

INTERNATIONAL ROAD DYNAMICS INC.

Notice of No Auditor Review of Interim Consolidated Financial Statements

Period Ended August 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.

October 14, 2010

[Signed]
Terry Bergan
Chief Executive Officer

[Signed]
Mel Karakochuk
Chief Financial Officer

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

	2010 Unaudited	2009 Audited
Assets		
Current assets:		
Cash	\$ 812,697	\$ 1,160,127
Accounts receivable	10,539,592	13,644,445
Unbilled revenue	4,906,624	3,881,773
Inventory (note 3)	7,060,404	6,372,901
Prepaid expenses and deposits	949,784	471,961
	<u>24,269,101</u>	<u>25,531,207</u>
Investment tax credits recoverable	3,888,439	3,608,747
Future income taxes	103,208	353,000
Property, plant and equipment	6,399,374	6,495,847
Intangible assets	36,274	87,950
Equity investment (note 4)	5,041,973	5,093,970
	<u>\$39,738,369</u>	<u>\$41,170,721</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term loans (note 5)	\$ 6,333,714	\$ 5,341,797
Accounts payable and accrued liabilities	4,986,533	6,477,537
Income taxes payable	45,364	244,283
Deferred revenue	2,385,894	2,882,594
Current portion of long-term debt (note 6)	1,890,000	2,343,000
	<u>15,641,505</u>	<u>17,289,211</u>
Deferred revenue	318,444	105,227
Long-term debt (note 6)	4,655,783	5,328,079
	<u>20,615,732</u>	<u>22,722,517</u>
Shareholders' equity:		
Share capital (note 7)	12,071,009	12,071,009
Contributed surplus	240,639	222,795
Retained earnings	6,434,693	5,649,677
Accumulated other comprehensive income	376,296	504,723
	<u>19,122,637</u>	<u>18,448,204</u>
	<u>\$39,738,369</u>	<u>\$41,170,721</u>

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.
Interim Consolidated Statements of Earnings
Unaudited

	Three months ended August 31		Nine months ended August 31	
	2010	2009	2010	2009
Sales	\$ 13,294,024	\$ 13,587,096	\$ 33,740,063	\$ 36,223,923
Cost of sales	8,933,705	9,852,902	23,553,529	25,691,930
	4,360,319	3,734,194	10,186,534	10,531,993
Administrative and marketing expenses	2,704,580	2,646,883	7,422,722	7,443,730
	1,655,739	1,087,311	2,763,812	3,088,263
Research and development (net)	217,857	166,222	446,754	436,151
Earnings before other expenses (income)	1,437,882	921,089	2,317,058	2,652,112
Other expenses (income)				
Foreign exchange loss (gain)	34,955	33,520	(32,646)	671,881
Amortization	241,240	265,138	677,402	773,448
Interest on short-term debt	62,216	42,154	173,977	187,163
Interest on long-term debt	103,654	120,656	326,540	375,787
Other income	(7,255)	(36,653)	(7,660)	(32,805)
Equity loss (income) (note 4)	(81,151)	(109,610)	27,441	(237,924)
	353,659	315,205	1,165,054	1,737,550
Earnings before income taxes	1,084,223	605,884	1,152,004	914,562
Provision for (recovery of) income taxes				
Current	36,197	(18,250)	117,196	228,086
Future	339,792	105,059	249,792	(201,463)
	375,989	86,809	366,988	26,623
Net earnings for the period	\$ 708,234	\$ 519,075	\$ 785,016	\$ 887,939
Earnings per share				
Basic	\$ 0.05	\$ 0.03	\$ 0.06	\$ 0.06
Diluted	\$ 0.05	\$ 0.03	\$ 0.06	\$ 0.06

Interim Consolidated Statements of Comprehensive Income
Unaudited

	Three months ended August 31		Nine months ended August 31	
	2010	2009	2010	2009
Net earnings	\$ 708,234	\$ 519,075	\$ 785,016	\$ 887,939
Other comprehensive income (loss)				
Unrealized foreign currency translation gain (loss)	165,419	(167,284)	(128,427)	(841,028)
Total comprehensive income	\$ 873,653	\$ 351,791	\$ 656,589	\$ 46,911

See accompanying notes to consolidated financial statements.

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

	Three months ended August 31		Nine months ended August 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
Balance, end of period	\$ 12,071,009	\$ 12,071,009	\$ 12,071,009	\$ 12,071,009
Contributed surplus:				
Balance, beginning of period	\$ 234,691	\$ 203,339	\$ 222,795	\$ 186,707
Fair value of stock options granted	5,948	9,370	17,844	26,002
Balance, end of period	\$ 240,639	\$ 212,709	\$ 240,639	\$ 212,709
Retained earnings:				
Balance, beginning of period	\$ 5,726,459	\$ 4,753,308	\$ 5,649,677	\$ 4,164,980
Retrospective change in accounting for inventory (note 3)	-	-	-	219,464
Net earnings	708,234	519,075	785,016	887,939
Balance, end of period	\$ 6,434,693	\$ 5,272,383	\$ 6,434,693	\$ 5,272,383
Accumulated other comprehensive income:				
Balance, beginning of period	\$ 210,877	\$ 576,127	\$ 504,723	\$ 1,249,871
Other comprehensive income (loss)	165,419	(167,284)	(128,427)	(841,028)
Balance, end of period	\$ 376,296	\$ 408,843	\$ 376,296	\$ 408,843
Total retained earnings and accumulated other comprehensive income	\$ 6,810,989	\$ 5,681,226	\$ 6,810,989	\$ 5,681,226
Total shareholders' equity	\$ 19,122,637	\$ 17,964,944	\$ 19,122,637	\$ 17,964,944

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 August 31		Nine months ended August 31	
	2010	2009	2010	2009
Cash provided by (used in):				
Operations:				
Net earnings	\$ 708,234	\$ 519,075	\$ 785,016	\$ 887,939
Items not involving cash:				
Amortization	241,240	265,138	677,402	773,448
Common shares issued for expenses	-	-	-	10,894
Fair value of stock options granted	5,948	9,370	17,844	26,002
Loss (earnings) from equity investments	(81,151)	(109,610)	27,441	(237,924)
Provision (recovery) for future income taxes	339,792	105,059	249,792	(201,463)
Investment tax credits recoverable	(109,016)	(40,921)	(279,692)	(165,753)
Deferred revenue	107,686	257,524	(283,483)	340,055
Other operating items (note 9)	171,483	561,053	(793,446)	3,832,687
	1,384,216	1,566,688	400,874	5,265,885
Financing:				
Net short-term loans	(1,125,110)	(1,007,109)	991,917	(3,294,277)
Proceeds on long-term debt	-	147,062	-	147,062
Repayment of long-term debt	(287,553)	(348,838)	(1,125,296)	(730,694)
	(1,412,663)	(1,208,885)	(133,379)	(3,877,909)
Investing:				
Net additions to property, plant and equipment	(213,077)	(267,553)	(614,925)	(465,934)
	(213,077)	(267,553)	(614,925)	(465,934)
Increase (decrease) in cash	(241,524)	90,250	(347,430)	922,042
Cash, beginning of period	1,054,221	1,281,655	1,160,127	449,863
Cash, end of period	\$ 812,697	\$ 1,371,905	\$ 812,697	\$ 1,371,905
Supplemental cash flow disclosure:				
Interest paid	\$ 152,321	\$ 145,225	\$ 451,968	\$ 509,781
Income taxes paid	\$ 23,710	\$ 16,601	\$ 316,115	\$ 127,755

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Consolidated Financial Statements

Period ended August 31, 2010

Unaudited

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 August 31, 2010, and the consolidated statements of earnings, comprehensive income, 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 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.

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Notes to Interim Consolidated Financial Statements
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3. Inventory:

	August 31 2010	November 30 2009
Raw materials	\$ 580,509	\$ 724,675
Original equipment manufacturer materials	3,605,225	2,797,308
Work in process	1,655,905	2,383,122
Finished goods	2,047,848	1,138,899
Provision for excess and obsolete inventory	(829,083)	(671,103)
	<u>\$ 7,060,404</u>	<u>\$ 6,372,901</u>

During the quarter inventory expensed within cost of sales was \$6,358,613 (2009 - \$6,758,912) and \$14,628,101 for the first nine months (2009 - \$16,074,910). The Company also recorded inventory write downs during the quarter within cost of sales of \$133,184 (2009 - \$242,903) and \$158,184 in the first nine months (2009 - \$292,903).

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 August 31		Nine Months Ended August 31	
	2010	2009	2010	2009
Xuzhou-PAT Control Technologies Limited:				
Balance - beginning of period	\$ 4,952,539	\$ 5,195,772	\$ 5,093,970	\$ 5,754,421
Currency gain (loss) on financial statement translation	8,283	(10,038)	(24,556)	(697,001)
Equity earnings (loss)	81,151	109,610	(27,441)	237,924
Balance - end of period	<u>\$ 5,041,973</u>	<u>\$ 5,295,344</u>	<u>\$ 5,041,973</u>	<u>\$ 5,295,344</u>

The Company had sales to Xuzhou-PAT Control Technologies Limited of \$703,900 during the quarter (2009 - \$504,100) and \$1,773,600 for the first nine months (2009 - \$1,955,400). At August 31, 2010 accounts receivable with normal trade terms from Xuzhou-PAT Control Technologies Limited was \$1,122,000 (2009 - \$785,300).

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5. Short-term loans:

	August 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%	\$ 5,363,546	\$ 5,341,797
HDFC Bank Limited credit facility. Authorized to a maximum of 50.0 million Indian Rupees, of which 43.2 million Indian Rupees was drawn at August 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	970,168	-
	\$ 6,333,714	\$ 5,341,797

6. Long-term debt:

	August 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	\$ 2,851,880	\$ 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	2,693,903	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	-	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
	\$ 6,545,783	\$ 7,671,079
Less current portion	1,890,000	2,343,000
	\$ 4,655,783	\$ 5,328,079

The Company's mortgage of \$2.694 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 \$3.585 million and \$36.401 million for the assets of the Company in Canada and the United States. The Company's short-term loans 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 August 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 four years based on the current debt arrangements:

Due within 1 year	\$	1,890,000
Due between 1 and 2 years		942,000
Due between 2 and 3 years		997,000
Due between 3 and 4 years		2,716,783
	\$	6,545,783

7. Share capital:

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

There are currently 1,020,000 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 August 31, 2010, 1,110,665 (2009 – 1,105,665) 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, November 30, 2009	1,025,000	\$1.24
Options cancelled or expired during the period	(5,000)	\$1.29
Outstanding, August 31, 2010	1,020,000	\$1.24

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7. Share capital – continued:

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

Exercise Price	Number Outstanding at August 31, 2010	Weighted-Average Remaining Contractual Life (years)	Number Exercisable at August 31, 2010
\$1.20	600,000	7.87	550,000
\$1.26	45,000	1.25	45,000
\$1.29	150,000	2.67	100,000
\$1.32	225,000	1.42	225,000
	1,020,000	5.39	920,000

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		Nine Months Ended	
	August 31		August 31	
	2010	2009	2010	2009
Canada	\$ 1,851,920	\$ 936,088	\$ 5,849,957	\$ 2,956,189
United States	7,259,583	6,847,829	16,318,407	17,258,716
Offshore	4,182,521	5,803,179	11,571,699	16,009,018
Total	\$ 13,294,024	\$ 13,587,096	\$ 33,740,063	\$ 36,223,923

9. Statement of cash flows:

Other operating items

	Three Months Ended August 31		Nine Months Ended August 31	
	2010	2009	2010	2009
Accounts receivable	\$ 1,386,552	\$ (1,484,823)	\$ 3,000,982	\$ (564,050)
Unbilled revenue	(1,400,604)	114,337	(1,024,851)	2,431,946
Income taxes receivable	-	(33,989)	-	100,331
Inventory	616,400	565,168	(601,831)	420,352
Prepaid expenses and deposits	(112,223)	161,357	(477,823)	300,895
Accounts payable and accrued liabilities	(331,129)	1,239,865	(1,491,004)	1,143,213
Income taxes payable	12,487	(862)	(198,919)	-
	\$ 171,483	\$ 561,053	\$ (793,446)	\$ 3,832,687

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 August 31, 2010 the Company had in place \$2.6 million USD in forward currency contracts at an average exchange rate of \$1.0498 Canadian per U.S. dollar with a loss of \$8,530 on these contracts based on the actual exchange rate at August 31, 2010. The Company also had in place a forward currency contract for \$0.5 million USD at an average exchange rate of 534.75 CLP (Chilean Pesos) per U.S. dollar with a gain of \$22,500 on this contract at August 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.