities	(241,274)	51,571	(1,159,875)	(96,652)
Income taxes payable	(11,246)	862	(211,406)	862
	\$ (632,630)	\$ 1,940,495	\$ (964,929)	\$ 3,271,634

**10. 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, 2009 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, 2010 the Company had in place \$2.6 million USD in forward currency contracts at an average exchange rate of \$1.0298 Canadian per U.S. dollar with a loss of \$65,560 on these contracts based on the actual exchange rate at May 31, 2010. The Company also had in place a forward currency contract for \$0.5 million USD at an average exchange rate of 516.95 CLP (Chilean Pesos) per U.S. dollar with a loss of \$25,000 on this contract at May 31, 2010. Gains and losses on all foreign exchange contracts are recognized in earnings at the end of each reporting period.

**11. Comparative figures:**

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