Consolidated Financial Statements of

INTERNATIONAL ROAD DYNAMICS INC.

Years ended November 30, 2011 and 2010

MANAGEMENT'S REPORT

To the Shareholders of International Road Dynamics Inc.

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management is responsible for ensuring that these consolidated financial statements, which include amounts based on estimates and judgment, are consistent with information disclosed elsewhere in the annual report and reflect the company's business transactions and financial position.

Management is also responsible for the information disclosed in the management's discussion and analysis, including responsibility for the existence of an appropriate information system, procedures and controls to ensure that the information used by management internally and disclosed externally is complete and reliable. In addition, Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting 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 consolidated financial statements and provide their independent 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 24, 2012

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of International Road Dynamics Inc.

We have audited the accompanying consolidated financial statements of International Road Dynamics Inc., which comprise the consolidated balance sheets as at November 30, 2011 and November 30, 2010, the consolidated statements of earnings (loss), comprehensive income (loss), shareholders' equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of International Road Dynamics Inc. as at November 30, 2011 and November 30, 2010 and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

February 24, 2012
Saskatoon, Canada

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Balance Sheets

November 30, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ 917,161	$ 667,724
Accounts receivable	9,672,204	11,079,295
Unbilled revenue	3,868,862	4,025,218
Income taxes receivable	312,727	347,442
Inventory (note 3)	6,873,808	7,187,770
Prepaid expenses and deposits	784,963	601,811
	22,429,725	23,909,260
Investment tax credits recoverable (note 9)	2,856,573	3,267,486
Future income taxes (note 9)	1,358,000	738,000
Property, plant and equipment (note 4)	2,033,583	6,151,430
Equity investment (note 5)	4,781,709	5,118,780
	$ 33,459,590	$ 39,184,956
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term loans (note 6)	$ 6,558,389	$ 5,732,459
Accounts payable and accrued liabilities	5,205,917	5,360,417
Current portion of long-term debt (note 7)	903,000	6,328,234
Current portion of deferred income (note 8)	2,585,079	2,500,007
	15,252,385	19,921,117
Long-term debt (note 7)	178,867	-
Deferred income (note 8)	2,948,951	535,404
Shareholders' equity:		
Share capital (note 10)	12,071,009	12,071,009
Contributed surplus	262,900	246,587
Retained earnings	2,831,245	6,099,579
Accumulated other comprehensive income (loss)	(85,767)	311,260
	15,079,387	18,728,435
	$ 33,459,590	$ 39,184,956

Commitments (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, 2011 and 2010

		2011		2010
Sales	$	39,098,503	$	44,475,349
Cost of sales		29,555,078		31,657,105
		9,543,425		12,818,244
Administrative and marketing expenses		10,730,805		10,015,251
Research and development (note 11)		1,005,553		755,905
Foreign exchange loss (gain)		(14,130)		93,235
Amortization		776,132		964,029
Interest on short-term debt		324,655		262,084
Interest on long-term debt		217,479		423,221
Interest and other income		(278,023)		(17,726)
XPCT (note 5)		(37,688)		(328,636)
Earnings (loss) before income taxes		(3,181,358)		650,881
Provision for income taxes (note 9)		86,976		200,979
Net earnings (loss)	$	(3,268,334)	$	449,902
Earnings (loss) per share (note 12)				
Basic	$	(0.23)	$	0.03
Diluted	$	(0.23)	$	0.03

Consolidated Statements of Comprehensive Income (Loss)

Years ended November 30, 2011 and 2010

		2011		2010
Net earnings (loss)	$	(3,268,334)	$	449,902
Other comprehensive loss				
Unrealized foreign currency translation losses		(397,027)		(193,463)
Total comprehensive income (loss)	$	(3,665,361)	$	256,439

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Shareholders' Equity

Years ended November 30, 2011 and 2010

		2011		2010
Share capital (note 10):				
Balance, beginning and end of year	$	12,071,009	$	12,071,009
Contributed surplus:				
Balance, beginning of year	$	246,587	$	222,795
Fair value of stock options vested (note 10)		16,313		23,792
Balance, end of year	$	262,900	$	246,587
Retained earnings:				
Balance, beginning of year	$	6,099,579	$	5,649,677
Net earnings (loss)		(3,268,334)		449,902
Balance, end of year	$	2,831,245	$	6,099,579
Accumulated other comprehensive income (loss):				
Balance, beginning of year	$	311,260	$	504,723
Other comprehensive loss		(397,027)		(193,463)
Balance, end of year	$	(85,767)	$	311,260
Total retained earnings and accumulated other comprehensive income (loss)	$	2,745,478	$	6,410,839
Total shareholders' equity	$	15,079,387	$	18,728,435

Accumulated other comprehensive income (loss) 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, 2011 and 2010

	2011	2010
Cash flows from (used in):		
Operations:		
Net earnings (loss)	$ (3,268,334)	$ 449,902
Items not involving cash:		
Amortization	776,132	964,029
Bad debt expense	905,867	61,202
XPCT (note 5)	(37,688)	(328,636)
Recovery of future income taxes (note 9)	(620,000)	(385,000)
Deferred revenue (note 8)	(378,594)	47,590
Other income (note 8)	(158,085)	-
Investment tax credits recoverable	410,913	341,261
Stock based compensation (note 10)	16,313	23,792
Non cash working capital (note 15)	265,917	(288,528)
	(2,087,559)	885,612
Financing:		
Short-term loans	825,930	390,662
Repayment of long-term debt	(4,946,367)	(1,342,845)
	(4,120,437)	(952,183)
Investing:		
Dividend received from XPCT (note 5)	149,985	227,222
Proceeds on disposal of land and building	6,516,625	-
Additions to property, plant and equipment	(209,177)	(653,054)
	6,457,433	(425,832)
Increase (decrease) in cash	249,437	(492,403)
Cash and cash equivalents, beginning of year	667,724	1,160,127
Cash and cash equivalents, end of year	$ 917,161	$ 667,724

	2011	2010
Supplemental cash flow disclosure:		
Interest paid	$ 542,134	$ 615,305
Income taxes paid	$ 14,182	$ 358,631

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, 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 Traffic Limitada, International Road Dynamics Corporation and International Road Dynamics South Asia Pvt. Ltd. All significant inter-company accounts and transactions have been eliminated.

(b) Cash and cash equivalents:

Cash and cash equivalents 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.

Deferred revenue represents payments received in advance from customers.

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 subject to significant judgment. 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) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment 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.

1. Significant accounting policies - continued:

(h) 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 Traffic 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.

The functional currency of the Company's equity investment in Xuzhou-PAT Control Technologies Limited (XPCT) is the Chinese Yuan. 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.

1. Significant accounting policies - continued:

(i) Financial instruments:

All financial assets are classified as one of the following: held-to-maturity, loans and receivables, held for trading or available-for-sale. All financial liabilities are 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.

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.

1. Significant accounting policies - continued:

(j) 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.

(k) 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.

(l) 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.

(m) Earnings (loss) per share:

Basic earnings (loss) 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. International Financial Reporting Standards (IFRS):

The Canadian Accounting Standards Board has announced that Canadian publicly accountable enterprises will be required to report under IFRS as a replacement guidance for Canadian generally accepted accounting principles (GAAP) effective for fiscal years beginning on or after January 1, 2010. Therefore, the Company will adopt IFRS as the basis of preparation for its interim and annual financial statements for periods beginning on December 1, 2011 with a transition date of December 1, 2010 to allow for comparative financial information. The Company is currently in the process of analyzing the implications of adopting IFRS and the impact of any differences in accounting policies is not yet known.

3. Inventory:

	2011	2010
Raw materials	$ 802,122	$ 673,285
Original equipment manufacturer materials	3,506,499	4,146,991
Work in process	1,713,575	1,651,166
Finished goods	1,897,837	1,312,493
Provision for excess and obsolete inventory	(1,046,225)	(596,165)
	$ 6,873,808	$ 7,187,770

During the year, inventory expensed within cost of sales was $20,254,245 (2010 - $18,866,239). The Company also recorded inventory write downs within cost of sales of $551,134 (2010 - $355,237).

4. Property, plant and equipment:

			2011	2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ -	$ -	$ -	$ 275,000
Buildings	155,008	19,750	135,258	3,416,498
Office equipment	987,680	815,747	171,933	302,128
Automotive	1,354,051	795,783	558,268	609,607
Computer equipment	2,118,942	1,799,357	319,585	409,200
Computer software	1,245,292	1,227,544	17,748	37,038
Manufacturing equipment	2,761,031	1,930,240	830,791	1,101,959
	$ 8,622,004	$ 6,588,421	$ 2,033,583	$ 6,151,430

Amortization of property, plant and equipment was $845,697 for 2011 (2010 - $1,085,421) of which $69,565 (2010 - $121,392) was included in the cost of inventory.

5. Equity investment:

		2011		2010
Xuzhou-PAT Control Technologies Limited (XPCT)				
Balance – beginning of year	$	5,118,780	$	5,093,970
Currency gain (loss) on financial statement translation		295,226		(76,604)
Equity earnings (loss)		(482,312)		328,636
Dividend received		(149,985)		(227,222)
Balance, end of year	$	4,781,709	$	5,118,780

The Company had sales to XPCT of $1,453,739 during the year (2010 - $2,136,410). At November 30, 2011 accounts receivable from XPCT was $752,839 (2010 - $431,816).

		2011		2010
Other expenses (income) - XPCT				
Equity loss (earnings)	$	482,312	$	(328,636)
Gain on settlement of vendor loan (note 7)		(520,000)		-
	$	(37,688)	$	(328,636)

The equity loss for the year ended November 30, 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 7, the Company recorded a gain on settlement of the vendor loan in the amount of $520,000.

There is a difference of approximately $2.0 million between the net book value of the Company's investment and its proportionate share of the assets and liabilities reported by XPCT primarily due to goodwill on acquisition.

6. Short-term loans:

		2011		2010
Royal Bank of Canada credit facility. Authorized to a maximum of $8.5 million with interest at bank prime plus 1.55% and secured by a general security agreement (note 7)	$	5,624,605	$	4,784,117
HDFC Bank Limited credit facility. Authorized to a maximum of 50.0 million Indian Rupees (approximately $990,000), of which 47.2 million Indian Rupees was drawn at November 30, 2011, with interest at 12.5% and secured by a standby letter of credit issued by Royal Bank of Canada and guaranteed by Export Development Canada		933,784		948,342
	$	6,558,389	$	5,732,459

The Company has issued letters of credit against the Royal Bank of Canada credit facility in the amount of $103,220 as of November 30, 2011 (2010 - $173,316) as bid and performance guarantees on certain contracts.

The Company has an additional credit facility of $1.0 million US with Royal Bank of Canada that is guaranteed by Export Development Canada for the support of performance guarantees provided by the Company's subsidiaries. At November 30, 2011 performance guarantees totaling $663,887 US are outstanding.

7. Long-term debt:

		2011		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	$	1,081,867	$	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
		1,081,867		6,328,234
Less current portion		903,000		6,328,234
	$	178,867	$	-

7. 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 November 30, 2011 and expects to be in compliance with the fixed charge coverage covenant at November 30, 2012. As a result, the amount of $178,867 being the portion of long-term debt repayable beyond 12 months is classified as long-term debt at November 30, 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.

In April 2011, the Company paid down the full value of the mortgage in conjunction with the sale/leaseback transaction described in note 8.

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.

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

Fiscal year ended November 30:		
2012	$	903,000
2013		178,867
	$	1,081,867

8. Deferred income:

	2011	2010
Deferred gain on sale of property	$ 2,877,213	$ –
Deferred revenue	2,656,817	3,035,411
	5,534,030	3,035,411
Less current portion		
Deferred gain on sale of property	252,936	–
Deferred revenue	2,332,143	2,500,007
	2,585,079	2,500,007
	$ 2,948,951	$ 535,404

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 year the gain on sale recognized in other income was $158,085.

Commitments:

The following represents the aggregate scheduled payments comprised of base rent and operating costs 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	3,688,232
	$ 6,583,232

The Company has provided a guarantee in the amount of 7.5 million Yuan ($1,215,559) for 50% of a bank loan to XPCT. The guarantee provided by the Company is proportionate to its shareholding in XPCT.

9. Income taxes:

Income tax expense attributable to earnings differs from the amounts computed by applying the combined federal and provincial income tax rate of 28.6% (2010 – 30.1%) to pretax earnings (loss) as a result of the following:

	2011	2010
Earnings (loss) before income taxes (recovery)	$ (3,181,358)	$ 650,881
Computed "expected" tax expense (recovery)	(911,000)	196,000
Adjustments to income taxes resulting from:		
Non-deductible expenses	47,000	56,000
Manufacturing and processing profits deduction	7,000	(18,000)
Equity loss (earnings)	138,000	(99,000)
Non-taxable capital gain	(218,000)	-
Rate difference on foreign income (losses)	(277,000)	25,000
Change in income tax rates	30,976	40,979
Change in valuation allowance	1,270,000	-
	$ 86,976	$ 200,979

	2011	2010
The provision for income taxes is comprised of:		
Provision for current income taxes	$ 706,976	$ 585,979
Recovery of future income taxes	(620,000)	(385,000)
	$ 86,976	$ 200,979
Effective income tax rate	(2.7)%	30.9%

9. 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.

	2011	2010
Future non-current tax assets (liabilities):		
Capital loss carryforwards	$ -	$ 108,000
Less valuation allowance	-	(108,000)
Investment tax credits	(507,000)	(539,000)
Non-capital losses available for carryforward	1,681,000	700,000
Less valuation allowance	(1,378,000)	-
Property and equipment and intangible assets	300,000	324,000
Unclaimed research and development	355,000	253,000
Deferred income	907,000	-
Net non-current future income tax assets	$ 1,358,000	$ 738,000

At November 30, 2011 the Company has $5,328,681 of non-capital losses of which $790,968 can be carried forward to the end of the 2018 fiscal year and $3,358,731 can be carried forward to the end of the 2019 fiscal year and applied against taxable income in India and $1,178,982 can be carried forward to the end of the 2028 fiscal year and applied against taxable income in Canada. A valuation allowance has been applied to losses in India.

At November 30, 2011, the Company has recognized investment tax credits of $2,856,573 (2010 - $3,267,486) 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 expire as follows:

Years	Federal	Saskatchewan	2011 Total	2010 Total
2014 – 2019	$ –	$ 1,251,530	$ 1,251,530	$ 1,505,420
After 2023	1,605,043	–	1,605,043	1,762,066
Total	$ 1,605,043	$ 1,251,530	$ 2,856,573	$ 3,267,486

10. Share capital:

(a) Authorized:

An unlimited number of common voting shares.

(b) Share transactions:

	Number of shares	Amount
Balance, November 30, 2011 and 2010	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, 2011, 238,165 (2010 – 1,110,665) 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, 2011, the following stock options to officers, employees and others were outstanding:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding at November 30, 2011	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at November 30, 2011	Weighted-Average Exercise Price
$ 0.31	1,010,000	4.91	$ 0.31	-	$ -
1.20	600,000	6.62	1.20	575,000	1.20
1.29	110,000	1.42	1.29	110,000	1.29
1.32	172,500	0.17	1.32	172,500	1.32
	1,892,500	4.82	$ 0.74	857,500	$ 1.24

10. 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, 2009	1,025,000	$ 1.24
Options forfeited	(5,000)	1.29
Outstanding, November 30, 2010	1,020,000	$ 1.24
Options granted	1,010,000	0.31
Options forfeited and expired	(137,500)	1.29
Outstanding, November 30, 2011	1,892,500	$ 0.74

Outstanding options expire between February 1, 2012 and February 28, 2019.

During the year the Company recorded stock based compensation expense of $16,313 (2010 – $23,792) along with a corresponding increase in contributed surplus in shareholders’ equity for options vesting during the year.

10. 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 13, 2010, 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.

11. Research and development:

	2011	2010
Research and development expenditures	$ 1,392,553	$ 1,233,905
Less grants and investment tax credits	(387,000)	(478,000)
	$ 1,005,553	$ 755,905

12. Per share amounts:

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

	2011	2010
Net earnings (loss)	$ (3,268,334)	$ 449,902
Weighted average number of common shares outstanding:		
Basic	13,998,337	13,998,337
Effect of stock options	–	–
Diluted	13,998,337	13,998,337
Earnings (loss) per share:		
Basic	$ (0.23)	$ 0.03
Diluted	$ (0.23)	$ 0.03

The Company has stock options outstanding to purchase 1,892,500 common shares at November 30, 2011 (2010 – 1,020,000). At November 30, 2011 and 2010, none of the options available to purchase common shares were included in the computation of diluted earnings per share as amounts were anti-dilutive.

13. 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 and unbilled revenue. 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 maximum exposure to credit risk is represented by the carrying amount of its receivables and the balance of foreign exchange contracts.

The cash balances and other foreign currency forward contracts are held and transacted with bank and financial counterparties that are credit worthy with high credit ratings.

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 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:

	2011	2010
Government	$ 1,881,263	$ 3,695,784
Non-Government		
Secured		
Letter of credit	4,681	43,946
Export Development Canada insured	6,401,734	4,903,376
Other	2,338,368	2,906,795
Allowance for doubtful accounts	(953,842)	(470,606)
	$ 9,672,204	$ 11,079,295

13. Financial assets and liabilities - continued:

The following summarizes the changes in allowance for doubtful accounts:

	2011	2010
Balance, beginning of year	$ 470,606	$ 607,686
Bad debt expense	905,867	61,202
Write offs	(426,243)	(144,992)
Foreign currency revaluation	3,612	(53,290)
	$ 953,842	$ 470,606

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 74% of the Company’s sales are denominated in U.S. dollars. During the fiscal year 2011 the Canadian dollar strengthened against the U.S. dollar by approximately 5% compared to fiscal year 2010. This resulted in a decrease in the Canadian dollar value of the Company’s U.S. dollar denominated sales of approximately $1.4 million during the 2011 fiscal year. This impact is partially offset by the corresponding lower value of U.S. dollar denominated expenses.

From time to time the Company enters into forward foreign exchange contracts to sell U.S. dollars to hedge its net accounts receivable denominated in that currency. 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, 2011 the Company has foreign currency exchange contracts to sell $2.5 million U.S. dollars at an average exchange rate of 1.0058. These contracts mature within the next 91 days and have a loss of $66,000 based on the actual exchange rate at November 30, 2011. In addition, the Company had in place $400 thousand USD in forward currency contracts at an average exchange rate of 491.82 CLP (Chilean pesos) per U.S. dollar with a loss of approximately $28,000 based on the actual exchange rate at November 30, 2011. Gains and losses on all foreign exchange contracts are recognized in earnings.

13. Financial assets and liabilities - continued:

The Company also has exposure to other currencies including the Indian Rupee, Chilean Peso and Chinese Yuan primarily as a result of its operations in those countries. The Company's investments in these operations 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.

	Carrying Amount of Asset (Liability) at November 30, 2011	Foreign Exchange Risk 5% increase in Canadian $ Income	OCI
Net US dollar foreign currency exposure	$ 4,846,000	$ (242,300)	$ -
US dollar foreign currency forward contracts	$ (66,000)	$ 125,000	$ -
Net Indian Rupee foreign currency exposure	$ 288,000	$ -	$ (14,400)
Net Chilean Peso foreign currency exposure	$ 629,000	$ -	$ (31,450)
Net Chinese Yuan foreign currency exposure	$ 4,781,709	$ -	$ (239,085)

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, 2011 approximately 14% 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, 2011, a 1% increase or decrease in interest rates, with all other variables held constant, would have resulted in an increase or decrease of $47,000 to the Company’s net earnings for the year. The Company does not use derivative financial instruments to mitigate interest rate risk.

13. Financial assets and liabilities - continued:

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 and a 50.0 million Indian Rupees (approximately $990,000) line of credit with HDFC Bank Limited. The line of credit with HDFC Bank Limited is guaranteed by Export Development Canada. At November 30, 2011 the remaining amount available to be drawn under these credit facilities are approximately $1.5 million and $0.1 million, respectively.

Under the terms of its credit facilities with Royal Bank of Canada, as referred to in Note 7, the Company is required to meet certain covenants. In addition, the terms of the credit facility with Royal Bank of Canada provide that borrowings are repayable on demand and that Royal Bank of Canada may cancel or restrict the availability of any unutilized portion at any time.

The guarantee provided by Export Development Canada is renewable on an annual basis, with the current guarantee expiring on March 15, 2012.

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, 2011	Contractual Cash Flows Including Interest	< 1 year	1 to 3 years
Short-term loans	$ 6,558	$ 6,844	$ 6,844	$ -
Accounts payable and accrued liabilities	$ 5,206	$ 5,206	$ 5,206	$ -
Long-term debt	$ 1,082	$ 1,121	$ 941	$ 180

* 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.

13. Financial assets and liabilities - continued:

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 approximates its carrying value as at November 30, 2011. The fair value of the Company's long-term debt was estimated based on discounted future cash flows using current rates for similar debt subject to similar rates and maturities.

14. Segmented information:

The Company operates in one operating 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:

	2011	2010
Canada	$ 3,662,323	$ 7,781,464
United States	20,866,215	21,135,100
Overseas	14,569,965	15,558,785
	$ 39,098,503	$ 44,475,349

15. Statements of cash flows:

Non cash working capital

	2011	2010
Accounts receivable	$ 117,207	$ 2,387,089
Unbilled revenue	(23,049)	(143,445)
Income taxes receivable	34,715	(347,442)
Inventory	254,696	(693,477)
Prepaid expense and deposits	(183,152)	(129,850)
Accounts payable and accrued liabilities	65,500	(1,117,120)
Income taxes payable	-	(244,283)
	$ 265,917	$ (288,528)

16. 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 interest bearing debt and the items included in the consolidated statement of shareholders' equity as capital.

17. Comparative figures:

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