Consolidated Financial Statements of

INTERNATIONAL ROAD DYNAMICS INC.

Years ended November 30, 2009 and 2008

MANAGEMENT'S REPORT

To the Shareholders of International Road Dynamics Inc.

The information in this report, including the financial statements, are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information elsewhere in the annual report has been reviewed to ensure consistency in all material respects with that contained in the financial statements.

International Road Dynamics Inc. maintains appropriate systems of internal control to provide reasonable assurance that the financial records provide relevant, reliable and accurate information.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for internal control and financial reporting. The Directors exercise this responsibility through the Audit Committee. This committee, which is comprised of non-employee Directors, meets with management and the external auditor to satisfy itself that management has properly performed its financial reporting responsibilities and to review the financial statements before they are presented to the Directors for approval. These financial statements have been approved by the Board of Directors as recommended by the Audit Committee.

KPMG LLP, an independent firm of Chartered Accountants, has been engaged to examine the financial statements and provide their auditors' report thereon. Their report is presented below.

Terry Bergan
President and
Chief Executive Officer

Mel Karakochuk
Vice President Finance and
Chief Financial Officer

Saskatoon, Canada

February 23, 2010

KPMG LLP
Chartered Accountants
600-128 4th Avenue South
Saskatoon Saskatchewan S7K 1M8
Canada

Telephone (306) 934-6200
Fax (306) 934-6233
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of International Road Dynamics Inc. as at November 30, 2009 and 2008 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, 2009 and 2008 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

February 23, 2010

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Balance Sheets

November 30, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash	$ 1,160,127	$ 449,863
Accounts receivable	13,644,445	10,892,544
Unbilled revenue	3,881,773	6,430,933
Income taxes receivable	-	134,320
Inventory (note 4)	6,372,901	6,920,145
Prepaid expenses and deposits	471,961	709,385
	25,531,207	25,537,190
Investment tax credits recoverable (note 10)	3,608,747	4,633,001
Future income taxes (note 10)	353,000	-
Property, plant and equipment (note 5)	6,495,847	6,919,540
Intangible assets (note 6)	87,950	163,252
Equity investments (note 7)	5,093,970	5,754,421
	$ 41,170,721	$ 43,007,404
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term loans (note 8)	$ 5,341,797	$ 7,327,708
Accounts payable and accrued liabilities	6,357,747	5,291,353
Income taxes payable	244,283	-
Deferred revenue	2,882,594	2,695,695
Current portion of long-term debt (note 9)	2,370,000	5,189,000
Future income taxes (note 10)	-	883,000
	17,196,421	21,386,756
Deferred revenue	105,227	386,236
Long-term debt (note 9)	5,420,869	3,496,739
Future income taxes (note 10)	-	76,000
Shareholders' equity:		
Share capital (note 11)	12,071,009	12,060,115
Contributed surplus	222,795	186,707
Retained earnings	5,649,677	4,164,980
Accumulated other comprehensive income	504,723	1,249,871
	18,448,204	17,661,673
	$ 41,170,721	$ 43,007,404

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, 2009 and 2008

	2009	2008
Sales	$ 49,018,235	$ 38,674,552
Cost of sales	34,703,743	27,531,297
	14,314,492	11,143,255
Administrative and marketing expenses	10,042,068	8,726,522
	4,272,424	2,416,733
Research and development (note 12)	570,675	862,916
Earnings before other expenses (income)	3,701,749	1,553,817
Other expenses (income):		
Foreign exchange (gain) loss	758,518	(195,183)
Amortization	1,003,140	1,057,629
Interest on short-term debt	251,676	398,191
Interest on long-term debt	490,072	575,600
Interest and other income	(43,781)	(134,018)
Equity loss (earnings) (note 7)	(390,578)	529,286
	2,069,047	2,231,505
Earnings (loss) before income taxes	1,632,702	(677,688)
Provision (recovery) for income taxes (note 10)	367,469	(136,965)
Net earnings (loss)	$ 1,265,233	$ (540,723)
Earnings (loss) per share (note 13)		
Basic	$ 0.09	$ (0.04)
Diluted	$ 0.09	$ (0.04)

Consolidated Statements of Comprehensive Income

Years ended November 30, 2009 and 2008

	2009	2008
Net earnings (loss)	$ 1,265,233	$ (540,723)
Other comprehensive income (loss)		
Unrealized foreign currency translation gains (losses)	(745,148)	1,354,494
Total comprehensive income	$ 520,085	$ 813,771

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Shareholders' Equity

Years ended November 30, 2009 and 2008

	2009	2008
Share capital (note 11):		
Balance, beginning of year	$ 12,060,115	$ 12,004,179
Shares issued for expenses	10,894	55,936
Balance, end of year	$ 12,071,009	$ 12,060,115
Contributed surplus:		
Balance, beginning of year	$ 186,707	$ 149,168
Fair value of stock options granted (note 11)	36,088	37,539
Balance, end of year	$ 222,795	$ 186,707
Retained earnings:		
Balance, beginning of year	$ 4,164,980	$ 4,705,703
Retrospective change in accounting for inventory (note 2)	219,464	-
Net earnings (loss)	1,265,233	(540,723)
Balance, end of year	$ 5,649,677	$ 4,164,980
Accumulated other comprehensive income:		
Balance, beginning of year	$ 1,249,871	$ (104,623)
Other comprehensive income (loss)	(745,148)	1,354,494
Balance, end of year	$ 504,723	$ 1,249,871
Total retained earnings and accumulated other comprehensive income (loss)	$ 6,154,400	$ 5,414,851
Total shareholders' equity	$ 18,448,204	$ 17,661,673

Accumulated other comprehensive income 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, 2009 and 2008

		2009		2008
Cash flows from (used in):				
Operations:				
Net earnings (loss)	$	1,265,233	$	(540,723)
Items not involving cash:				
Amortization		1,003,140		1,057,629
Common shares issued for expenses (note 11)		10,894		55,936
Loss (earnings) from equity investments		(390,578)		529,286
Provision (recovery) for future income taxes		(1,416,707)		97,000
Deferred revenue		(94,110)		471,268
Investment tax credits recoverable		1,024,254		(856,001)
Stock-based compensation		36,088		37,539
Other operating items (note 16)		2,630,466		(3,091,730)
		4,068,680		(2,239,796)
Financing:				
Short-term loans		(1,985,911)		2,155,450
Proceeds on long-term debt		168,531		6,402,500
Repayment of long-term debt		(1,063,401)		(3,425,376)
		(2,880,781)		5,132,574
Investing:				
Investment in Xuzhou-PAT Control Technologies Limited		-		(3,548,376)
Dividend received from Xuzhou-PAT Control Technologies Limited		155,315		
Capital distribution from PAT Traffic Brazil		-		439,026
Additions to property, plant and equipment		(632,950)		(362,030)
		(477,635)		(3,471,380)
Increase (decrease) in cash		710,264		(578,602)
Cash, beginning of year		449,863		1,028,465
Cash, end of year	$	1,160,127	$	449,863
Supplemental cash flow disclosure:				
Interest paid	$	676,927	$	906,141
Income taxes paid	$	181,573	$	100,240

See accompanying notes to consolidated financial statements.

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, International Road Dynamics Corporation, PAT Traffic Mexico S.A. de C.V. and IRD South Asia Pvt Ltd. 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 periodically revises 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.

1. Significant accounting policies - continued:

(d) Inventory:

Inventories are stated at the lower of average cost and net realizable value. Cost is determined on a weighted average basis and includes the costs of materials plus direct labour applied to the product and the applicable share of manufacturing overhead, including amortization.

(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. Investments are reduced by dividends received from 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.

Estimates of future cash flows and appropriate risk adjusted discount rates used in the determination of fair values are inherently difficult. If estimates of future cash flows and discount rates changed, it could result in an assessment that an investment is impaired which may in turn result in an adjustment of the future carrying values by a material amount.

(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.

(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.

1. Significant accounting policies - continued:

(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.

(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 US subsidiary International Road Dynamics Corp.. 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 and the functional currency of its subsidiary in India - International Road Dynamics South Asia Pvt. Ltd. is the Indian Rupee. The financial statements of these entities 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.

1. Significant accounting policies - continued:

(i) Translation of foreign currencies - continued:

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. These adjustments are not recorded in earnings until realized through a reduction in the Company's investment in this operation.

(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.

1. Significant accounting policies - continued:

(j) Financial instruments - continued:

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.

(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 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.

1. Significant accounting policies - continued:

(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.

2. New accounting pronouncements adopted:

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 for 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.

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 a decrease in net earnings reported during the year of $45,269.

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. The adoption of this standard had no impact on amounts included in the financial statements.

2. New accounting pronouncements adopted - continued:

Financial Instruments – Disclosures - CICA 3862

In June 2009, the Canadian Accounting Standards Board issued amendments to CICA 3862, *Financial Instruments – Disclosures* to establish a framework for measuring fair value in GAAP and expand disclosures about fair value measurements. For fair value measurements recognized in the balance sheet, disclosures are classified according to a three tier fair value hierarchy that reflects the nature of the inputs used in the valuation methodologies in measuring fair value.

These additional disclosures are mainly applicable to outstanding derivative positions held by the Company which had a nominal value at November 30, 2009.

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.

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.

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. Inventory:

	2009	2008
Raw materials	$ 724,675	$ 530,911
Original equipment manufacturer materials	2,797,308	3,527,336
Work in process	2,383,122	2,694,683
Finished goods	1,138,899	1,124,281
Provision for excess and obsolete inventory	(671,103)	(957,066)
	$ 6,372,901	$ 6,920,145

During the year, inventory expensed within cost of sales was $21,160,177 (2008 - $15,223,329). The Company also recorded inventory write downs within cost of sales of $370,311 (2008 - $178,541).

5. Property, plant and equipment:

	2009			2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 275,000	$ –	$ 275,000	$ 275,000
Buildings	4,842,561	1,236,492	3,606,069	3,781,959
Office equipment	885,233	707,155	178,078	199,741
Automotive	1,337,759	632,912	704,847	629,074
Computer equipment	1,839,933	1,496,739	343,194	348,258
Computer software	1,111,085	1,092,152	18,933	13,958
Manufacturing equipment	2,710,370	1,340,644	1,369,726	1,671,550
	$ 13,001,941	$ 6,506,094	$ 6,495,847	$ 6,919,540

Amortization of property, plant and equipment was $1,052,807 for 2009 (2008 - $984,848) of which $128,805 was included in the cost of inventory.

6. Intangible assets:

	2009			2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Acquired technology	$ 248,596	$ 182,917	$ 65,679	$ 126,653
Patent costs	211,586	189,315	22,271	36,599
	$ 460,182	$ 372,232	$ 87,950	$ 163,252

Amortization of intangible assets was $79,138 (2008 - $72,781).

7. Equity investments:

		2009		2008
PAT Traffic Brazil				
Balance – beginning of year	$	–	$	608,688
Equity earnings (loss)		–		(169,662)
Distributions		–		(439,026)
Balance – end of year	$	–	$	–
Xuzhou-PAT Control Technologies Limited				
Balance – beginning of year	$	5,754,421	$	–
Net assets acquired including acquisition costs		–		4,548,376
Currency gain (loss) on financial statement translation		(895,714)		1,565,669
Equity earnings (loss)		390,578		(359,624)
Dividend received		(155,315)		–
Balance – end of year		5,093,970		5,754,421
Total equity investments	$	5,093,970	$	5,754,421

PAT Traffic Brazil

As a result of a sales tax reassessment received by PAT Traffic Brazil from the State of Sao Paulo, the Company reduced 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. During 2009, the Company transferred a 35% interest, retaining a 5% interest, in PAT Traffic Brazil to third parties for full indemnification against any liabilities and the right to receive future payments based on sales revenues for the next 10 years.

Xuzhou-PAT Control Technologies Limited

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 was financed by a vendor loan as described in note 9. In addition to the purchase price of $4.5 million, an additional $250,000 is payable in each of 2009 and 2010 in the event XPCT achieved certain net profit levels. No additional consideration was payable for 2009.

The Company had sales to Xuzhou-Pat Control Technologies Limited of $2,308,763 during the year (2008 - $724,144). At November 30, 2009 accounts receivable from Xuzhou-Pat Control Technologies was $983,765 (2008 - $38,254).

7. 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.

8. Short-term loans:

		2009		2008
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 (note 9)	$	5,341,797	$	7,327,708

The Company has issued letters of credit against the Royal Bank of Canada credit facility in the amount of $202,466 as of November 30, 2009 (2008 - $381,936) as bid and performance guarantees on certain contracts.

The Company has two credit facilities totalling $950,000 US with Royal Bank of Canada that are guaranteed by Export Development Canada for the support of performance guarantees provided by the Company's subsidiaries. At November 30, 2009 performance guarantees totalling $465,642 US are outstanding. In February 2010 these credit facilities were increased to $1,200,000 US.

Subsequent to November 30, 2009 the Company arranged an additional credit facility in the amount of $1,000,000 US with Royal Bank of Canada that is guaranteed by Export Development Canada to support working capital requirements of the Company's subsidiaries.

9. Long-term debt:

	2009	2008
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	$ 3,423,737	$ –
Royal Bank of Canada non-revolving demand facility with interest payable monthly at Royal Bank of Canada prime rate plus 2%.	–	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	2,757,945	2,838,739
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	489,397	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
Other loans	119,790	–
	7,790,869	8,685,739
Less current portion	2,370,000	5,189,000
	$ 5,420,869	$ 3,496,739

The Company's mortgage of $2.757 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 are $3.714 million for the land and building in Canada and $36.369 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.

Under the terms and conditions of its credit facilities with Royal Bank of Canada the Company is subject to certain covenants. At November 30, 2009 the Company is in compliance with these covenants and also expects to be in compliance during fiscal 2010.

9. Long-term debt - continued:

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:

Fiscal year ended November 30:		
2010	$	2,370,000
2011		946,000
2012		983,000
2013		1,026,000
2014		2,465,869
	$	7,790,869

10. 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 31.0% (2008 – 32.3%) to pretax earnings (loss) as a result of the following:

		2009		2008
Earnings (loss) before income taxes	$	1,632,702	$	(677,688)
Computed "expected" tax expense (recovery)		506,000		(219,000)
Increase (reduction) in income taxes resulting from:				
Non-deductible expenses		32,000		122,000
Manufacturing and processing profits deduction		(3,000)		10,000
Equity loss (earnings)		(121,000)		171,000
Lower rate of tax on foreign income		(105,000)		60,000
Change in income tax rates		58,469		(280,965)
	$	367,469	$	(136,965)

		2009		2008
The provision (recovery) for income taxes is comprised of:				
Provision (recovery) for current income taxes	$	1,784,176	$	(233,965)
Provision (recovery) for future income taxes		(1,416,707)		97,000
	$	367,469	$	(136,965)
Effective income tax rate		22.5%		20.2%

10. 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.

	2009	2008
Current future tax liabilities:		
Unbilled revenue	$ –	$ (883,000)
Net current future income tax liability	$ –	$ (883,000)
Future non-current tax assets (liabilities):		
Capital loss carryforwards	$ 108,000	$ 108,000
Less valuation allowance	(108,000)	(108,000)
Investment tax credits	(657,000)	(627,000)
Non-capital losses available for carryforward	542,000	488,000
Property and equipment and intangible assets	191,000	63,000
Unclaimed research and development	277,000	–
Net non-current future income tax assets (liabilities)	$ 353,000	$ (76,000)

At November 30, 2009 the Company has $1,701,215 of non-capital losses which can be carried forward to the end of the 2028 fiscal year and applied against taxable income of those years and $423,000 of allowable capital losses available to reduce taxes on future capital gains.

At November 30, 2009, the Company has recognized investment tax credits of $3,608,747 (2008 - $4,633,001) 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 in 1998 and later years may be carried forward for 20 years. Saskatchewan investment tax credits earned prior to March 19, 2009 can be carried forward for 10 years while those investment tax credits earned thereafter are refundable.

Investment tax credits available for carry forward at November 30, 2009 expire as follows:

Years	Federal	Saskatchewan	Total
2013 – 2015	$ –	$ 978,043	$ 978,043
2016 – 2019	–	771,940	771,940
After 2022	1,858,764	–	1,858,764
Total	$ 1,858,764	$ 1,749,983	$ 3,608,747

11. Share capital:

(a) Authorized:

An unlimited number of common voting shares.

(b) Share transactions:

	Number of shares	Amount
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
Shares issued in exchange for expenses	20,949	10,894
Balance, November 30, 2009	13,998,337	$12,071,009

(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, 2009, 1,105,665 (2008 – 818,665) 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, 2009, the following stock options to officers, employees and others were outstanding:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding at November 30, 2009	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at November 30, 2009	Weighted-Average Exercise Price
$ 1.20	600,000	8.62	$ 1.20	525,000	$ 1.20
1.26	45,000	2.00	1.26	45,000	1.26
1.29	155,000	3.42	1.29	51,667	1.29
1.32	225,000	2.17	1.32	150,000	1.32
	1,025,000	6.13	$ 1.24	771,667	$ 1.23

11. 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, 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
Options granted	600,000	1.20
Options forfeited and expired	(887,000)	1.27
Outstanding, November 30, 2009	1,025,000	$ 1.24

Outstanding options expire between November 30, 2011 and February 28, 2019.

The fair value of stock options granted during 2009 was estimated using the Black-Scholes option pricing model and estimated forfeiture rates with assumptions of ten year weighted average expected option life, expected forfeiture rate of 60%, 34% volatility and risk-free rate of return of 1.26%. During the year the Company recorded stock based compensation expense of $36,088 (2008 – $37,539) along with a corresponding increase in contributed surplus in shareholders' equity.

11. 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.

12. Research and development:

	2009	2008
Research and development expenditures	$ 826,675	$ 1,347,916
Less grants and investment tax credits	(256,000)	(485,000)
	$ 570,675	$ 862,916

13. Earnings (loss) per share:

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

	2009	2008
Net earnings (loss)	$ 1,265,233	$ (540,723)
Weighted average number of common shares outstanding:		
Basic	13,994,147	13,952,622
Effect of stock options	–	–
Diluted	13,994,147	13,952,622
Earnings (loss) per share:		
Basic	$ 0.09	$ (0.04)
Diluted	$ 0.09	$ (0.04)

The Company has stock options outstanding to purchase 1,025,000 common shares at November 30, 2009 (2008 – 1,312,000). At November 30, 2009, none (2008 - none) of the options available to purchase common shares were included in the computation of diluted loss per share.

14. 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. Accounts ultimately determined to be uncollectible are written off against the allowance. Accounts receivable are net of an allowance for doubtful accounts of $607,685 (2008 - $372,100). In the past 5 years, accounts written off 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:

	2009	2008
Government	$ 5,079,419	$ 4,260,755
Non-Government		
Secured		
Letter of credit	119,729	186,707
Export Development Canada insured	4,297,088	3,599,242
Other	4,148,209	2,845,840
	$ 13,644,445	$ 10,892,544

14. 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 2009 the Canadian dollar weakened against the U.S. dollar by approximately 11% compared to fiscal year 2008. This resulted in an increase in the Canadian dollar value of the Company's U.S. dollar denominated sales of approximately $3.3 million during the 2009 fiscal year. This impact is partially offset by the corresponding higher 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, 2009 the Company has foreign currency exchange contracts to sell $4.6 million U.S. dollars. These contracts mature within the next 75 days and have a nominal value at November 30, 2009.

The Company also has exposure to other currencies including the Indian Rupee, Chilean Peso 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 a 5% increase in the Canadian dollar in comparison to the relevant foreign currency. This analysis assumes all other variables remain constant.

14. Financial assets and liabilities - continued:

	Carrying Amount of Asset (Liability) at November 30, 2009	Foreign Exchange Risk 5% increase in Canadian $ Income	OCI
Net US dollar foreign currency exposure	$ 7,800,000	$ (390,000)	$ –
US dollar foreign currency forward contracts	$ (500)	$ 240,000	$ –
Net Indian Rupee foreign currency exposure	$ 750,000	$ –	$ (37,500)
Net Chilean Peso foreign currency exposure	$ (51,000)	$ –	$ 2,550
Net Colombian Peso foreign currency exposure	$ 52,000	$ (2,600)	$ –
Net Euro foreign currency exposure	$ 22,000	$ (1,100)	$ –
Net Chinese Renminbi foreign currency exposure	$ 5,093,970	$ –	$ (254,700)

A 5% decrease in the Canadian dollar would have the opposite impact to those noted above.

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, 2009 approximately 59% 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, 2009, a 1% increase or decrease in interest rates, with all other variables held constant, would have resulted in an increase or decrease of $37,000 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, 2009 the remaining amount available to be drawn under this credit facility is approximately $3 million.

Under the terms of its credit facilities with Royal Bank of Canada, as referred to in Note 9, the Company is required to meet certain covenants.

14. 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 (thousands of dollars).

	Carrying Amount of Liability at November 30, 2009	Contractual Cash Flows Including Interest	< 1 year	1 to 3 years	4 to 5 years
Short-term loans	$ 5,342	$ 5,534	$ 5,534	$ –	$ –
Accounts payable and accrued liabilities	$ 6,358	$ 6,358	$ 6,358	$ –	$ –
Long-term debt	$ 7,791	$ 8,905	$ 2,804	$ 2,435	$ 3,666

* 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, 2009 was $8.070 million as compared to $7.791 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.

15. 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:

	2009	2008
Canada	$ 4,205,833	$ 4,567,135
United States	24,810,499	20,143,392
Overseas	20,001,903	13,964,025
	$ 49,018,235	$ 38,674,552

16. Statements of cash flows:

Other operating items

	2009	2008
Accounts receivable	$ (2,601,335)	$ (2,366,897)
Unbilled revenue	2,549,160	(2,071,303)
Income taxes receivable	134,320	(134,320)
Inventory	1,000,220	(338,519)
Prepaid expense and deposits	237,424	(283,179)
Accounts payable and accrued liabilities	1,066,394	2,173,748
Income taxes payable	244,283	(71,260)
	$ 2,630,466	$ (3,091,730)

17. 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.

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.

18. Comparative figures:

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