INTERNATIONAL ROAD DYNAMICS INC.
Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements
Period Ended August 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.

October 11, 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		August 31, 2012		November 30, 2011		December 1, 2010
					(note 17)		(note 17)
Assets							
Current assets:							
Cash and cash equivalents		$	919,870	$	917,161	$	667,724
Accounts receivable			9,609,870		9,672,204		11,079,295
Unbilled revenue			4,018,690		3,868,862		4,025,218
Income taxes receivable			288,150		312,727		347,442
Inventories	4		6,963,038		6,873,808		7,187,770
Prepaid expenses and deposits			934,845		784,963		601,811
			22,734,463		22,429,725		23,909,260
Property, plant and equipment			1,745,826		2,033,583		9,308,836
Investment in XPCT	5		4,456,248		4,781,709		5,118,780
Investment tax credits recoverable			3,126,035		2,856,573		3,267,486
Deferred taxes			667,207		618,556		-
		$	32,729,779	$	32,720,146	$	41,604,362
Liabilities and Shareholders' Equity							
Current liabilities:							
Short-term loans	6	$	5,596,664	$	6,558,389	$	5,732,459
Accounts payable and accrued liabilities			6,051,490		5,205,917		5,360,417
Current portion of deferred revenue			3,026,419		2,332,143		2,500,007
Current portion of long-term debt	7		409,302		903,000		6,328,234
			15,083,875		14,999,449		19,921,117
Deferred revenue			400,025		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			273,514		262,900		246,587
Retained earnings			5,022,448		4,922,356		8,398,874
Accumulated other comprehensive income (loss)			(121,092)		(39,109)		357,918
			17,245,879		17,217,156		21,074,388
		$	32,729,779	$	32,720,146	$	41,604,362

Commitments	5,12
Subsequent event	7

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Earnings (Loss)
Unaudited

Canadian dollars	Note	Three months ended August 31, 2012	Three months ended August 31, 2011 (note 17)	Nine months ended August 31, 2012	Nine months ended August 31, 2011 (note 17)
Revenue		$ 11,126,338	$ 10,119,038	$ 30,615,761	$ 29,752,750
Cost of goods sold	9	7,472,765	7,234,898	21,428,222	22,999,939
Gross margin		3,653,573	2,884,140	9,187,539	6,752,811
Administrative and marketing expenses	9	2,554,117	2,550,488	7,700,261	7,506,012
Research and development, net	9	282,909	230,498	789,654	741,198
Financing costs, net	10	314,884	111,097	475,709	632,116
Other expense (income)		(10,019)	(52,999)	(36,401)	(16,967)
XPCT loss (earnings)	5	(65,812)	(163,821)	2,243	(198,791)
Earnings (loss) before income taxes		577,494	208,877	256,073	(1,910,757)
Income tax expense (recovery)		199,940	35,501	155,981	(513,465)
Net earnings (loss)		$ 377,554	$ 173,376	$ 100,092	$ (1,397,292)
Earnings (loss) per share	11				
Basic		$ 0.03	$ 0.01	$ 0.01	$ (0.10)
Diluted		$ 0.03	$ 0.01	$ 0.01	$ (0.10)

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)
Unaudited

Canadian dollars	Three months ended August 31, 2012	Three months ended August 31, 2011	Nine months ended August 31, 2012	Nine months ended August 31, 2011
Net earnings (loss)	$ 377,554	$ 173,376	$ 100,092	$ (1,397,292)
Other comprehensive income (loss)				
Unrealized foreign currency translation gains (losses)	34,339	100,635	(81,983)	(255,774)
Total comprehensive income (loss)	$ 411,893	$ 274,011	$ 18,109	$ (1,653,066)

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				(1,397,292)		(1,397,292)
Unrealized foreign currency translation losses					(255,774)	(255,774)
Share-based compensation	8		11,646			11,646
Balance at August 31, 2011		$ 12,071,009	$ 258,233	$ 7,001,582	$ 102,144	$ 19,432,968
Net loss				(2,079,226)		(2,079,226)
Unrealized foreign currency translation losses					(141,253)	(141,253)
Share-based compensation			4,667			4,667
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 earnings				100,092		100,092
Unrealized foreign currency translation gains (losses)					(81,983)	(81,983)
Share-based compensation	8		10,614			10,614
Balance at August 31, 2012		$ 12,071,009	$ 273,514	$ 5,022,448	$ (121,092)	$ 17,245,879

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

		Three months ended		Nine months ended	
Canadian dollars	Note	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
			(note 17)		(note 17)
Cash flows from (used in):					
Operations:					
Net earnings (loss)		$ 377,554	$ 173,376	$ 100,092	$ (1,397,292)
Adjustments for:					
Deferred revenue		266,231	(1,138)	769,627	(379,644)
Depreciation	9	129,409	190,708	426,610	634,027
Share-based compensation	8	3,778	3,882	10,614	11,646
XPCT loss (earnings)	5	(65,812)	(163,821)	2,243	(198,791)
Interest expense	10	121,223	111,204	324,105	431,128
Loss on disposal of land and building		-	-	-	70,394
Income tax expense (recovery)		199,940	35,501	155,981	(513,465)
Income taxes received (paid)		(21,298)	44,078	(134,105)	(109,441)
Investment tax credits		(132,013)	40,920	(310,795)	(176,580)
Other operating items	14	212,383	(1,223,256)	618,853	(1,267,548)
		1,091,395	(788,546)	1,963,225	(2,895,566)
Investing:					
Dividend received	5	143,739	149,985	143,739	149,985
Net proceeds on sale of property		-	42,508	-	6,559,133
Additions to property, plant and equipment		(59,772)	(30,166)	(169,304)	(143,314)
		83,967	162,327	(25,565)	6,565,804
Financing:					
Interest paid		(121,223)	(111,204)	(324,105)	(431,128)
Short-term loans		(902,500)	2,023,613	(961,725)	1,622,523
Repayment of long-term debt		(227,264)	(955,852)	(672,565)	(4,728,566)
		(1,250,987)	956,557	(1,958,395)	(3,537,171)
Increase (decrease) in cash and cash equivalents		(75,625)	330,338	(20,735)	133,067
Exchange rate changes on foreign currency cash balances		18,303	(10,335)	23,444	(11,045)
Cash and cash equivalents, beginning of period		977,192	469,743	917,161	667,724
Cash and cash equivalents, end of period		$ 919,870	$ 789,746	$ 919,870	$ 789,746

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 August 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 October 11, 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) Equity accounted investments

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. The investments are increased or decreased to reflect the Company's proportionate share of the earnings or losses and equity movements of the investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

The Company has one equity accounted investment in Xuzhou-PAT Control Technologies Limited (XPCT).

(c) 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 August 31, 2012 and have not been applied in preparing these interim condensed consolidated financial statements. None of these are 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:

	August 31, 2012	November 30, 2011	December 1, 2010
Raw materials	$ 661,671	$ 802,122	$ 673,285
Original equipment manufacturer materials	3,966,441	3,506,499	4,146,991
Work in process	1,717,369	1,713,575	1,651,166
Finished goods	1,771,758	1,897,837	1,312,493
Provision for excess and obsolete inventory	(1,154,201)	(1,046,225)	(596,165)
	$ 6,963,038	$ 6,873,808	$ 7,187,770

During the quarter, inventories expensed within cost of goods sold were $5,484,954 (2011 - $5,173,307) and $14,452,788 for the first nine months (2011 - $15,831,590). During the quarter the Company also recorded an incremental provision for excess and obsolete inventories within cost of goods sold of $81,000 (2011 - $113,757) and $197,000 for the first nine months (2011- $173,757).

5. Investment in XPCT:

	Three months ended August 31, 2012	Three months ended August 31, 2011	Nine months ended August 31, 2012	Nine months ended August 31, 2011
Xuzhou-PAT Control Technologies Limited (XPCT)				
Balance - beginning of period	$4,700,006	$4,557,167	$4,781,709	$5,118,780
Currency gain (loss) on financial statement translation	(165,831)	95,108	(179,479)	18,525
Equity earnings (loss)	65,812	163,821	(2,243)	(321,209)
Dividend received	(143,739)	(149,985)	(143,739)	(149,985)
Balance - end of period	$4,456,248	$4,666,111	$4,456,248	$4,666,111

The Company had sales of $11,289 to XPCT during the quarter (2011 - $ nil) and $363,739 for the first nine months (2011 - $1,446,460). At August 31, 2012 accounts receivable from XPCT were $17,736 (2011 - $1,116,000); November 30, 2011 - $752,839; December 1, 2010 - $431,816).

	Three months ended August 31, 2012	Three months ended August 31, 2011	Nine months ended August 31, 2012	Nine months ended August 31, 2011
XPCT loss (earnings)				
Equity loss (earnings)	$ (65,812)	$ (163,821)	$ 2,243	$ 321,209
Gain on settlement of vendor loan (note 7)	-	-	-	(520,000)
	$ (65,812)	$ (163,821)	$ 2,243	$ (198,791)

The equity loss for the period ended August 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 $1,172,131) 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:

	August 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).	$ 4,761,958	$ 5,624,605	$ 4,784,117
HDFC Bank Limited credit facility. Authorized to a maximum of 50.0 million Indian Rupees (approximately $892,000), of which 46.8 million Indian Rupees was drawn at August 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	834,706	933,784	948,342
	$ 5,596,664	$ 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 August 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 $1.5 million with RBC that is guaranteed by Export Development Canada (“EDC”) for the support of performance guarantees provided by the Company’s subsidiaries. At August 31, 2012 performance guarantees totaling $594,384, were outstanding (November 30, 2011 - $663,887; December 1, 2010 - $734,566).

In June 2012, the Company amended its credit facility agreement with 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:

	August 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	$ 409,302	$ 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
	409,302	1,081,867	6,328,234
Less current portion	(409,302)	(903,000)	(6,328,234)
	$ -	$ 178,867	$ -

The Company's short-term loans and term loan with 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.

On October 2, 2012 the Company paid off the remaining balance of the Royal Bank of Canada term loan.

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 $1,220,000 (including $220,000 of accrued interest) 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 August 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 August 31, 2012, 345,665 (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 August 31, 2012, the following stock options to officers, employees and others were outstanding:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding at August 31, 2012	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at Aug 31, 2012	Weighted-Average Exercise Price
$ 0.31	960,000	4.22	$ 0.31	-	$ -
0.34	200,000	4.26	0.34	-	-
1.20	525,000	6.50	1.20	525,000	1.20
1.29	100,000	0.67	1.29	100,000	1.29
	1,785,000	4.70	$ 0.63	625,000	$ 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	(47,500)	1.31
Outstanding, August 31, 2011	972,500	$ 1.24
Outstanding, November 30, 2011	1,892,500	$ 0.74
Options granted	300,000	0.33
Options expired	(167,500)	1.32
Options forfeited	(240,000)	0.65
Outstanding, August 31, 2012	1,785,000	$ 0.63

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

Share-based compensation expense of $3,778 and $10,614 was recorded for the three and nine months ended August 31, 2012 ($3,882 and $11,646 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		Nine months ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
Wages and salaries	$ 2,897,910	$ 2,991,019	$ 8,466,089	$ 9,044,055
Other employment benefits	391,605	379,528	1,210,649	1,240,139
	$ 3,289,515	$ 3,370,547	$ 9,676,738	$ 10,284,194

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		Nine months ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
Depreciation included in cost of goods sold	$ 80,009	$ 120,307	$ 282,184	$ 373,787
Depreciation included in administrative and marketing expenses	49,400	70,401	144,426	260,240
	$ 129,409	$ 190,708	$ 426,610	$ 634,027

10. Financing costs, net

	Three months ended		Nine months ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
Interest on short-term debt	$ 111,062	$ 79,415	$ 285,004	$ 232,882
Interest on long-term debt	10,161	31,789	39,101	198,246
Interest expense	121,223	111,204	324,105	431,128
Other financing costs	-	-	-	140,523
Foreign exchange losses	298,682	26,553	176,254	58,805
Losses (gain) on derivatives	(105,021)	(26,660)	(24,650)	1,660
	$ 314,884	$ 111,097	$ 475,709	$ 632,116

11. Earnings (loss) per share:

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

	Three months ended August 31,		Nine months ended August 31,	
	2012	2011	2012	2011
Net earnings (loss)	$ 377,554	$ 173,376	$ 100,092	$ (1,397,292)
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	$ 0.03	$ 0.01	$ 0.01	$ (0.10)
Diluted	$ 0.03	$ 0.01	$ 0.01	$ (0.10)

The Company has stock options outstanding to purchase 1,785,000 common shares at August 31, 2012 (2011 – 972,500). 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	3,253,866
	$ 6,148,866

During the quarter and in the prior year’s comparative period $144,750 was recognized as an expense in respect of the operating lease for land and building and $432,250 for the nine months ended August 31, 2012 (2011 – $218,703).

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		Nine months ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
Canada	$ 970,536	$ 946,328	$ 2,080,810	$ 2,675,078
United States	7,110,699	5,995,162	18,569,384	15,882,630
Offshore	3,045,103	3,177,548	9,965,567	11,195,042
Total	$ 11,126,338	$ 10,119,038	$ 30,615,761	$ 29,752,750

14. Interim condensed consolidated statements of cash flows:

Other operating items

	Three months ended		Nine months ended	
	August 31, 2012	August 31, 2011	August 31, 2012	August 31, 2011
Accounts receivable	$ 1,656,364	$ (167,045)	$ 26,133	$ 43,524
Unbilled revenue	(2,035,837)	(488,592)	(172,874)	(595,778)
Inventories	308,694	(198,606)	60,191	116,945
Prepaid expenses and deposits	1,614	(15,874)	(118,852)	(442,424)
Accounts payable and accrued liabilities	281,547	(353,139)	824,255	(389,815)
	$ 212,383	$ (1,223,256)	$ 618,853	$ (1,267,548)

15. Key management personnel and directors 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 and directors compensation includes:

	Three months ended August 31,		Nine months ended August 31,	
	2012	2011	2012	2011
Salaries and short-term employee benefits	$ 260,778	$ 267,254	$ 806,147	$ 788,885
Share-based compensation	2,601	2,921	7,083	8,763
	$ 263,379	$ 270,175	$ 813,230	$ 797,648

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 August 31, 2012 EDC continued to insure sales to non-government customers. In addition, EDC provides project performance guarantees up to U.S. dollar 2,000,000. This guarantee expires on November 30, 2012 and the Company is confident EDC will extend this guarantee.

Currency fluctuation risk:

Foreign currency risk arises as a result of fluctuations in exchange rates. During the nine months ended August 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 nine months of 2012 the Canadian dollar weakened against the U.S. dollar by approximately 2.9% compared to first nine months of 2011. This resulted in an increase in the Canadian dollar value of the Company’s U.S. dollar denominated sales of approximately $665,000 during the first nine 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 August 31, 2012 the Company has foreign currency exchange contracts to sell 500,000 U.S. dollars at an average exchange rate of 1.028. These contracts mature within the next 13 days and have a nominal gain of $24,650 based on the actual exchange rate at August 31, 2012. Realized and unrealized gains and losses on all foreign exchange contracts are included 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 Net Asset at August 31, 2012	Foreign Exchange Risk 5% increase in Canadian $	
		Income	OCI
Net US dollar foreign currency exposure	$ 5,208,000	$ (260,400)	$ -
US dollar foreign currency forward contracts	$ 24,650	$ 25,000	$ -
Net Indian Rupee foreign currency exposure	$ 658,000	$ -	$ (32,900)
Net Chilean Peso foreign currency exposure	$ 50,000	$ -	$ (2,500)
Net Chinese Yuan foreign currency exposure	$ 4,456,248	$ -	$ (222,812)

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. For the nine months ended August 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 $31,000 to the Company’s net earnings (loss). 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 $409,302 at August 31, 2012, while the line of credit had $2.4 million available to be drawn. As is discussed in note 7, on October 2, 2012 the Company paid off the remaining balance of the Royal Bank of Canada term loan.

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.

The Company also maintains a line of credit in the amount of 50 million Indian Rupees (approximately $892,000 CDN) with HDFC Bank Limited (“HDFC”). The line of credit with HDFC is secured by a Letter of Guarantee from RBC and is guaranteed by EDC in the amount of $1.1M US. The current line of credit expires December 15, 2012 and will be transitioned to a new but similar program offered by EDC. The Company is in discussions with RBC and EDC to qualify under this new program and expects to be successful. At August 31, 2012, the amount available to be drawn is $57,000 CDN.

The Company has an additional credit facility of $1.5 million US with RBC that is guaranteed by EDC for the support of performance guarantees provided by the Company’s subsidiaries. At August 31, 2012 performance guarantees totaling $594,384 CDN are outstanding under this credit facility. On July 10, 2012 EDC extended its guarantee under this program to November 30, 2012 and now allows for the inclusion of new projects. The Company continues to have discussions with EDC and is confident this program will be extended beyond November 30, 2012.

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 August 31, 2012	Contractual cash flows including interest	< 1 year	1 to 5 Years
Short-term loans *	$ 5,597	$ 6,013	$ 6,013	$ -
Accounts payable and accrued liabilities	6,051	6,051	6,051	-
Long-term debt	409	416	416	-

* 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:

	August 31, 2012	November 30, 2011	December 1, 2010
Short-term debt	$ 5,596,664	$ 6,558,389	$ 5,732,459
Long-term debt	409,302	1,081,867	6,328,234
Total debt	6,005,966	7,640,256	12,060,693
Shareholders' equity	17,245,879	17,217,156	21,074,388
Total capital	$ 23,251,845	$ 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 August 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 August 31, 2012, the comparative information presented in these financial statements for the period ended August 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	(b)(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 August 31, 2011:

		Canadian GAAP	Adjustments	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 789,746	$ -	$ 789,746
Accounts receivable		10,630,864	-	10,630,864
Unbilled revenue		4,678,037	-	4,678,037
Income taxes receivable		319,162	-	319,162
Inventories		7,154,137	-	7,154,137
Prepaid expenses and deposits		1,059,232	-	1,059,232
		24,631,178	-	24,631,178
Property, plant and equipment		2,119,031	-	2,119,031
Equity investment		4,666,111	-	4,666,111
Investment tax credits recoverable		3,453,690	-	3,453,690
Deferred taxes	(b) (d)	1,323,801	(755,692)	568,109
		$ 36,193,811	$ (755,692)	$ 35,438,119
Liabilities and Shareholders' Equity				
Current liabilities:				
Short-term loans		$ 7,354,982	$ -	$ 7,354,982
Accounts payable and accrued liabilities		4,694,734	-	4,694,734
Current portion of deferred revenue	(c)	2,554,538	(252,936)	2,301,602
Current portion of long-term debt		890,000	-	890,000
		15,494,254	(252,936)	15,241,318
Long-term debt		409,668	-	409,668
Deferred revenue	(c)	3,041,676	(2,687,511)	354,165
Shareholders' equity:				
Share capital		12,071,009	-	12,071,009
Contributed surplus		258,233	-	258,233
Retained earnings	(b)(c)(d)(f)	4,863,485	2,138,097	7,001,582
Accumulated other comprehensive Income (loss)	(f)	55,486	46,658	102,144
		17,248,213	2,184,755	19,432,968
		$ 36,193,811	$ (755,692)	$ 35,438,119

17. Explanation of transition to IFRS – continued:

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

		Three months ended August 31, 2011		
		Canadian GAAP	Adjustments	IFRS
Revenue		$ 10,119,038	-	$ 10,119,038
Cost of goods sold	(a)(e)	7,114,591	120,307	7,234,898
Gross margin		3,004,447	(120,307)	2,884,140
Administrative and marketing expenses	(e)	2,480,087	70,401	2,550,488
Research and development		230,498	-	230,498
Financing costs, net		111,097	-	111,097
Depreciation	(e)	190,708	(190,708)	-
Other expense (income)	(c)	(116,233)	63,234	(52,999)
XPCT loss (earnings)		(163,821)	-	(163,821)
Earnings before income taxes		272,111	(63,234)	208,877
Income tax expense	(b)(d)	51,751	(16,250)	35,501
Net earnings		$ 220,360	(46,984)	$ 173,376
Other comprehensive income		-	-	
Unrealized foreign currency translation gains		100,635	-	100,635
Total comprehensive income		$ 320,995	(46,984)	$ 274,011

17. Explanation of transition to IFRS – continued:

Reconciliation of comprehensive loss for the nine month period ended August 31, 2011:

		Nine months ended August 31, 2011		
		Canadian GAAP	Adjustments	IFRS
Revenue		$ 29,752,750	-	$ 29,752,750
Cost of goods sold	(a)(e)	22,626,152	373,787	22,999,939
Gross margin		7,126,598	(373,787)	6,752,811
Administrative and marketing expenses	(e)	7,245,772	260,240	7,506,012
Research and development		741,198	-	741,198
Financing costs, net		632,116	-	632,116
Depreciation	(e)	582,313	(582,313)	-
Other expense (income)	(c)	(182,212)	165,245	(16,967)
XPCT loss (earnings)		(198,791)	-	(198,791)
Loss before income tax recovery		(1,693,798)	(216,959)	(1,910,757)
Income tax recovery	(b)(d)	(457,704)	(55,761)	(513,465)
Net loss		$ (1,236,094)	(161,198)	$ (1,397,292)
Other comprehensive loss				
Unrealized foreign currency translation gains		(255,774)	-	(255,774)
Total comprehensive income		$ (1,491,868)	(161,198)	$ (1,653,066)

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
Gross margin		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	(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 August 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 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 $51,714 for both the nine months ended August 31, 2011 and for the year ended November 30, 2011. There was no impact to depreciation for the three months ended August 31, 2011 due to the sale of the building in April 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 $13,290 for the nine months ended August 31, 2011 and 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 nine months ended August 31, 2011, the Company recognized $63,234 and $94,851, respectively, 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 August 31, 2011 with a corresponding increase in retained earnings. Other income was reduced by $63,234 for the three months ended August 31, 2011 representing the reversal of deferred gains recognized on income under Canadian GAAP. Other income was reduced by $165,245 for the nine months ended August 31, 2011 representing the reversal of deferred gains recognized on income under Canadian GAAP of $94,851 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.

17. Explanation of transition to IFRS – continued:

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 $16,250 recognized under Canadian GAAP on income recognized for the three months ended August 31, 2011 has been reversed. The tax provision of $24,380 recognized under Canadian GAAP on income recognized for the nine months ended August 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 nine months ended August 31, 2011 and the year ended November 30, 2011.

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.