

Consolidated Financial Statements of

INTERNATIONAL ROAD DYNAMICS INC.

Years ended November 30, 2012 and 2011

MANAGEMENT'S REPORT

To the Shareholders of International Road Dynamics Inc.

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Management is responsible for ensuring that these consolidated financial statements, which include amounts based on estimates and judgment, are consistent with information disclosed elsewhere in the annual report and reflect the Company's business transactions and financial position.

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

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

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

Terry Bergan
President and
Chief Executive Officer

David Cortens
Vice President Finance and
Chief Financial Officer

Saskatoon, Canada

February 27, 2013



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of International Road Dynamics Inc.

We have audited the accompanying consolidated financial statements of International Road Dynamics Inc., which comprise the consolidated statements of financial position as at November 30, 2012, November 30, 2011 and December 1, 2010, the consolidated statements of loss, comprehensive loss, changes in shareholders' equity and cash flows for the years ended November 30, 2012 and November 30, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of International Road Dynamics Inc. as at November 30, 2012, November 30, 2011 and December 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended November 30, 2012 and November 30, 2011 in accordance with International Financial Reporting Standards.

Chartered Accountants
February 27, 2013
Saskatoon, Canada

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Financial Position

November 30, 2012, November 30, 2011 and December 1, 2010

(\$ Canadian)

	Note	November 30, 2012	November 30, 2011 (note 21)	December 1, 2010 (note 21)
Assets				
Current assets:				
Cash and cash equivalents		\$ 1,157,498	\$ 917,161	\$ 667,724
Accounts receivable	16	10,945,984	9,672,204	11,079,295
Unbilled revenue	16	3,739,866	3,868,862	4,025,218
Income taxes receivable		49,397	312,727	347,442
Inventories	4	5,913,184	6,873,808	7,187,770
Prepaid expenses and deposits		643,509	784,963	601,811
		22,449,438	22,429,725	23,909,260
Property, plant and equipment	5	1,575,860	2,033,583	9,308,836
Investment in XPCT	6	4,875,618	4,781,709	5,118,780
Investment tax credits recoverable	9	2,837,134	2,856,573	3,267,486
Deferred income tax asset	9	827,184	618,556	-
		\$ 32,565,234	\$ 32,720,146	\$ 41,604,362
Liabilities and Shareholders' Equity				
Current liabilities:				
Short-term loans	7	\$ 6,575,722	\$ 6,558,389	\$ 5,732,459
Accounts payable and accrued liabilities		6,138,825	5,205,917	5,360,417
Current portion of deferred revenue		2,731,648	2,332,143	2,500,007
Current portion of long-term debt	8	-	903,000	6,328,234
		15,446,195	14,999,449	19,921,117
Deferred revenue		569,458	324,674	535,404
Long-term debt	8	-	178,867	-
Deferred income tax liability	9	-	-	73,453
Shareholders' equity:				
Share capital	11	12,071,009	12,071,009	12,071,009
Contributed surplus		281,581	262,900	246,587
Retained earnings		4,274,898	4,922,356	8,398,874
Accumulated other comprehensive income (loss)		(77,907)	(39,109)	357,918
		16,549,581	17,217,156	21,074,388
		\$ 32,565,234	\$ 32,720,146	\$ 41,604,362

See accompanying notes to consolidated financial statements.

Approved by the Board:

Terry Bergan, Director (signed)

Ray Harris, Director (signed)

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Loss

Years ended November 30, 2012 and 2011
(\$ Canadian)

	Note	November 30, 2012	November 30, 2011 (note 21)
Revenue	10	\$ 41,577,313	\$ 39,098,503
Cost of goods sold		29,318,318	30,066,609
Gross margin		12,258,995	9,031,894
Administrative and marketing expenses		10,764,001	10,000,730
Research and development, net	12	1,289,029	1,005,553
Financing costs	15	994,630	1,574,394
Other income		(60,293)	(49,544)
XPCT earnings	6	(378,507)	(37,688)
Loss before income taxes		(349,865)	(3,461,551)
Income tax expense	9	297,593	14,967
Net loss		\$ (647,458)	\$ (3,476,518)
Loss per share	14		
Basic		\$ (0.05)	\$ (0.25)
Diluted		\$ (0.05)	\$ (0.25)

Consolidated Statements of Comprehensive Loss

Years ended November 30, 2012 and 2011
(\$ Canadian)

	November 30, 2012	November 30, 2011 (note 21)
Net loss	\$ (647,458)	\$ (3,476,518)
Other comprehensive loss		
Exchange differences on translation of foreign operations	(38,798)	(397,027)
Total comprehensive loss	\$ (686,256)	\$ (3,873,545)

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Changes in Shareholders' Equity
(\$ Canadian)

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 1, 2010	21	\$12,071,009	\$ 246,587	\$ 8,398,874	\$ 357,918	\$ 21,074,388
Net loss		-	-	(3,476,518)	-	(3,476,518)
Other comprehensive loss						
Exchange differences on translation of foreign operations			-	-	(397,027)	(397,027)
Share-based compensation	11(c)	-	16,313	-	-	16,313
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		-	-	(647,458)	-	(647,458)
Other comprehensive loss						
Exchange differences on translation of foreign operations			-	-	(38,798)	(38,798)
Share-based compensation	11(c)	-	18,681	-	-	18,681
Balance at November 30, 2012		\$12,071,009	\$ 281,581	\$ 4,274,898	\$ (77,907)	\$ 16,549,581

Accumulated other comprehensive income (loss) is comprised solely of exchange differences on translation of foreign operations, net of tax of \$nil.

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Cash Flows

Years ended November 30, 2012 and 2011
(\$ Canadian)

	Note	November 30, 2012	November 30, 2011
			(note 21)
Cash flows from (used in):			
Operations:			
Net loss		\$ (647,458)	\$ (3,476,518)
Adjustments for:			
Deferred revenue		644,289	(378,594)
Depreciation expense	13	631,416	914,533
Bad debt expense	16	381,301	905,867
Share-based compensation	11	18,681	16,313
XPCT earnings	6	(378,507)	(37,688)
Interest expense	15	467,521	542,134
Loss (gain) on disposal of property, plant and equipment		(12,827)	70,394
Income tax expense	9	297,593	14,967
Income taxes received (paid)		(43,190)	(22,798)
Investment tax credits		(180,262)	(238,550)
Other operating items	19	565,059	240,799
		1,743,616	(1,449,141)
Investing:			
Dividend received from XPCT	6	159,710	149,985
Proceeds from sale of property, plant and equipment		62,883	6,543,025
Additions to property, plant and equipment		(228,028)	(295,335)
		(5,435)	6,397,675
Financing:			
Interest paid		(467,521)	(542,134)
Short-term loans		17,333	825,930
Repayment of long-term debt		(1,081,867)	(4,946,367)
		(1,532,055)	(4,662,571)
Increase in cash and cash equivalents		206,126	285,963
Exchange rate changes on foreign currency cash balances		34,211	(36,526)
Cash and cash equivalents, balance beginning of year		917,161	667,724
Cash and cash equivalents, balance end of year		\$ 1,157,498	\$ 917,161

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

(\$ Canadian, except as noted)

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 consolidated financial statements as at and for the years ended November 30, 2012 and 2011 comprise International Road Dynamics Inc. and its subsidiaries (together the "Company") and the Company's investment in Xuzhou-PAT Control Technologies Limited ("XPCT"). The Company is a highway traffic management technology company specializing in supplying products and integrated systems to the global Intelligent Transportation Systems (ITS) industry. The Company's common shares are traded on the Toronto Stock Exchange under the symbol IRD.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first annual consolidated financial statements prepared in accordance with IFRS, and IFRS 1, *First-time annual Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRS has affected the consolidated financial statements of the Company is provided in note 21.

These consolidated financial statements were authorized for issue by the Board of Directors on February 27, 2013.

(b) Basis of presentation

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

The 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 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 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.

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

2. Basis of preparation – continued:

(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. Estimates are also involved in accounting for the relative fair values of the components of a project contract that contains a service arrangement. These estimates are subject to change which would impact the timing of revenue recognition.

(ii) Financial assets

Assessments about the recoverability of financial assets, including accounts receivable and unbilled revenue, require judgment as to whether a loss event has occurred and estimates of the amounts and timing of future cash flows.

(iii) Impairment of long-lived assets

Judgments and estimates are required in assessing the carrying values of the Company's long-lived assets and equity accounted investments relative to recoverable amounts.

In assessing recoverability of long-lived assets, judgment is required in the determination of the appropriate grouping of assets that generate cash inflows or cash generating units (CGUs). The determination of CGUs is based on management's assessment of independence of revenue earned, operating asset utilization, shared infrastructure, geographic proximity and similarity of risk exposures.

Assessments of recoverability for both long-lived assets and equity accounted investments are typically dependent upon future cash flow estimates and assumptions such as future revenue and costs, sustaining capital requirements and discount rates.

(iv) 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 consolidated financial statements. The Company is also engaged in scientific research and development giving rise to investment tax credits that may be refundable or 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.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

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 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

(i) 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.

The financial statements of subsidiaries are included in the 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.

(ii) 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).

(iii) Business combinations

As part of its transition to IFRS, the Company elected, under IFRS 1, not to restate those business combinations that occurred prior to December 1, 2010.

(iv) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

3. Significant accounting policies - continued:

(b) Foreign currency

(i) Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the financial reporting date and non-monetary items are translated at rates of exchange in effect when assets were acquired or obligations incurred. Revenue and expenses are translated into Canadian dollars using the average monthly rate of exchange on the date of the transactions. The resulting gains or losses are included in the consolidated statement of loss.

(ii) Foreign operations

The functional currency of the Company's subsidiary in Chile - PAT Traffic Limitada is the Chilean Peso and the functional currency of its subsidiary in India - International Road Dynamics South Asia Pvt. Ltd. is the Indian Rupee. All assets and liabilities are translated to Canadian dollars at exchange rates in effect at the financial reporting date and all revenue and expenses are translated into Canadian dollars using the average monthly rate of exchange of the date of the transactions. Exchange gains and losses arising from this translation, representing the net unrealized foreign currency translation gain (loss) on the Company's investment, are recorded in accumulated other comprehensive income (loss).

The functional currency of the Company's equity investment in XPCT is the Chinese Yuan. Goodwill and purchase adjustments to reflect the fair values of assets acquired and liabilities assumed at date of acquisition are treated as though they were included in the XPCT financial statements. The financial statements of XPCT, including the adjustments to reflect the fair values of assets acquired and liabilities assumed, are translated to Canadian dollars at exchange rates in effect at the financial reporting date and all revenue and expenses are translated into Canadian dollars using the approximate rate of exchange on the date of the transactions. Exchange gains and losses arising from this translation, representing the net unrealized foreign currency translation gain (loss) on the Company's investment, are recorded in accumulated other comprehensive income (loss).

When a foreign operation is disposed of, the relevant amount in accumulated other comprehensive income is transferred to the consolidated statement of loss as part of the gain or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to the consolidated statement of loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income (loss).

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

3. Significant accounting policies - continued:

(c) Revenue recognition

(i) Contracted projects

The majority of sales of integrated systems are delivered as contracted projects. Contract revenue includes the initial amount agreed in the contract plus any amendments in contract work to the extent that it is probable they will result in revenue and can be reliably measured. Revenue from contracted projects is recorded in accordance with the stage of completion of the contract by comparing the actual costs incurred to the total estimated costs for the project. An expected loss on a contract is recognized immediately in the consolidated statement of loss.

Unbilled revenue represents the excess of contract costs incurred and estimated gross profits recognized over billings to date. If progress billings exceed costs incurred plus recognized gross profits, then the difference is presented as deferred revenue in the consolidated statement of financial position.

(ii) Product sales

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable. Revenue is recognized when persuasive evidence exists, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For sales of products, transfer usually occurs when the product is received at the customer's warehouse. For some international shipments, when the buyer has no right of return, transfer occurs upon loading the goods onto the relevant carrier at the port of the seller.

(iii) Services

Revenue from service obligations is recognized in accordance with the stage of completion of the service arrangement by comparing the actual costs incurred to the total estimated costs for the service. An expected loss on a service arrangement is recognized immediately in the consolidated statement of loss.

Service arrangements may be included in a project contract. When projects and services are sold under a single arrangement, each component is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each component.

(d) Financial instruments

(i) Financial assets

All financial assets are initially recorded at fair value. Subsequent measurement is dependent upon classification as one of the following: financial assets at fair value

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

3. Significant accounting policies - continued:

through profit and loss, held-to-maturity financial assets, loans and receivables or available-for-sale financial assets.

Financial assets at fair value through profit and loss are measured at fair value with gains and losses recognized in the consolidated statement of loss.

Held-to-maturity financial assets and loans and receivables are measured at amortized cost, including transaction costs using the effective interest method with amortization reported as a finance cost.

Available-for-sale instruments are measured at fair value with gains and losses, net of tax, recognized in other comprehensive income (loss).

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets of the Company consist of cash and cash equivalents, accounts receivable and unbilled revenue.

Cash and cash equivalents comprise cash balances and deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounts receivable and unbilled revenue are classified as "loans and receivables".

(ii) Financial liabilities

Financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition the Company's financial liabilities are measured at amortized cost using the effective interest method. The Company has not designated any financial liabilities through profit and loss.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities and short-term loans.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

3. Significant accounting policies - continued:

(iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(iv) Derivative financial instruments

Derivative financial instruments are utilized by the Company to reduce exposure to fluctuations in foreign currency exchange rates. The Company may enter into foreign exchange contracts to hedge anticipated cash flows denominated in a foreign currency.

The Company has elected not to follow hedge accounting and all derivative contracts are marked to market with resulting net gains or losses recognized in the statement of loss.

Derivatives are carried at fair value and are reported as other receivables when they have a positive fair value and as accrued liabilities when they have a negative fair value. Derivatives may also be embedded in other financial instruments. Derivatives embedded in other financial instruments are valued as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a derivative if it was a free standing instrument; and the combined contract is not held for trading or designated at fair value.

(e) Inventories

Inventories are measured at the lower of average cost and net realizable value. The cost of inventories is determined on the weighted average basis. Cost includes the costs of acquired material plus, in the case of manufactured inventories, direct labour applied to the product and the applicable share of manufacturing overhead, including rent expense and depreciation based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs (for self-constructed assets capitalized subsequent to December 1, 2010) and any other costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in a manner intended by management.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

3. Significant accounting policies - continued:

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Depreciation

Depreciation is computed over the expected useful lives of the assets at 5% on buildings, 20% and 25% on office equipment and manufacturing equipment respectively, 30% on automotive and computer equipment and 100% on computer software based on the declining balance method. Depreciation methods and useful lives are reviewed annually and adjusted if appropriate.

(g) Leased assets

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased assets are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are accounted for as operating leases. Operating lease payments are expensed in earnings (loss) and the leased assets are not recognized in the Company's statement of financial position. All existing leases of the Company are operating leases.

(h) Impairment

(i) Financial assets

Financial assets not carried at fair value through profit or loss, comprised mainly of receivable and unbilled revenue, are assessed at each financial reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss is determined based on estimated future cash flows and is recognized in the consolidated statement of loss. An impairment loss is reversed when a subsequent event causes an increase to the fair value of a financial asset.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

3. Significant accounting policies - continued:

there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

Certain corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of loss. Impairment losses recognized in prior periods, excluding losses related to goodwill, are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill that forms part of the carrying amount of an equity investment is not tested for impairment separately. Instead the entire amount of the equity investment is tested for impairments as a single asset when there is objective evidence that the investment is impaired.

(i) Research and development costs:

The Company expenses research and development costs during the year in which they are incurred. Research and development related investment tax credits are recognized as a reduction of related expenditures when the Company has reasonable assurance that they will be utilized.

(j) Employee benefits

(i) Share-based compensation

The grant date fair value of share-based compensation awards granted to employees is recognized as an expense, with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to the awards. For awards with multiple vesting dates, the amount vested at each date of an award is considered a separate grant with a different vesting date and fair value. The fair value is measured using the Black-Scholes option pricing model.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

3. Significant accounting policies - continued:

The amount recognized as an expense is adjusted to reflect expected forfeitures and service conditions not being met.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(k) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as financing cost.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

(l) Financing costs

Financing costs comprise interest expense on short-term loans and long-term debt, foreign currency gains and loss, unwinding of the discount on provisions, changes in the fair value of financial assets and financial liabilities at fair value through profit or loss, gains and losses on hedging instruments recognized through profit and loss and bad debt expense. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the consolidated statement of loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(m) Income tax

Income tax expense (recovery) comprises current and deferred tax. Current tax and deferred tax are recognized in the consolidated statement of loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

3. Significant accounting policies - continued:

Deferred tax is recognized in respect of losses available for carry forward and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees.

(o) New standards and interpretations not yet adopted

The Company has assessed new standards and interpretations not yet adopted and determined that they will not have a significant impact on the consolidated financial statements of the Company in the upcoming year.

4. Inventories:

	November 30, 2012	November 30, 2011	December 1, 2010
Raw materials	\$ 465,469	\$ 705,223	\$ 619,178
Original equipment manufacturer materials	3,123,395	3,080,285	3,903,015
Work in process	1,826,457	1,713,575	1,651,166
Finished goods	497,863	1,374,725	1,014,411
	<u>\$ 5,913,184</u>	<u>\$ 6,873,808</u>	<u>\$ 7,187,770</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

4. Inventories- continued:

During the year, inventories expensed within cost of goods sold were \$19,405,527 (2011 - \$20,254,245). The Company also recorded an incremental provision for excess and obsolete inventories within cost of goods sold of \$576,341 (2011 - \$551,134).

5. Property, plant and equipment

	Land and buildings	Office equipment	Manufacturing equipment	Automotive equipment	Computer equipment	Computer software	Total
Cost							
Balance at December 1, 2010	\$ 6,866,483	\$ 1,035,888	\$ 2,743,042	\$ 1,424,269	\$ 2,079,642	\$ 1,214,069	\$ 15,363,393
Additions	434	14,155	38,215	149,038	62,270	31,223	295,335
Disposals	(6,700,000)	(27,384)	(6,455)	(182,190)	-	-	(6,916,029)
Effect on movements in exchange rates	(11,908)	(34,938)	(8,985)	(37,066)	(22,970)	-	(115,867)
Balance at November 30, 2011	\$ 155,009	\$ 987,721	\$ 2,765,817	\$ 1,354,051	\$ 2,118,942	\$ 1,245,292	\$ 8,626,832
Balance at December 1, 2011	\$ 155,009	\$ 987,721	\$ 2,765,817	\$ 1,354,051	\$ 2,118,942	\$ 1,245,292	\$ 8,626,832
Additions	3,728	9,157	30,895	103,797	69,147	11,304	228,028
Disposals	-	(7,674)	-	(229,768)	-	-	(237,442)
Effect on movements in exchange rates	7,699	(20,040)	6,315	11,336	(10,207)	-	(4,897)
Balance at November 30, 2012	\$ 166,436	\$ 969,164	\$ 2,803,027	\$ 1,239,416	\$ 2,177,882	\$ 1,256,596	\$ 8,612,521
Accumulated Depreciation							
Balance at December 1, 2010	\$ 17,578	\$ 733,760	\$ 1,641,085	\$ 814,661	\$ 1,670,442	\$ 1,177,031	\$ 6,054,557
Additions	116,412	111,603	303,723	168,241	146,919	50,513	897,411
Disposals	(112,982)	(17,921)	(4,261)	(165,456)	(1,990)	-	(302,610)
Effect on movements in exchange rates	(1,257)	(12,072)	(5,179)	(21,623)	(15,978)	-	(56,109)
Balance at November 30, 2011	\$ 19,751	\$ 815,370	\$ 1,935,368	\$ 795,823	\$ 1,799,393	\$ 1,227,544	\$ 6,593,249

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

5. Property, plant and equipment - continued:

	Land and buildings	Office equipment	Manufacturing equipment	Automotive equipment	Computer equipment	Computer software	Total
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Accumulated Depreciation

Balance at

December 1,

2011 \$ 19,751 \$ 815,370 \$ 1,935,368 \$ 795,823 \$ 1,799,393 \$ 1,227,544 \$ 6,593,249

Additions 3,192 92,316 233,086 130,823 141,693 23,404 624,514

Disposals - - - (187,386) - - (187,386)

Effect on movements

in exchange rates 981 (13,124) 4,461 22,761 (8,795) - 6,284

Balance at

November 30, 2012 \$ 23,924 \$ 894,562 \$ 2,172,915 \$ 762,021 \$ 1,932,291 \$ 1,250,948 \$ 7,036,661

	Land and buildings	Office equipment	Manufacturing equipment	Automotive equipment	Computer equipment	Computer software	Total
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Carrying amounts

At December 1,

2010 \$ 6,848,905 \$ 302,128 \$ 1,101,957 \$ 609,608 \$ 409,200 \$ 37,038 \$ 9,308,836

At November 30,

2011 135,258 172,351 830,449 558,228 319,549 17,748 2,033,583

At November 30,

2012 \$ 142,512 \$ 74,602 \$ 630,112 \$ 477,395 \$ 245,591 \$ 5,648 \$ 1,575,860

6. Equity investment:

	November 30, 2012	November 30, 2011
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Xuzhou-PAT Control Technologies Limited (XPCT)

Balance, beginning of year \$ 4,781,709 \$ 5,118,780

Currency gain (loss) on financial statement translation (124,888) 295,226

Company's share of earnings (loss) 378,507 (482,312)

Dividends received (159,710) (149,985)

Balance, end of year \$ 4,875,618 \$ 4,781,709

The Company had sales to XPCT of \$643,039 during the year (2011 - \$1,453,739). At November 30, 2012 accounts receivable from XPCT was \$280,517 (2011 - \$752,839).

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

6. Equity investment - continued:

	November 30, 2012	November 30, 2011
XPCT earnings		
Company's share of earnings (loss)	\$ 378,507	\$ (482,312)
Gain on settlement of vendor loan	-	520,000
	<u>\$ 378,507</u>	<u>\$ 37,688</u>

In conjunction with the settlement of claims against the vendor as described in note 8, in 2011 the Company recorded a gain on settlement of vendor loan in the amount of \$520,000.

Summary financial information for XPCT, reflecting the Company's 50% ownership interest is as follows:

	November 30, 2012	November 30, 2011	December 1, 2010
Current assets	\$ 6,960,725	\$ 5,621,366	\$ 5,014,055
Non-current assets including goodwill	2,200,779	2,265,697	2,221,960
Total assets	<u>\$ 9,161,504</u>	<u>\$ 7,887,063</u>	<u>\$ 7,236,015</u>
Current liabilities	4,285,886	3,074,583	2,046,878
Non-current liabilities	-	30,771	70,357
Total liabilities	<u>\$ 4,285,886</u>	<u>\$ 3,105,354</u>	<u>\$ 2,117,235</u>
Net investment	<u>\$ 4,875,618</u>	<u>\$ 4,781,709</u>	<u>\$ 5,118,780</u>

	November 30, 2012	November 30, 2011
Revenue	\$ 5,773,863	\$ 4,429,245
Expenses	5,296,699	4,816,101
	477,164	(386,856)
Income tax expense	98,657	95,456
Company's share of earnings (loss)	<u>\$ 378,507</u>	<u>\$ (482,312)</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

7. Short-term loans:

	November 30, 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% (2011 and 2010 - prime plus 1.55%) secured by a general security agreement.	\$ 5,705,699	\$ 5,624,605	\$ 4,784,117
HDFC Bank Limited credit facility. Authorized to a maximum of 46.7 million Indian Rupees (approximately \$843,000 CDN), of which 46.6 million Indian Rupees was drawn at November 30, 2012, with interest at 12.3% and secured by a standby letter of credit issued by Royal Bank of Canada and guaranteed by Export Development Canada	870,023	933,784	948,342
	\$ 6,575,722	\$ 6,558,389	\$ 5,732,459

The Company's short term loan, demand facility and term loan with the Royal Bank of Canada ("RBC") are secured by a general security agreement on the assets of the Company held in Canada and the United States.

As at November 30, 2012 letters of credit issued against the RBC credit facility were \$nil (November 30, 2011 - \$103,220; December 1, 2010 - \$173,316) for bid and performance guarantees on certain contracts.

The Company has an additional credit facility of \$1.5 million US (November 30, 2011 and December 1, 2010 - \$ 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 November 30, 2012 performance guarantees totaling \$459,362 were outstanding (November 30, 2011 - \$685,264; December 1, 2010 - \$750,653).

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

8. Long-term debt:

	November 30, 2012	November 30, 2011	December 1, 2010
Royal Bank of Canada term loan, repayable in monthly instalments of \$78,430 including interest at a fixed rate of 5.65%. Repaid October, 2012	\$ -	\$ 1,081,867	\$ 2,656,302
Royal Bank of Canada mortgage repayable in monthly instalments of \$20,906 including interest at a fixed rate of 6.144%. Repaid April, 2011.	-	-	2,671,932
Vendor loan to finance the acquisition of XPCT, with interest payable at 7% per annum.	-	-	1,000,000
	-	1,081,867	6,328,234
Less current portion	-	903,000	6,328,234
	\$ -	\$ 178,867	\$ -

Under the terms and conditions of its credit facilities with RBC the Company was subject to certain covenants relating to the term loan. These covenants required that the Company maintain a certain minimum level of fixed charge coverage as measured on an annual basis, and that it not exceed a certain maximum ratio of total liabilities to tangible net worth on a quarterly basis.

At December 1, 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 facility, and therefore the term loan with RBC was included in the current portion of long-term debt. The credit facility was subsequently amended and the Company remained in compliance.

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 agreed to discontinue various claims against the vendor relating to the acquisition of XPCT.

9. Income taxes:

Reconciliation of tax provision:

Income tax expense attributable to earnings differs from the amounts computed by applying the combined federal and provincial income tax rate of 27.1% (2011 – 28.6%) to loss before income taxes as a result of the following:

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

9. Income taxes - continued:

	November 30, 2012	November 30, 2011
Loss before income taxes	\$ (349,865)	\$ (3,461,551)
Computed "expected" tax expense (recovery)	(95,000)	(990,000)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	100,000	54,000
XPCT earnings	(103,000)	138,000
Non-taxable capital gain	-	(218,000)
Rate difference on foreign losses	(75,000)	(277,000)
Unrecognized loss carry forwards	427,000	1,270,000
Other	43,593	37,967
	\$ 297,593	\$ 14,967

	November 30, 2012	November 30, 2011
Income tax expense is comprised of:		
Current income taxes	\$ 506,221	\$ 706,976
Deferred income taxes	(208,628)	(692,009)
	\$ 297,593	\$ 14,967

Recognized deferred income tax assets (liabilities):

	December 1, 2010	Recognized 2011	November 30, 2011	Recognized 2012	November 30, 2012
Non-capital losses	\$ 700,000	(397,000)	303,000	(119,584)	\$ 183,416
Unclaimed research and development expenses	253,000	102,000	355,000	38,232	393,232
Other	-	-	-	59,522	59,522
Inventory	-	-	-	52,980	52,980
Deferred revenue	-	167,556	167,556	43,210	210,766
Investment tax credits	(539,000)	32,000	(507,000)	126,997	(380,003)
Property, plant and equipment	(487,453)	787,453	300,000	7,271	307,271
Net deferred income tax assets (liabilities)	\$ (73,453)	692,009	618,556	208,628	\$ 827,184

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

9. Income taxes - continued:

Unrecognized deferred income tax assets (liabilities):

Unrecognized deferred income tax assets relate primarily to non-capital losses in India.

	December 1, 2010	Change in 2011	November 30, 2011	Change in 2012	Adjustment to prior year	November 30, 2012
Capital losses	\$ 108,000	\$ (108,000)	\$ -	\$ -	\$ -	\$ -
Non-capital losses	-	1,378,000	1,378,000	427,000	(450,000)	1,355,000
	\$ 108,000	\$ 1,270,000	\$ 1,378,000	\$ 427,000	\$ (450,000)	\$ 1,355,000

Adjustment to prior year relates to losses that are expired or denied.

Non-capital loss carry forward:

Non-capital loss carry forward at November 30, 2012 expire as follows:

Year	Canada	India	Total
2019	\$ -	\$ 77,263	\$ 77,263
2020	-	3,029,477	3,029,477
2021	-	661,946	661,946
2028	1,178,982	-	1,178,982
	\$ 1,178,982	\$ 3,768,686	\$ 4,947,668

Investment tax credits:

At November 30, 2012, the Company has recognized investment tax credits of \$2,837,134 (2011 - \$2,856,573; 2010 - \$3,267,486) as a result of its research and development activities. Investment tax credits can be carried forward and used to reduce Canadian federal and provincial taxes of future years. Federal investment tax credits earned in 1998 and later years may be carried forward for 20 years. Saskatchewan investment tax credits prior to March 19, 2009 and after March 31, 2012 can be carried forward for 10 years.

Investment tax credits available for carry forward at November 30, 2012 expire as follows:

Years	Federal	Saskatchewan	Total
2014 – 2022	\$ -	\$ 1,101,895	\$ 1,101,895
After 2025	1,735,239	-	1,735,239
Total	\$ 1,735,239	\$ 1,101,895	\$ 2,837,134

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

10. Revenue:

	November 30, 2012	November 30, 2011
Contracted projects	\$ 18,275,306	\$ 18,199,967
Service	12,473,472	10,433,152
Product sales	10,828,535	10,465,384
Total revenue	\$ 41,577,313	\$ 39,098,503

11. Share capital:

(a) Authorized:

An unlimited number of common voting shares.

(b) Common shares:

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

(c) Options:

Under the terms of a stock option plan approved by the shareholders in May, 1997 and amended in 1998, the Company is authorized to grant officers, employees and others options to purchase common shares at prices based on the market price of shares as determined on the date of the grant. At November 30, 2012, 355,665 (2011 - 238,165) options remain available to be granted. Stock options become exercisable at dates determined by the Compensation Committee of the Board of Directors.

At November 30, 2012, the following stock options to officers, employees and others were outstanding:

Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding at November 30, 2012	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at November 30, 2012	Weighted-Average Exercise Price	
\$ 0.31	850,000	3.91	\$ 0.31	283,306	\$ 0.31	
0.34	200,000	4.01	0.34	-	-	
0.43	100,000	4.95	0.43	-	-	
1.20	525,000	6.25	1.20	525,000	1.20	
1.29	100,000	0.42	1.29	100,000	1.29	
	1,775,000	4.47	\$ 0.64	908,306	\$ 0.93	

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

11. Share capital - continued:

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 granted	1,010,000	0.31
Options expired	(45,000)	1.26
Options forfeited	(92,500)	1.31
Outstanding, November 30, 2011	1,892,500	\$ 0.74
Options granted	400,000	0.36
Options expired	(167,500)	1.32
Options forfeited	(350,000)	0.54
Outstanding, November 30, 2012	1,775,000	\$ 0.64

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

During the year the Company recorded share-based compensation expense of \$18,681 (2011 - \$16,313) along with a corresponding increase in contributed surplus in shareholders' equity for options vesting during the year.

The inputs used in the measurement of the fair values at grant date of the stock option plan were as follows:

	November 30, 2012	November 30, 2011
Number of options granted	400,000	1,010,000
Average strike price	\$0.36	\$0.31
Expected volatility	41%	39%
Risk-free interest rate	1.0%	1.0%
Expected life of option	5 years	5 years
Weighted average grant date fair values	\$0.14	\$0.11

(d) Shareholders' rights plan:

The Company adopted a Shareholder Rights Plan (the "Plan"), which was approved by the shareholders at its annual meeting held on April 23, 1998. The Plan was established to deter coercive take-over tactics and to prevent an acquirer from gaining control of the Company without offering a fair price to all of the Company's shareholders. The Plan provides the Board of Directors and the shareholders of the Company with more time to fully consider any unsolicited takeover bid for the Company, and more time for the Board of Directors to pursue, if appropriate, other alternatives to maximize shareholder value.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

11. Share capital - continued:

Under the Plan, the Company will distribute one right in respect of each common share. The rights become exercisable eight trading days after the first public announcement of the acquisition of 20% or more of the common shares of the Company by any person or the announcement of a person's intention to commence a take-over bid, other than a "permitted bid" which would result in such person acquiring 20% or more of the Company's common shares. Each right may be exercised at a price of \$20 to purchase that number of common shares of the Company which have a market value equal to two times the exercise price of the rights.

The requirements of a "permitted bid" include the following:

- the bid must be made by take-over bid circular to all holders of the Company's common shares;
- the bid must be subject to an irrevocable condition that no shares shall be taken up or paid for prior to a date which is not less than 60 days after the date of the bid and only if more than 50% of the outstanding common shares held by shareholders ("independent shareholders") other than the offeror and its related parties have been tendered to the bid;
- the bid must provide that shares may be deposited at any time during the bid period and that any shares so deposited may be withdrawn at any time during such period; and;
- if more than 50% of the common shares held by independent shareholders are tendered to the bid, the offeror must extend the bid for 10 days to allow shareholders who did not tender initially to take advantage of the bid if they so choose.

The Plan had an initial term of three years. The Plan contains a provision that, at or prior to the first annual meeting of shareholders following the third anniversary of the date of the Plan, the Board may submit a resolution to the shareholders approving the extension of the Plan for a further three years. At the Company's annual meeting held on May 13, 2010, the shareholders approved the extension of the Plan for a further three years. The extended Plan contains a provision that, at or prior to the first annual meeting of shareholders following the third anniversary of the date of the extended Plan, the Board may submit a resolution to the shareholders approving the extension of the Plan for a further three years.

12. Research and development:

	2012	2011
Research and development expenditures	\$ 1,510,624	\$ 1,392,587
Less grants and investment tax credits	(221,595)	(387,034)
	<u>\$ 1,289,029</u>	<u>\$ 1,005,553</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

13. Expense classification:

(a) Personnel expenses

	November 30, 2012	November 30, 2011
Wages and salaries	\$ 11,354,776	\$ 11,920,745
Statutory benefits	676,651	736,315
Other employment benefits	698,211	697,360
Contributions to defined contribution plans	217,155	214,565
Share-based payment transactions	18,681	16,313
	<u>\$ 12,965,474</u>	<u>\$ 13,585,298</u>

(b) Depreciation expense:

	November 30, 2012	November 30, 2011
Depreciation charge on property, plant and equipment	\$ 624,514	\$ 897,411
Add: Depreciation in opening inventory	23,097	40,219
Less: Depreciation in closing inventory	(16,195)	(23,097)
Depreciation expense	<u>\$ 631,416</u>	<u>\$ 914,533</u>
Depreciation expense is allocated as follows:		
Cost of goods sold	\$ 420,583	\$ 598,218
Administrative and marketing expenses	210,833	316,315
	<u>\$ 631,416</u>	<u>\$ 914,533</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

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14. Loss per share:

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

	November 30, 2012	November 30, 2011
Net loss	\$ (647,458)	\$ (3,476,518)
Weighted average number of common shares outstanding:		
Basic	13,998,337	13,998,337
Effect of stock options	–	–
Diluted	13,998,337	13,998,337
Loss per share:		
Basic	\$ (0.05)	\$ (0.25)
Diluted	\$ (0.05)	\$ (0.25)

The Company has stock options outstanding to purchase 1,775,000 common shares at November 30, 2012 (2011 – 1,892,500). At November 30, 2012 and 2011, none of the options available to purchase common shares were included in the computation of diluted loss per share as amounts were anti-dilutive.

15. Financing costs

	November 30, 2012	November 30, 2011
Interest on short-term debt	\$ 423,525	\$ 324,655
Interest on long-term debt	43,996	217,479
Interest expense	467,521	542,134
Bad debt expense (note 16)	381,301	905,867
Other financing costs	–	140,523
Foreign exchange losses (gains)	184,608	(102,217)
Losses (gains) on derivatives	(38,800)	88,087
	\$ 994,630	\$ 1,574,394

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

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Notes to Consolidated Financial Statements

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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 cash balances are held and transacted with bank and financial counterparties that are credit worthy with high credit ratings. The Company is exposed to credit risk from its customers on its trade receivables and unbilled revenue. The maximum exposure to credit risk is represented by the carrying amount of its receivables and unbilled revenue.

Accounts receivable is comprised of both trade and non-trade accounts. An allowance for doubtful accounts is established when there is a reasonable expectation that the Company will not be able to collect all amounts due according to the original terms of the receivables. Accounts ultimately determined to be uncollectible are written off against the allowance.

Accounts receivable include amounts due from customers in both the government and private industry sectors which exposes the Company to risk of nonpayment. Government accounts are considered secure and are normally not subjected to extensive credit reviews. Industry accounts are subjected to internal credit review in order to minimize risk of non-payment. Canadian export sales to non-government customers, not otherwise secured by Letter of Credit, are generally insured by EDC to the extent of 90% of the invoiced amount. In addition, EDC provides project performance guarantees up to USD \$2,000,000. This guarantee has been extended to May 31, 2013 at which time it is up for renewal. The following table provides a breakdown of accounts receivable as described above:

	November 30, 2012	November 30, 2011	December 1, 2010
Government	\$ 3,075,563	\$ 1,881,263	\$ 3,695,784
Non-Government			
Secured			
Letter of credit	488,808	4,681	43,946
Export Development Canada insured	4,147,450	6,401,734	4,903,376
Other	4,241,014	2,338,368	2,906,795
Allowance for doubtful accounts	(1,006,851)	(953,842)	(470,606)
	10,945,984	9,672,204	11,079,295
Unbilled revenue	3,739,866	3,868,862	4,025,218
	\$14,685,850	\$13,541,066	\$15,104,513

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

16. Financial risk - continued:

The movement in the allowance for doubtful accounts is as follows:

	November 30, 2012	November 30, 2011	December 1, 2010
Balance, beginning of year	\$ 953,842	\$ 470,606	\$ 607,686
Bad debt expense	381,301	905,867	61,202
Write offs	(254,369)	(426,243)	(144,992)
Foreign currency revaluation	(73,923)	3,612	(53,290)
Balance, end of year	\$ 1,006,851	\$ 953,842	\$ 470,606

Currency fluctuation risk:

Foreign currency risk arises as a result of fluctuations in exchange rates. The majority of the Company's sales are denominated in U.S. dollars while the majority of its costs are denominated in Canadian dollars. Fluctuations in the value of the U.S. dollar compared to the Canadian dollar can affect earnings and cash flow.

Approximately 74% of the Company's sales are denominated in U.S. dollars. During the fiscal year 2012 the Canadian dollar weakened against the U.S. dollar by approximately 1.5% compared to fiscal year 2011. This resulted in an increase in the Canadian dollar value of the Company's U.S. dollar denominated sales of approximately \$0.5 million during the 2012 fiscal year. This impact is partially offset by the corresponding higher value of U.S. dollar denominated expenses.

From time to time the Company enters into forward foreign exchange contracts to sell U.S. dollars to hedge its net accounts receivable denominated in these foreign currencies. The term of these forward contracts is of a short term nature with the objective of matching the expected payments from customers. As of November 30, 2012 the Company has no foreign exchange forward contracts.

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 entities 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 (loss) and other comprehensive income (loss) (OCI) of a 5% increase in the Canadian dollar in comparison to the relevant foreign currency. This analysis assumes all other variables remain constant.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

16. Financial risk - continued:

	Carrying amount of Asset (Liability) at November 30, 2012	Foreign Exchange Risk 5% increase in Cdn \$ Income	OCI
Net US dollar foreign currency exposure	\$ 7,456,000	(372,800)	
Net Indian Rupee foreign currency	159,000		(7,950)
Net Chilean Peso foreign currency exposure	1,864,000		(93,200)
Net Chinese Yuan foreign currency exposure	4,875,618		(243,781)

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

Interest rate risk:

Interest rate risk arises because of the fluctuation in interest rates. Fluctuations in interest rates impact the future cash flows and fair values of various financial instruments. The Company is exposed to fluctuations in interest rates. The Company's cash flow is exposed to interest fluctuations due to its variable interest rate instruments. The Company does not use derivative financial instruments to mitigate interest rate risk.

At November 30, 2012, the effect of a 1% increase or decrease in the bank prime rate, with all other variables held constant would have resulted in an increase or decrease of \$48,000 to the Company's net loss for the year.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they become due. The Company facilitates this in part by maintaining a line of credit in the amount of \$8.5 million with the RBC, as disclosed in note 7. At November 30, 2012 the remaining amount available to be drawn under this credit facility based on margin capacity is approximately \$2.4 million.

Also as disclosed in note 7, the Company maintains an operating line of credit for its operations in India with HDFC Bank Limited ("HDFC"). At November 30, 2012 this facility was fully drawn. The current guarantee of this facility by EDC has been extended to July 31, 2013 at which time it is up for renewal.

In addition, EDC has extended its guarantee to May 31, 2013 of the Company's additional credit facility of \$1.5 million US with RBC for the support of performance guarantees provided by the Company's subsidiaries. At November 30, 2012 performance guarantees totaling \$459,362 CDN are outstanding under this credit facility.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

16. Financial risk - continued:

The table below presents a maturity analysis of the Company's financial liabilities based on the expected cash flows from November 30, 2012 to the contractual maturity date. The amounts represent the contractual undiscounted cash flows (thousands of dollars).

	Carrying Amount of Liability at November 30, 2012	Contractual Cash Flows Including Interest	< 1 year	1 to 5 years
Short-term loans*	\$ 6,576	\$ 7,056	\$ 7,056	-
Accounts payable and accrued liabilities	\$ 6,139	\$ 6,139	\$ 6,139	-

* Assumes balance is outstanding for 365 days.

The sensitivity analyses discussed and illustrated above for currency, interest rate and liquidity risk should be used with caution as the changes are hypothetical and are not predictive of true performance. The above sensitivities are calculated with reference to period-end balances and will change due to fluctuation in the balances throughout the year. In addition, for the purpose of the sensitivity analyses, the effect of a variation in a particular assumption on the fair value of the financial instrument was calculated independently of any change in another assumption. Actual changes in one factor may contribute to changes in another factor, which may magnify or counteract the effect on the fair value of the financial instrument.

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 with a mix of debt and equity and makes adjustments to it in 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 assume more debt, 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:

	November 30, 2012	November 30, 2011	December 1, 2010
Short-term debt	\$ 6,575,722	\$ 6,558,389	\$ 5,732,459
Long-term debt	-	1,081,867	6,328,234
Total debt	6,575,722	7,640,256	12,060,693
Shareholders' equity	16,549,581	17,217,156	21,074,388
Total capital	\$ 23,125,303	\$ 24,857,412	\$ 33,135,081

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

16. Financial risk - continued:

Fair value:

The Company classifies its fair value measurements by reference to the following fair value measurement hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Assets and liabilities carried at fair value in the Company's financial statements are generally limited to derivative instruments used for risk management purposes. Estimates of fair value for derivatives are determined using Level 3 measurements. At November 30, 2012, no derivative contracts were outstanding. At November 30, 2011 \$2.9 million of USD forward foreign currency exchange contracts were outstanding with a loss of \$94,000.

The carrying amounts of the Company's financial assets and liabilities, including cash and cash equivalents, 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.

17. Commitments

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	3,109,144
	<hr/>
	\$ 6,004,144

During the year ended November 30, 2012 an amount of \$579,000 was recognized as an expense in the statement of loss in respect of operating leases (2011 - \$363,425).

The Company has provided a guarantee in the amount of 7.5 million Yuan (\$1,185,000) for 50% of a bank loan to XPCT. The guarantee provided by the Company is proportionate to its shareholding in XPCT.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

18. 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:

	November 30, 2012	November 30, 2011
Canada	\$ 3,135,544	\$ 3,662,323
United States	24,395,723	20,866,215
Overseas	14,046,046	14,569,965
	<u>\$ 41,577,313</u>	<u>\$ 39,098,503</u>

The Company had non-current assets in the following geographic areas:

	November 30, 2012	November 30, 2011	December 1, 2010
Canada	\$ 8,818,978	\$ 8,779,436	\$ 15,778,406
United States	678,968	918,666	1,211,863
Overseas	617,850	592,319	704,833
	<u>\$ 10,115,796</u>	<u>\$ 10,290,421</u>	<u>\$ 17,695,102</u>

19. Statements of cash flows:

Other operating items

	November 30, 2012	November 30, 2011
Accounts receivable	\$ (1,837,722)	\$ 153,733
Unbilled revenue	143,231	(23,049)
Inventories	1,066,631	168,009
Prepaid expense and deposits	157,064	(183,152)
Accounts payable and accrued liabilities	1,035,855	125,258
	<u>\$ 565,059</u>	<u>\$ 240,799</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

20. Key management personnel and directors compensation:

In addition to salaries and benefits, executive officers also participate in the stock option program (see note 11). 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:

	November 30, 2012	November 30, 2011
Salaries and short-term employee benefits	\$ 1,074,762	\$ 1,045,818
Share-based compensation	18,681	16,313
	<u>\$ 1,093,443</u>	<u>\$ 1,062,131</u>

21. Explanation of transition to IFRS:

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended November 30, 2012, the comparative information presented in these financial statements for the year ended November 30, 2011 and in the opening IFRS statement of financial position at December 1, 2010 (the Company's date of transition).

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 generally accepted accounting principles ("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.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

21. Explanation of transition to IFRS – continued:

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
	<u>23,909,260</u>	<u>-</u>	<u>23,909,260</u>
Property, plant and equipment (a)	6,151,430	3,157,406	9,308,836
Investment in XPCT	5,118,780	-	5,118,780
Investment tax credits recoverable	3,267,486	-	3,267,486
Deferred taxes (b)	738,000	(738,000)	-
	<u>\$ 39,184,956</u>	<u>\$ 2,419,406</u>	<u>\$ 41,604,362</u>
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
	<u>19,921,117</u>	<u>-</u>	<u>19,921,117</u>
Deferred revenue	535,404	-	535,404
Deferred taxes	-	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
	<u>18,728,435</u>	<u>2,345,953</u>	<u>21,074,388</u>
	<u>\$ 39,184,956</u>	<u>\$ 2,419,406</u>	<u>\$ 41,604,362</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

21. 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
Investment in XPCT	4,781,709	-	4,781,709
Investment tax credits recoverable	2,856,573	-	2,856,573
Deferred taxes (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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

21. 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)	10,730,805	(730,075)	10,000,730
Research and development		1,005,553	-	1,005,553
Financing costs, net	(e)	528,004	1,046,390	1,574,394
Depreciation	(e)	776,132	(776,132)	-
Other expense (income)	(c)	(278,023)	228,479	(49,544)
XPCT earnings		(37,688)	-	(37,688)
Loss before income taxes		(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 year ended November 30, 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:

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

21. 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 on the deemed cost of 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 the year ended November 30, 2011.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

21. 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 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 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 with a corresponding increase in retained earnings. 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) of \$798,163 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 \$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 year ended November 30, 2011.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2012 and 2011

21. Explanation of transition to IFRS – continued:

e) Reclassification of expenses

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.

Certain financing costs have been reclassified from administration and marketing expenses to financing costs.

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.