INTERNATIONAL ROAD DYNAMICS INC.
Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements
Period Ended May 31, 2012

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

July 12, 2012

[Signed]	[Signed]
Terry Bergan	Edward (Ted) A. Mahood, CA
Chief Executive Officer	Chief Financial Officer

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Financial Position

Unaudited

Canadian dollars	Note	May 31, 2012	November 30, 2011	December 1, 2010
			(note 17)	(note 17)
Assets				
Current assets:				
Cash and cash equivalents		$ 977,192	$ 917,161	$ 667,724
Accounts receivable		11,251,738	9,672,204	11,079,295
Unbilled revenue		1,988,276	3,868,862	4,025,218
Income taxes receivable		277,675	312,727	347,442
Inventories	4	7,154,461	6,873,808	7,187,770
Prepaid expenses and deposits		903,780	784,963	601,811
		22,553,122	22,429,725	23,909,260
Property, plant and equipment		1,812,135	2,033,583	9,308,836
Investment in XPCT	5	4,700,006	4,781,709	5,118,780
Investment tax credits recoverable		2,994,022	2,856,573	3,267,486
Deferred taxes		851,707	618,556	-
		$ 32,910,992	$ 32,720,146	$ 41,604,362
Liabilities and Shareholders' Equity				
Current liabilities:				
Short-term loans	6	$ 6,499,164	$ 6,558,389	$ 5,732,459
Accounts payable and accrued liabilities		5,784,841	5,205,917	5,360,417
Current portion of deferred revenue		2,660,495	2,332,143	2,500,007
Current portion of long-term debt	7	636,566	903,000	6,328,234
		15,581,066	14,999,449	19,921,117
Deferred revenue		499,718	324,674	535,404
Long-term debt	7	-	178,867	-
Deferred taxes		-	-	73,453
Shareholders' equity:				
Share capital	8	12,071,009	12,071,009	12,071,009
Contributed surplus		269,736	262,900	246,587
Retained earnings		4,644,894	4,922,356	8,398,874
Accumulated other comprehensive income (loss)		(155,431)	(39,109)	357,918
		16,830,208	17,217,156	21,074,388
		$ 32,910,992	$ 32,720,146	$ 41,604,362

Commitments 5,12

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Earnings (Loss)

Unaudited

			Three months ended			Six months ended		
			May 31,		May 31,		May 31,		May 31,
Canadian dollars	Note		2012		2011		2012		2011
					(note 17)				(note 17)
Revenue		$	10,573,179	$	10,717,389	$	19,489,423	$	19,633,712
Cost of goods sold	9		7,400,860		8,999,046		13,955,457		15,765,041
			3,172,319		1,718,343		5,533,966		3,868,671
Administrative and marketing expenses	9		2,726,883		2,585,335		5,146,144		4,955,524
Research and development (net)	9		265,461		249,913		506,745		510,700
Financing costs (net)	10		(86,632)		304,121		160,825		521,019
Other expense (income)			(12,678)		38,483		(26,382)		36,032
XPCT loss (earnings)	5		(5,391)		(94,728)		68,055		(34,970)
Earnings (loss) before income taxes			284,676		(1,364,781)		(321,421)		(2,119,634)
Income tax expense (recovery)			49,219		(486,242)		(43,959)		(548,966)
Net earnings (loss)		$	235,457	$	(878,539)	$	(277,462)	$	(1,570,668)
Earnings (loss) per share	11								
Basic		$	0.02	$	(0.06)	$	(0.02)	$	(0.11)
Diluted		$	0.02	$	(0.06)	$	(0.02)	$	(0.11)

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

Unaudited

		Three months ended			Six months ended		
		May 31,		May 31,		May 31,		May 31,
Canadian dollars		2012		2011		2012		2011
Net earnings (loss)	$	235,457	$	(878,539)	$	(277,462)	$	(1,570,668)
Other comprehensive income (loss)								
Unrealized foreign currency translation gains (losses)		(277,453)		(43,460)		(116,322)		(356,409)
Total comprehensive Income (loss)	$	(41,996)	$	(921,999)	$	(393,784)	$	(1,927,077)

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited

		Attributable to equity holders of the Company									
Canadian dollars	Note		Share capital		Contributed surplus		Retained earnings		Accumulated other comprehensive income (loss)		Total shareholders' equity
Balance at December 1, 2010	17	$	12,071,009	$	246,587	$	8,398,874	$	357,918	$	21,074,388
Net loss							(1,570,668)				(1,570,668)
Unrealized foreign currency translation losses									(356,409)		(356,409)
Share-based compensation	8				7,764						7,764
Balance at May 31, 2011		$	12,071,009	$	254,351	$	6,828,206	$	1,509	$	19,155,075
Net loss							(1,905,850)				(1,905,850)
Unrealized foreign currency translation losses									(40,618)		(40,618)
Share-based compensation					8,549						8,549
Balance at November 30, 2011		$	12,071,009	$	262,900	$	4,922,356	$	(39,109)	$	17,217,156
Balance at December 1, 2011		$	12,071,009	$	262,900	$	4,922,356	$	(39,109)	$	17,217,156
Net loss							(277,462)				(277,462)
Unrealized foreign currency translation gains (losses)									(116,322)		(116,322)
Share-based compensation	8				6,836						6,836
Balance at May 31, 2012		$	12,071,009	$	269,736	$	4,644,894	$	(155,431)	$	16,830,208

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

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Cash Flows

Unaudited

Canadian dollars	Note	Three months ended May 31, 2012	Three months ended May 31, 2011	Six months ended May 31, 2012	Six months ended May 31, 2011
			(note 17)		(note 17)
Cash flows from (used in):					
Operations:					
Net earnings (loss)		$ 235,457	$ (878,539)	$ (277,462)	$ (1,570,668)
Adjustments for:					
Deferred revenue		(43,029)	372,328	503,396	(378,506)
Depreciation	9	139,044	229,083	297,201	443,319
Share-based compensation	8	3,418	3,882	6,836	7,764
XPCT loss (earnings)	5	(5,391)	(94,728)	68,055	(34,970)
Interest expense	10	94,627	152,556	202,882	319,924
Loss on disposal of land and building		-	70,394	-	70,394
Income tax expense (recovery)		49,219	(486,242)	(43,959)	(548,966)
Income taxes paid		(96,468)	(32,912)	(112,807)	(153,519)
Investment tax credits		(122,782)	(152,999)	(178,782)	(217,500)
Other operating items	14	556,301	(451,883)	406,470	(44,292)
		810,396	(1,269,060)	871,830	(2,107,020)
Investing:					
Net proceeds on sale of property		-	6,516,625	-	6,516,625
Additions to property, plant and equipment		(7,476)	(70,765)	(109,532)	(113,148)
		(7,476)	6,445,860	(109,532)	6,403,477
Financing:					
Interest paid		(94,627)	(152,556)	(202,882)	(319,924)
Short-term loans		(384,681)	(1,968,899)	(59,225)	(401,090)
Repayment of long-term debt		(224,215)	(2,851,224)	(445,301)	(3,772,714)
		(703,523)	(4,972,679)	(707,408)	(4,493,728)
Increase (decrease) in cash and cash equivalents		99,397	204,121	54,890	(197,271)
Exchange rate changes on foreign currency cash balances		(42,566)	8,137	5,141	(710)
Cash and cash equivalents, beginning of period		920,361	257,485	917,161	667,724
Cash and cash equivalents, end of period		$ 977,192	$ 469,743	$ 977,192	$ 469,743

See accompanying notes to interim condensed consolidated financial statements.

1. Reporting entity

International Road Dynamics Inc. is incorporated under the *Canada Business Corporations Act*. The address of its registered office is 702 43rd Street East, Saskatoon, Saskatchewan, Canada, S7K 3T9. The interim condensed consolidated financial statements as at and for the period ended May 31, 2012 comprise International Road Dynamics Inc. and its subsidiaries (together the "Company") and the Company's interest in its associate. The Company is a highway traffic management technology company specializing in supplying products and integrated systems to the global Intelligent Transportation Systems (ITS) industry.

2. Basis of preparation

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and, in particular, IAS 34, *Interim Financial Reporting*. These interim condensed consolidated financial statements represent the Company's presentation of its results and financial position under IFRS and were prepared in accordance with IFRS and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements.

These interim condensed consolidated financial statements have been prepared in accordance with accounting policies the Company expects to adopt in its November 30, 2012 financial statements. An explanation of how the transition to IFRS has affected the interim condensed consolidated financial statements of the Company is provided in note 17.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on July 12, 2012.

(b) Basis of presentation

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

These interim condensed consolidated financial statements have been prepared on the historical cost basis except for derivative instruments at fair value through profit and loss.

The preparation of the interim condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses and disclosures of contingent assets and liabilities at the dates of the condensed consolidated financial statements. Actual results may vary from these estimates.

Estimates, judgments and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Basis of preparation – continued:

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the interim condensed consolidated financial statements are as follows:

(i) Stage of completion of contracted projects

In recording contracted project revenue, the Company makes estimates of the stage of completion of each project by comparing the actual costs incurred to the total estimated costs of the project. These estimates are subject to change which would impact the timing and amount of revenue recognition.

(ii) Impairments

Significant judgment is required in assessing the carrying values of the Company's assets relative to recoverable amounts. The primary assets subject to impairment assessments include accounts receivable and unbilled revenue, inventory, property, plant and equipment and equity investments. Assessments of recoverability are typically dependent upon cash flow assumptions such as future prices, future costs, sustaining capital requirements and discount rates.

(iii) Deferred taxes and investment tax credits

The Company operates in a number of tax jurisdictions and is, therefore, required to estimate its income taxes in each of these tax jurisdictions in preparing its financial statements. The Company is also engaged in scientific research and development giving rise to investment tax credits that may be available to reduce future taxes payable in certain jurisdictions. In calculating income taxes and investment tax credits consideration is given to factors such as current and future tax rates in the different jurisdictions, non-deductible expenses, qualifying expenditures and changes in tax law. In addition the Company must assess the ability of the Company to realize deferred taxes and investment tax credits reported as assets based on management's expectations of future taxable income in the related jurisdiction.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently by all reporting entities of the Company and to all periods presented in these interim condensed consolidated financial statements and in preparing the opening IFRS statement of financial position at December 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company and include the following wholly-owned entities: PAT Traffic Limitada, International Road Dynamics Corporation and International Road Dynamics South Asia Pvt. Ltd.

3. Significant accounting policies - continued:

The financial statements of subsidiaries are included in the interim condensed consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are consistent with the policies adopted by the Company.

(b) New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the interim period ended May 31, 2012 and have not been applied in preparing these interim condensed consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Company's 2016 consolidated financial statements and is expected to impact the classification and measurement of financial assets. The extent of the impact has not been determined.

4. Inventories:

	May 31, 2012	November 30, 2011	December 1, 2010
Raw materials	$ 881,151	$ 802,122	$ 673,285
Original equipment manufacturer materials	4,003,171	3,506,499	4,146,991
Work in process	1,696,725	1,713,575	1,651,166
Finished goods	1,647,383	1,897,837	1,312,493
Provision for excess and obsolete inventory	(1,073,969)	(1,046,225)	(596,165)
	$ 7,154,461	$ 6,873,808	$ 7,187,770

During the quarter, inventories expensed within cost of goods sold was $5,035,878 (2011 - $6,348,177) and $8,967,834 for the first six months (2011 - $10,658,283). During the quarter the Company also recorded an incremental provision for excess and obsolete inventories within cost of goods sold of $66,000 (2011 - $60,000) and $116,000 for the first six months (2011- $60,000).

5. Investment in XPCT:

	May 31, 2012	November 30, 2011	December 1, 2010 (note 17)
Xuzhou-PAT Control Technologies Limited (XPCT)			
Balance – beginning of period	$ 4,781,709	$ 5,118,780	$ 5,093,970
Currency gain (loss) on financial statement translation	(13,648)	295,226	(76,604)
Equity earnings (loss)	(68,055)	(482,312)	328,636
Dividend received	-	(149,985)	(227,222)
Balance – end of period	$ 4,700,006	$ 4,781,709	$ 5,118,780

The Company had no sales to XPCT during the quarter (2011 - $741,609) and $352,450 for the first six months (2011 - $1,446,460). At May 31, 2012 accounts receivable from XPCT were $353,667 (May 31, 2011 - $1,511,589; November 30, 2011 - $752,839; December 1, 2010 - $431,816).

	Three months ended May 31, 2012	Three months ended May 31, 2011	Six months ended May 31, 2012	Six months ended May 31, 2011
XPCT loss (earnings)				
Equity loss (earnings)	$ (5,391)	$ (94,728)	$ 68,055	$ 485,030
Gain on settlement of vendor loan (note 7)	-		-	(520,000)
	$ (5,391)	$ (94,728)	$ 68,055	$ (34,970)

The equity loss for the period ended May 31, 2011 includes charges of $507,650 for values assigned on acquisition related to receivables and inventory subject to the dispute with the vendor. In conjunction with the settlement of claims against the vendor as described in note 7, the Company recorded a gain on settlement of the vendor loan in the amount of $520,000.

The net book value of the Company’s investment exceeds its proportionate share of the assets and liabilities reported by XPCT by approximately $2 million primarily due to goodwill on acquisition.

The Company has provided a guarantee in the amount of 7.5 million Yuan (approximately $1,213,000) for 50% of a bank loan to XPCT. The guarantee provided by the Company is proportionate to its shareholding in XPCT.

6. Short-term loans:

	May 31, 2012	November 30, 2011	December 1, 2010
Royal Bank of Canada credit facility. Authorized to a maximum of $8.5 million with interest at bank prime plus 3.5% and secured by a general security agreement (note 7).	$ 5,641,012	$ 5,624,605	$ 4,784,117
HDFC Bank Limited credit facility. Authorized to a maximum of 50.0 million Indian Rupees (approximately $912,000), of which 47.0 million Indian Rupees was drawn at May 31, 2012, 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	858,152	933,784	948,342
	$ 6,499,164	$ 6,558,389	$ 5,732,459

The Company has no issued letters of credit against the Royal Bank of Canada ("RBC") credit facility as of May 31, 2012 (November 30, 2011 - $103,220; December 1, 2010 - $173,316) as bid and performance guarantees on certain contracts.

The Company has an additional credit facility of $1.0 million US with RBC that is guaranteed by Export Development Canada ("EDC") for the support of performance guarantees provided by the Company's subsidiaries. At May 31, 2012 performance guarantees totaling $689,431, were outstanding (November 30, 2011 - $663,887; December 1, 2010 - $734,566).

In June 2012, the Company amended its credit facility agreement with the RBC and as a result, the interest rate increased from prime + 1.55% to prime + 3.5% effective May 29, 2012.
All other terms and conditions remain the same.

See note 16 for a discussion of liquidity risk.

7. Long-term debt:

	May 31, 2012	November 30, 2011	December 1, 2010
Royal Bank of Canada term loan, repayable in monthly installments of $78,430 including interest at a fixed rate of 5.65%. Due February 28, 2013	$ 636,566	$ 1,081,867	$ 2,656,302
Royal Bank of Canada mortgage repayable in monthly installments 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
	636,566	1,081,867	6,328,234
Less current portion	(636,566)	(903,000)	(6,328,234)
	$ -	$ 178,867	$ -

The Company's short-term loans and term loan with the RBC 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 RBC the Company is subject to certain covenants. See note 16 for a discussion of liquidity risk.

7. Long-term debt - continued:

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.

8. Share capital:

(a) Authorized:

An unlimited number of common voting shares, without par value.

(b) Share transactions:

	Number of shares	Amount
Balance, December 1, 2010 and November 30, 2011	13,998,337	$ 12,071,009
Balance, December 1, 2011 and May 31, 2012	13,998,337	$ 12,071,009

(c) Options:

Under the terms of the Company’s stock option plan, 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 May 31, 2012, 415,665 (November 30, 2011 – 238,165, December 1, 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.

8. Share capital - continued:

At May 31, 2012, the following stock options to officers, employees and others were outstanding:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding at May 31, 2012	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at May 31, 2012	Weighted-Average Exercise Price
$ 0.31	885,000	4.41	$ 0.31	-	$ -
0.34	200,000	4.51	0.34	-	-
1.20	525,000	6.75	1.20	525,000	1.20
1.29	105,000	0.92	1.29	105,000	1.29
	1,715,000	4.92	$ 0.65	630,000	$ 1.21

The Company has granted stock options to officers, employees and others as follows:

	Number of Common Shares Issuable	Weighted Average Exercise Price
Outstanding, December 1, 2010	1,020,000	$ 1.24
Options forfeited	(32,500)	1.32
Outstanding, May 31, 2011	987,500	$ 1.24
Outstanding, November 30, 2011	1,892,500	$ 0.74
Options granted	200,000	0.34
Options expired	(167,500)	1.32
Options forfeited	(210,000)	0.68
Outstanding, May 31, 2012	1,715,000	$ 0.65

Outstanding options expire between May 1, 2013 and February 28, 2019.

Share-based compensation expense of $3,418 and $6,836 was recorded for the three and six months ended May 31, 2012 ($3,882 and $7,764 in 2011) along with a corresponding increase in contributed surplus in shareholders' equity for options vesting during the period.

9. Expense classification:

(a) Personnel expenses:

	Three months ended May 31, 2012	Three months ended May 31, 2011	Six months ended May 31, 2012	Six months ended May 31, 2011
Wages and salaries	$ 2,874,243	$ 3,071,647	$ 5,568,179	$ 6,053,036
Other employment benefits	428,137	453,684	819,044	860,611
	$ 3,302,380	$ 3,525,331	$ 6,387,223	$ 6,913,647

Personnel expenses are allocated to cost of goods sold, administrative and marketing expenses and research and development on the basis of the functions performed by employees.

(b) Depreciation expense:

	Three months ended May 31, 2012	Three months ended May 31, 2011	Six months ended May 31, 2012	Six months ended May 31, 2011
Depreciation included in cost of goods sold	$ 95,675	$ 119,093	$ 202,175	$ 253,480
Depreciation included in administrative and marketing expenses	43,369	109,990	95,026	189,839
	$ 139,044	$ 229,083	$ 297,201	$ 443,319

10. Financing costs, net

	Three months ended May 31, 2012	Three months ended May 31, 2011	Six months ended May 31, 2012	Six months ended May 31, 2011
Interest on short-term debt	$ 82,049	$ 79,800	$ 173,942	$ 153,467
Interest on long-term debt	12,578	72,756	28,940	166,457
Interest expense	94,627	152,556	202,882	319,924
Other financing costs	-	140,523	-	140,523
Foreign exchange losses (gains)	(328,630)	(43,578)	(122,428)	32,252
Loss on derivatives	147,371	54,620	80,371	28,320
	$ (86,632)	$ 304,121	$ 160,825	$ 521,019

11. Earnings (loss) per share:

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

	Three months ended May 31, 2012	Three months ended May 31, 2011	Six months ended May 31, 2012	Six months ended May 31, 2011
Net earnings (loss)	$ 235,457	$ (878,539)	$ (277,462)	$ (1,570,668)
Weighted average number of common shares outstanding:				
Basic	13,998,337	13,998,337	13,998,337	13,998,337
Effect of stock options	-	-	-	-
Diluted	13,998,337	13,998,337	13,998,337	13,998,337
Earnings (loss) per share:				
Basic	$ 0.02	$ (0.06)	$ (0.02)	$ (0.11)
Diluted	$ 0.02	$ (0.06)	$ (0.02)	$ (0.11)

The Company has stock options outstanding to purchase 1,715,000 common shares at May 31, 2012 (2011 – 987,500). None of the options available to purchase common shares were included in the computation of diluted earnings (loss) per share as amounts were anti-dilutive.

12. Operating leases:

The Company leases land and building under an operating lease expiring on April 14, 2023. Contractual lease obligations comprised of base rent and operating costs for the next five years are as follows:

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	3,398,788
	$ 6,293,788

During the quarter $144,722 (2011 – $73,981) was recognized as an expense in respect of the operating lease for land and building and $289,500 for the six months ended May 31, 2012 (2011 – $73,981).

13. 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 revenue in the following geographic areas:

	Three months ended		Six months ended	
	May 31, 2012	May 31, 2011	May 31, 2012	May 31, 2011
Canada	$ 665,721	$ 1,177,254	$ 1,110,274	$ 1,728,750
United States	6,223,277	6,019,856	11,458,685	9,887,468
Offshore	3,684,181	3,520,279	6,920,464	8,017,494
Total	$ 10,573,179	$ 10,717,389	$ 19,489,423	$ 19,633,712

14. Interim condensed consolidated statements of cash flows:

Other operating items

	Three months ended		Six months ended	
	May 31, 2012	May 31, 2011	May 31, 2012	May 31, 2011
Accounts receivable	$ (244,067)	$ (849,534)	$ (1,630,231)	$ 210,569
Unbilled revenue	1,029,184	(88,947)	1,862,963	(107,186)
Inventories	(450,568)	337,264	(248,503)	315,551
Prepaid expenses and deposits	(252,232)	(224,319)	(120,466)	(426,550)
Accounts payable and accrued liabilities	473,985	373,653	542,708	(36,676)
	$ 556,301	$ (451,883)	$ 406,470	$ (44,292)

15. Key management personnel compensation:

In addition to salaries and benefits, executive officers participate in the share option program (note 8). The Company compensates external directors through fees payable in cash or shares of the Company at the directors discretion.

Executive officers are subject to a mutual term of notice of four months. Upon resignation at the Company's request executive officers are entitled to termination benefits ranging from 12 to 18 months' gross salary.

Key management compensation includes:

	Three months ended May 31,		Six months ended May 31,	
	2012	2011	2012	2011
Salaries and short-term employee benefits	$ 278,190	$ 261,886	$ 545,369	$ 521,631
Share-based compensation	2,241	2,921	4,482	5,842
	$ 280,431	$ 264,807	$ 549,851	$ 527,473

16. Financial risk:

The Board of Directors is responsible to ensure that management identifies the principal risks of the Company's business and for the implementation of appropriate measures for dealing with and managing these risks. The principal risks and the measures for managing these risks are as discussed in the audited annual consolidated financial statements as of November 30, 2011 and there have been no changes in these risks and the methods of managing these risks.

The sensitivity analyses discussed and illustrated below 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 below 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.

The Company is exposed to various financial instrument related risks. The following are the types of risk exposures and methods of managing these risks:

16. Financial risk - continued:

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 RBC. 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 Letters of Credit, are generally insured by EDC to the extent of 90% of the invoiced amount. At May 31, 2012 EDC continued to insure sales to non-government customers. As outlined in note 6, EDC informed the Company that they will not provide performance guarantees for certain of the company’s new projects. The Company is currently in discussions with EDC to continue their guarantee under this credit facility and anticipates a favourable outcome.

Currency fluctuation risk:

Foreign currency risk arises as a result of fluctuations in exchange rates. During the six months ended May 31, 2012 approximately 76% 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.

During the first half of 2012 the Canadian dollar weakened against the U.S. dollar by approximately 2.4% compared to first half of 2011. This resulted in an increase in the Canadian dollar value of the Company’s U.S. dollar denominated sales of approximately $342,000 during the first six months of 2012. 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 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.

16. Financial risk - continued:

At May 31, 2012 the Company has foreign currency exchange contracts to sell $2.5 million U.S. dollars at an average exchange rate of 1.0032. These contracts mature within the next 105 days and have a loss of $59,000 based on the actual exchange rate at May 31, 2012. In addition, the Company had in place $400,000 USD in forward currency contracts at an average exchange rate of 493.1 CLP (Chilean pesos) per U.S. dollar with a loss of approximately $22,000 based on the actual exchange rate at May 31, 2012. Gains and losses on all foreign exchange contracts are recognized in earnings (loss).

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 May 31, 2012	Foreign Exchange Risk 5% increase in Canadian $	
		Income	OCI
Net US dollar foreign currency exposure	$ 6,923,000	$ (346,150)	$ -
US dollar foreign currency forward contracts	$ (81,000)	$ 145,000	$ -
Net Indian Rupee foreign currency exposure	$ 646,000	$ -	$ (32,300)
Net Chilean Peso foreign currency exposure	$ 189,000	$ -	$ (9,450)
Net Swiss Franc foreign currency exposure	$ (148,000)	$ 7,400	$ -
Net Chinese Yuan foreign currency exposure	$ 4,700,006	$ -	$ (235,000)

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's future cash flows are exposed to fluctuations in interest rates since the majority of its borrowings are at variable rates. As at May 31, 2012, a 1% increase or decrease in interest rates, with all other variables held constant, would have resulted in a corresponding increase or decrease of $24,000 to the Company's net earnings (loss) for the period. The Company does not use derivative financial instruments to mitigate interest rate risk.

16. Financial risk - 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's credit facilities include a term loan and an $8.5 million line of credit with RBC. The term loan had an outstanding balance of $636,566 at May 31, 2012, while the line of credit had $700,000 available to be drawn.

Under the terms and conditions of its credit facilities with RBC, 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 does 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 the RBC were included in the current portion of long-term debt at November 30, 2010.

In July 2011 the Company's credit facilities agreement with RBC was amended. The amended agreement provides that the annual fixed charge coverage covenant will be effective November 30, 2012. While the Company is in compliance with the liabilities to tangible net worth quarterly covenant at May 31, 2012, it does not expect to be in compliance with the fixed charge coverage covenant at November 30, 2012. Management is confident that it will be able to negotiate a favourable solution to this covenant violation with RBC.

In June 2012, the Company further amended its credit facility agreement with RBC and as a result, the interest rate on the short term credit facility increased by 1.95%. All other terms and conditions remain the same.

In addition, the Company maintains a line of credit in the amount of 50 million Indian Rupees (approximately $912,000 Canadian) with HDFC Bank Limited. The line of credit with HDFC Bank Limited is guaranteed by EDC. The guarantee provided by EDC is renewable on an annual basis. The current guarantee was extended to October 15, 2012. EDC no longer offers the program under which this guarantee is provided but does have a similar program to provide the guarantee. The Company is in negotiations with EDC to establish the guarantee under this new program. At May 31, 2012, the remaining available amount to be drawn is $100,000.

The Company has an additional credit facility of $1.0 million US with RBC that is guaranteed by EDC for the support of performance guarantees provided by the Company's subsidiaries. At May 31, 2012 performance guarantees totaling $689,431 US are outstanding under this credit facility. EDC has informed the Company that they will continue to provide guarantees for the performance of existing projects but will not provide guarantees for any new projects. The Company is in discussions with EDC to continue their guarantee under this credit facility and anticipates a favourable outcome.

16. Financial risk - continued:

In April 2011 the Company entered into an agreement to sell its head office and manufacturing facility located in Saskatoon, Saskatchewan for net proceeds of approximately $6.5 million. The Company also entered into a twelve-year lease agreement with the purchaser of the property. Net cash proceeds from the sale, after the retirement of the $2.6 million mortgage on the property and other costs related to the transaction, were used to reduce the Company's operating line of credit. During the second quarter of 2011 the Company recorded a gain of approximately $3.0 million which is being amortized over the term of the lease under Canadian GAAP. On transition to IFRS the Company elected to report the above property at its fair value on December 1, 2010. An explanation of the transition to IFRS including the impact of this election is detailed in note 17.

The table below presents a maturity analysis of the Company's financial liabilities based on the expected cash flows from the reporting date to the contractual maturity date. The amounts represent the contractual undiscounted cash flows (thousands of dollars).

	Carrying amount of liability at May 31, 2012	Contractual cash flows including interest	< 1 year	1 to 5 Years
Short-term loans *	$ 6,499	$ 6,973	$ 6,973	$ -
Accounts payable and accrued liabilities	5,785	5,785	5,785	-
Long-term debt	637	651	651	-

* Assumes balance is outstanding for 365 days.

16. Financial risk - continued:

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 capital structure of the Company is as follows:

	May 31, 2012	November 30, 2011	December 1, 2010
Short-term debt	$ 6,499,164	$ 6,558,389	$ 5,732,459
Long-term debt	636,566	1,081,867	6,328,234
Total debt	7,135,730	7,640,256	12,060,693
Shareholders' equity	16,830,208	17,217,156	21,074,388
Total capital	$ 23,965,938	$ 24,857,412	$ 33,135,081

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 May 31, 2012. 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.

17. Explanation of transition to IFRS

The accounting policies set out in note 3 have been applied in preparing the financial statements for the period ended May 31, 2012, the comparative information presented in these financial statements for the period ended May 31, 2011 and in the opening IFRS statement of financial position at December 1, 2010 (the Company's date of transition).

17. Explanation of transition to IFRS – continued:

In preparing its opening IFRS statement of financial position, the Company has determined whether adjustments were required to amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. An explanation of how the transition has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity at December 1, 2010 (date of transition to IFRS):

		Canadian GAAP	Adjustments	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 667,724	$ -	$ 667,724
Accounts receivable		11,079,295	-	11,079,295
Unbilled revenue		4,025,218	-	4,025,218
Income taxes receivable		347,442	-	347,442
Inventories		7,187,770	-	7,187,770
Prepaid expenses and deposits		601,811	-	601,811
		23,909,260	-	23,909,260
Property, plant and equipment	(a)	6,151,430	3,157,406	9,308,836
Equity investment		5,118,780	-	5,118,780
Investment tax credits recoverable		3,267,486	-	3,267,486
Deferred taxes	(b)	738,000	(738,000)	-
		$ 39,184,956	$ 2,419,406	$ 41,604,362
Liabilities and Shareholders' Equity				
Current liabilities:				
Short-term loans		$ 5,732,459	$ -	$ 5,732,459
Accounts payable and accrued liabilities		5,360,417	-	5,360,417
Current portion of deferred revenue		2,500,007	-	2,500,007
Current portion of long-term debt		6,328,234	-	6,328,234
		19,921,117	-	19,921,117
Deferred revenue		535,404	-	535,404
Deferred taxes	(b)	-	73,453	73,453
Shareholders' equity:				
Share capital		12,071,009	-	12,071,009
Contributed surplus		246,587	-	246,587
Retained earnings	(a)(b)(f)	6,099,579	2,299,295	8,398,874
Accumulated other comprehensive income	(f)	311,260	46,658	357,918
		18,728,435	2,345,953	21,074,388
		$ 39,184,956	$ 2,419,406	$ 41,604,362

17. Explanation of transition to IFRS – continued:

Reconciliation of equity at November 30, 2011:

		Canadian GAAP	Adjustments	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 917,161	$ -	$ 917,161
Accounts receivable		9,672,204	-	9,672,204
Unbilled revenue		3,868,862	-	3,868,862
Income taxes receivable		312,727	-	312,727
Inventories		6,873,808	-	6,873,808
Prepaid expenses and deposits		784,963	-	784,963
		22,429,725	-	22,429,725
Property, plant and equipment		2,033,583	-	2,033,583
Equity investment		4,781,709	-	4,781,709
Investment tax credits recoverable		2,856,573	-	2,856,573
Deferred taxes	(b)(d)	1,358,000	(739,444)	618,556
		$ 33,459,590	$ (739,444)	$ 32,720,146
Liabilities and Shareholders' Equity				
Current liabilities:				
Short-term loans		$ 6,558,389	$ -	$ 6,558,389
Accounts payable and accrued liabilities		5,205,917	-	5,205,917
Current portion of deferred revenue	(c)	2,585,079	(252,936)	2,332,143
Current portion of long-term debt		903,000	-	903,000
		15,252,385	(252,936)	14,999,449
Deferred revenue	(c)	2,948,951	(2,624,277)	324,674
Long-term debt		178,867	-	178,867
Shareholders' equity:				
Share capital		12,071,009	-	12,071,009
Contributed surplus		262,900	-	262,900
Retained earnings	(c)(d)(f)	2,831,245	2,091,111	4,922,356
Accumulated other comprehensive income (loss)	(f)	(85,767)	46,658	(39,109)
		15,079,387	2,137,769	17,217,156
		$ 33,459,590	$ (739,444)	$ 32,720,146

17. Explanation of transition to IFRS – continued:

Reconciliation of equity at May 31, 2011:

		Canadian GAAP	Adjustments	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 469,743	$ -	$ 469,743
Accounts receivable		10,742,730	-	10,742,730
Unbilled revenue		4,091,773	-	4,091,773
Income taxes receivable		351,693	-	351,693
Inventories		6,908,168	-	6,908,168
Prepaid expenses and deposits		1,003,526	-	1,003,526
		23,567,633	-	23,567,633
Property, plant and equipment		2,322,081	-	2,322,081
Equity investment		4,557,167	-	4,557,167
Investment tax credits recoverable		3,383,034	-	3,383,034
Deferred taxes	(b) (d)	1,498,675	(771,942)	726,733
		$ 35,328,590	$ (771,942)	$ 34,556,648
Liabilities and Shareholders' Equity				
Current liabilities:				
Short-term loans		$ 5,331,369	$ -	$ 5,331,369
Accounts payable and accrued liabilities		5,157,779	-	5,157,779
Current portion of deferred revenue	(c)	2,453,345	(252,936)	2,200,409
Current portion of long-term debt		2,255,520	-	2,255,520
		15,198,013	(252,936)	14,945,077
Deferred revenue	(c)	3,207,241	(2,750,745)	456,496
Shareholders' equity:				
Share capital		12,071,009	-	12,071,009
Contributed surplus		254,351	-	254,351
Retained earnings	(b)(c)(d)(f)	4,643,125	2,185,081	6,828,206
Accumulated other comprehensive Income (loss)	(f)	(45,149)	46,658	1,509
		16,923,336	2,231,739	19,155,075
		$ 35,328,590	$ (771,942)	$ 34,556,648

17. Explanation of transition to IFRS – continued:

Reconciliation of comprehensive loss for the three month period ended May 31, 2011:

		Three months ended May 31, 2011		
		Canadian GAAP	Adjustments	IFRS
Revenue		$ 10,717,389	-	$ 10,717,389
Cost of goods sold	(a)(e)	8,879,953	119,093	8,999,046
		1,837,436	(119,093)	1,718,343
Administrative and marketing expenses	(e)	2,475,345	109,990	2,585,335
Research and development		249,913	-	249,913
Financing costs, net		304,121	-	304,121
Depreciation	(e)	211,845	(211,845)	-
Other expense (income)	(c)	(63,528)	102,011	38,483
XPCT loss (earnings)		(94,728)	-	(94,728)
Loss before income tax recovery		(1,245,532)	(119,249)	(1,364,781)
Income tax recovery	(b)(d)	(455,591)	(30,651)	(486,242)
Net loss		$ (789,941)	(88,598)	$ (878,539)
Other comprehensive loss		-	-	
Unrealized foreign currency translation losses		(43,460)	-	(43,460)
Total comprehensive loss		$ (833,401)	(88,598)	$ (921,999)

17. Explanation of transition to IFRS – continued:

Reconciliation of comprehensive loss for the six month period ended May 31, 2011:

		Six months ended May 31, 2011		
		Canadian GAAP	Adjustments	IFRS
Revenue		$ 19,633,712	$ -	$ 19,633,712
Cost of goods sold	(a)(e)	15,511,561	253,480	15,765,041
		4,122,151	(253,480)	3,868,671
Administrative and marketing expenses	(e)	4,765,685	189,839	4,955,524
Research and development		510,700	-	510,700
Financing costs, net		521,019	-	521,019
Depreciation	(e)	391,605	(391,605)	-
Other expense (income)	(c)	(65,979)	102,011	36,032
XPCT loss (earnings)		(34,970)	-	(34,970)
Loss before income tax recovery		(1,965,909)	(153,725)	(2,119,634)
Income tax recovery	(b)(d)	(509,455)	(39,511)	(548,966)
Net loss		$ (1,456,454)	(114,214)	$ (1,570,668)
Other comprehensive loss				
Unrealized foreign currency translation losses		(356,409)	-	(356,409)
Total comprehensive loss		$ (1,812,863)	(114,214)	$ (1,927,077)

17. Explanation of transition to IFRS – continued:

Reconciliation of comprehensive loss for the year ended November 30, 2011:

		Canadian GAAP	Adjustments	IFRS
Revenue		$ 39,098,503	-	$ 39,098,503
Cost of goods sold	(a)(e)	29,555,078	511,531	30,066,609
		9,543,425	(511,531)	9,031,894
Administrative and marketing expenses	(e)	10,590,282	316,315	10,906,597
Research and development		1,005,553	-	1,005,553
Financing costs, net		668,527	-	668,527
Depreciation	(e)	776,132	(776,132)	-
Other expense (income)	(c)	(278,023)	228,479	(49,544)
XPCT loss (earnings)		(37,688)	-	(37,688)
Loss before income tax recovery		(3,181,358)	(280,193)	(3,461,551)
Income tax expense (recovery)	(b)(d)	86,976	(72,009)	14,967
Net loss		$ (3,268,334)	(208,184)	$ (3,476,518)
Other comprehensive loss				
Unrealized foreign currency translation losses		(397,027)	-	(397,027)
Total comprehensive loss		$ (3,665,361)	(208,184)	$ (3,873,545)

Adjustments to the statement of cash flows:

Interest paid and income taxes paid are now included in the body of the statement of cash flows rather than being disclosed as supplementary information. The Company has elected to reflect interest paid as a financing cash flow rather than an operating cash flow. There were no other material differences between the statements of cash flows presented under IFRS compared to Canadian GAAP.

IFRS 1 *First-time adoption of International Financial Reporting Standards*:

IFRS 1 *First-time adoption of International Financial Reporting Standards* sets out the reporting requirements when IFRS is adopted for the first time. The Company is required to establish its IFRS accounting policies for the period ended May 31, 2012 and apply those policies retrospectively to determine the Company's consolidated statement of financial position at the date of transition, December 1, 2010. IFRS 1 provides for a number of mandatory exceptions applicable to first time adopters of IFRS. None of these mandatory exceptions had a material impact on the Company's transition to IFRS. IFRS 1 also provides certain optional exemptions that may be elected by first time adopters of IFRS. As part of the transition, the Company elected the following optional exemptions:

17. Explanation of transition to IFRS – continued:

Business combinations

The Company elected to apply the business combinations exemption in IFRS 1 and did not apply IFRS 3 *Business Combinations* retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that were effected prior to December 1, 2010 and the transition to IFRS has not impacted amounts previously reported for business combinations under Canadian GAAP.

Borrowing costs

The Company elected to apply IAS 23 *Borrowing Costs* to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the transition date to IFRS. There was no impact as a result of this election.

Fair value of property, plant and equipment as deemed cost:

Companies may elect to report items of property, plant and equipment in their opening statement of financial position on the transition date at either deemed or IFRS compliant historical cost. The option can be applied separately to each asset or class of assets. The Company has elected to report the land and building that houses its head office and manufacturing facility at fair value on transition to IFRS. Two independent fair value appraisals for the building were obtained to determine the fair value of the land and building as at December 1, 2010. Depreciation for the building began as at that date using a 5% depreciation rate. See note (a) for the impact of this election.

Share-based payments:

The Company has elected not to retrospectively apply IFRS 2 *Share-based Payments* to equity instruments that were granted and had vested before the transition date. As a result of applying this exemption, the Company will apply the provisions of IFRS 2 only to all outstanding equity instruments that are unvested as at the Transition Date to IFRS. The impact of applying this election to outstanding equity instruments unvested at the transition date was not material.

Notes to reconciliations:

a) Fair value of property, plant, and equipment as deemed cost

As noted above, the Company has elected to recognize land and building that houses its head office and manufacturing facility in Saskatoon, Saskatchewan, at fair value as deemed cost on transition date. As a result of applying this exemption, the net book value of the land and building increased by $3,157,406 at December 1, 2010 with a corresponding increase in retained earnings.

The increase in the net book value of the building resulted in an increase in depreciation of $17,238 in the three months ended May 31, 2011, $51,714 for the six months ended May 31, 2011 and $51,714 for the year ended November 30, 2011.

17. Explanation of transition to IFRS – continued:

b) Deferred tax adjustment related to fair value of property, plant, and equipment as deemed cost

The election to recognize land and building at fair value as deemed cost results in a taxable temporary difference of $811,453 with a corresponding decrease in retained earnings on transition.

This taxable temporary difference reverses as the building is depreciated and resulted in a tax recovery of $4,430 for the three months ended May 31, 2011, $13,290 for the six months ended May 31, 2011 and $13,290 for the year ended November 30, 2011.

c) Sale leaseback transaction

In April 2011, the Company sold its head office and manufacturing facility for net proceeds of $6,516,625 under a sale leaseback transaction. Under Canadian GAAP, the Company realized a gain of $3,035,298 on the sale. The gain on sale was deferred and was being amortized over the term of the building lease. For the three months and six months ended May 31, 2011, the Company recognized $31,617 of the deferred gain in other income. For the year ended November 30, 2011, the Company recognized $158,085 of the deferred gain in other income resulting in a residual deferred gain at November 30, 2011 of $2,877,213.

As a result of the deemed cost election made by the Company on transition to IFRS, the corresponding loss realized on disposition under IFRS was $70,394. Under IFRS, the realized loss is recognized immediately in other expense.

Current and long-term deferred gain amounts under Canadian GAAP have been reversed as at November 30, 2011 and May 31, 2011with a corresponding increase in retained earnings. Other income was reduced by $102,011 for the three and six months ended May 31, 2011 representing the reversal of deferred gains recognized on income under Canadian GAAP of $31,617 and the loss realized on disposition under IFRS of $70,394. Other income for the year ended November 30, 2011 was reduced by $228,479 representing the reversal of deferred gains recognized in income under Canadian GAAP of $158,085 and the loss realized on disposition under IFRS of $70,394.

d) Deferred tax adjustment related to gains (losses) on sale leaseback transaction

On the disposition of land and buildings under the sale leaseback transaction, the remaining taxable temporary difference described in note (b) was reversed.

The deductible temporary difference arising from the recognition of the deferred gain on the sale leaseback transaction under Canadian GAAP described in note (c) reversed as the deferred gain was recognized in other income. The tax provision of $8,130 recognized under Canadian GAAP on income recognized for the three and six months ended May 31, 2011 has been reversed. The tax provision of $40,628 recognized under Canadian GAAP on income recognized for the year ended November 30, 2011 has been reversed.

Similarly a tax recovery of $18,091 has been recorded on the loss recognized on the sales leaseback transaction under IFRS for the periods ended May 31, 2011 and the year ended November 30, 2011.

17. Explanation of transition to IFRS – continued:

e) Reclassification of depreciation expense

Depreciation expense has been allocated to cost of goods sold or administrative and marketing expenses on the basis of the function of the class of assets.

f) Foreign currency translation

Under Canadian GAAP, the Company recognized a portion of the net unrealized foreign currency translation gain (loss) in earnings (loss) on the receipt of dividends from XPCT. Under IFRS such amounts are not recognized.