

**INTERNATIONAL ROAD DYNAMICS INC.**

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements  
Period Ended May 31, 2013

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

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

July 11, 2013

[Signed]  
Terry Bergan  
Chief Executive Officer

[Signed]  
David Cortens  
Chief Financial Officer

# INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed and Annual Consolidated Statements of Financial Position

	Note	May 31, 2013	November 30, 2012
Canadian dollars		Unaudited	Audited
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$ 2,003,685	\$ 1,157,498
Accounts receivable		10,756,314	10,945,984
Unbilled revenue		2,370,087	3,739,866
Income taxes receivable		102,955	49,397
Inventories	4	6,289,157	5,913,184
Prepaid expenses and deposits		867,841	643,509
		<u>22,390,039</u>	<u>22,449,438</u>
Property, plant and equipment	5	1,593,813	1,575,860
Investment in XPCT	6	4,886,644	4,875,618
Investment tax credits recoverable		2,927,134	2,837,134
Deferred taxes		829,298	827,184
		<u>\$ 32,626,928</u>	<u>\$ 32,565,234</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Bank indebtedness	7	\$ 6,267,806	\$ 6,575,722
Accounts payable and accrued liabilities		5,342,485	6,138,825
Current portion of deferred revenue		3,051,591	2,731,648
		<u>14,661,882</u>	<u>15,446,195</u>
Deferred revenue		856,272	569,458
Shareholders' equity:			
Share capital	10	12,071,009	12,071,009
Contributed surplus		287,209	281,581
Retained earnings		4,511,480	4,274,898
Accumulated other comprehensive income (loss)		239,076	(77,907)
		<u>17,108,774</u>	<u>16,549,581</u>
		<u>\$ 32,626,928</u>	<u>\$ 32,565,234</u>

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		Six months ended	
		May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Revenue	9,17	\$ 11,245,384	\$ 10,573,179	\$ 19,053,867	\$ 19,489,423
Cost of goods sold	4	7,498,021	7,400,860	12,744,900	13,955,457
		3,747,363	3,172,319	6,308,967	5,533,966
Administrative and marketing expenses		2,909,757	2,744,346	5,484,053	5,130,624
Research and development, net	11	320,366	265,461	698,955	506,745
Financing costs (gains), net	14	(19,294)	(104,095)	83,271	176,345
Other expense (income)		60	(12,678)	(41,809)	(26,382)
XPCT loss (earnings)	6	(213,608)	(5,391)	(209,709)	68,055
Earnings (loss) before income taxes		750,082	284,676	294,206	(321,421)
Income tax expense (recovery)	8	130,500	49,219	57,624	(43,959)
Net earnings (loss)		\$ 619,582	\$ 235,457	\$ 236,582	\$ (277,462)
Earnings (loss) per share	13				
Basic		\$ 0.05	\$ 0.02	\$ 0.02	\$ (0.02)
Diluted		\$ 0.05	\$ 0.02	\$ 0.02	\$ (0.02)

### Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

Unaudited

Canadian dollars		Three months ended		Six months ended	
		May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Net earnings (loss)		\$ 619,582	\$ 235,457	\$ 236,582	\$ (277,462)
Other comprehensive income (loss)					
Unrealized foreign currency translation gains (losses)		(83,753)	(277,453)	316,983	(116,322)
Total comprehensive income (loss)		\$ 535,829	\$ (41,996)	\$ 553,565	\$ (393,784)

See accompanying notes to interim condensed consolidated financial statements.

## INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited

Canadian dollars	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 1, 2011		\$ 12,071,009	\$ 262,900	\$ 4,922,356	\$ (39,109)	\$ 17,217,156
Net loss				(277,462)		(277,462)
Unrealized foreign currency translation losses					(116,322)	(116,322)
Share-based compensation	10(c)		6,836			6,836
Balance at May 31, 2012		\$ 12,071,009	\$ 269,736	\$ 4,644,894	\$ (155,431)	\$ 16,830,208
Balance at December 1, 2012		\$ 12,071,009	\$ 281,581	\$ 4,274,898	\$ (77,907)	\$ 16,549,581
Net earnings				236,582		236,582
Unrealized foreign currency translation gains					316,983	316,983
Share-based compensation	10(c)		5,628			5,628
Balance at May 31, 2013		\$ 12,071,009	\$ 287,209	\$ 4,511,480	\$ 239,076	\$ 17,108,774

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

See accompanying notes to interim condensed consolidated financial statements.

## INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Cash Flows

Unaudited

Canadian dollars	Note	Three months ended		Six months ended	
		May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Cash flows from (used in):					
Operations:					
Net earnings (loss)		\$ 619,582	\$ 235,457	\$ 236,582	\$ (277,462)
Adjustments for:					
Deferred revenue		(1,497,549)	(43,029)	606,757	503,396
Depreciation	12(b)	124,535	152,906	256,930	328,242
Bad debt expense	14,15	112,210	(17,463)	125,835	15,520
Share-based compensation	10(c),12(a)	2,814	3,418	5,628	6,836
XPCT loss (earnings)	6	(213,608)	(5,391)	(209,709)	68,055
Interest expense	14	100,609	94,627	233,731	202,882
Investment tax credits earned	11	(45,000)	(122,782)	(90,000)	(178,782)
Income tax expense (recovery)		130,500	49,219	57,624	(43,959)
Income taxes recovered (paid)		58,269	(85,780)	(120,529)	(105,186)
Other operating items	18	31,042	565,339	54,752	362,570
		(576,596)	826,521	1,157,601	882,112
Investing:					
Dividend received from XPCT	6	-	-	491,601	-
Additions to property, plant and equipment	5	(197,976)	(7,476)	(263,847)	(109,532)
		(197,976)	(7,476)	227,754	(109,532)
Financing:					
Interest paid	14	(100,609)	(94,627)	(233,731)	(202,882)
Bank indebtedness		1,251,313	(384,681)	(307,916)	(59,225)
Repayment of long-term debt		-	(224,215)	-	(445,301)
		1,150,704	(703,523)	(541,647)	(707,408)
Increase in cash and cash equivalents		376,132	115,522	843,708	65,172
Exchange rate changes on foreign currency cash balances		(64,563)	(58,691)	2,479	(5,141)
Cash and cash equivalents, beginning of period		1,692,116	920,361	1,157,498	917,161
Cash and cash equivalents, end of period		\$ 2,003,685	\$ 977,192	\$ 2,003,685	\$ 977,192

See accompanying notes to interim condensed consolidated financial statements.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three month and six month periods ended May 31, 2013 and 2012

Canadian dollars

---

## 1. Reporting entity

International Road Dynamics Inc. is incorporated under the *Canada Business Corporations Act*. The address of its registered office is 702 43rd Street East, Saskatoon, Saskatchewan, Canada, S7K 3T9. The interim condensed consolidated financial statements as at and for the period ended May 31, 2013 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 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*. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the most recent annual consolidated financial statements as at and for the year ended November 30, 2012.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on July 11, 2013.

### (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. In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the year ended November 30, 2012.

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.

# **INTERNATIONAL ROAD DYNAMICS INC.**

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three month and six month periods ended May 31, 2013 and 2012

Canadian dollars

---

## **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. Estimates are also involved in accounting for the relative fair values of the components of a project contract that contain a service arrangement. 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, unbilled revenue, inventories, 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) Income taxes, 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:**

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the Company's most recent annual audited consolidated financial statements for the year ended November 30, 2012.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three month and six month periods ended May 31, 2013 and 2012

Canadian dollars

## 4. Inventories:

		May 31, 2013		November 30, 2012
Raw materials	\$	625,619	\$	465,469
Original equipment manufacturer materials		3,062,421		3,123,395
Work in process		1,805,961		1,826,457
Finished goods		795,156		497,863
	\$	6,289,157	\$	5,913,184

During the quarter, inventories expensed within cost of goods sold were \$5,310,037 (2012 - \$5,035,878) and \$8,165,768 for the first six months (2012 - \$8,967,834). During the quarter the company also recorded a provision for excess and obsolete inventories within cost of sales of \$25,000 (2012 - \$66,000) and \$25,000 for the first six months (2012 - \$116,000).

## 5. Property, plant and equipment:

	Land and Buildings	Office Equipment	Manufacturing Equipment	Automotive Equipment	Computer Equipment	Total
<b>Cost</b>						
Balance at November 30, 2012	\$ 166,435	\$ 969,165	\$ 2,711,340	\$ 1,239,416	\$ 3,435,176	\$ 8,521,532
Additions	39,948	1,557	71,360	115,116	35,866	263,847
Disposals	-	-	-	-	-	-
Effect on movements in						
exchange rates	1,992	4,560	5,563	6,068	4,045	22,228
Balance at May 31, 2013	\$ 208,375	\$ 975,282	\$ 2,788,263	\$ 1,360,600	\$ 3,475,087	\$ 8,807,607
<b>Accumulated Depreciation</b>						
Balance at November 30, 2012	\$ 23,924	\$ 894,596	\$ 2,081,309	\$ 761,982	\$ 3,183,861	\$ 6,945,672
Additions	1,773	8,950	130,647	74,389	41,305	257,064
Disposals	-	-	-	-	-	-
Effect on movements in						
exchange rates	270	4,340	1,134	1,898	3,416	11,058
Balance at May 31, 2013	\$ 25,967	\$ 907,886	\$ 2,213,090	\$ 838,269	\$ 3,228,582	\$ 7,213,794
<b>Carrying Amounts</b>						
Balance at November 30, 2012	\$ 142,511	\$ 74,569	\$ 630,031	\$ 477,434	\$ 251,315	\$ 1,575,860
Balance at May 31, 2013	\$ 182,408	\$ 67,396	\$ 575,173	\$ 522,331	\$ 246,505	\$ 1,593,813



# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three month and six month periods ended May 31, 2013 and 2012

Canadian dollars

## 6. Investment in XPCT:

	Three months ended		Six months ended		Year ended
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012	November 30 2012
<b>Xuzhou-PAT Control Technologies Limited (XPCT)</b>					
Balance - beginning of period	\$4,542,536	\$4,582,581	\$4,875,618	\$4,781,709	\$4,781,709
Currency gain (loss) on financial statement translation	130,500	112,034	292,918	(13,648)	(124,888)
Equity earnings (loss)	213,608	5,391	209,709	(68,055)	378,507
Dividend received	-	-	(491,601)	-	(159,710)
Balance - end of period	\$4,886,644	\$4,700,006	\$4,886,644	\$4,700,006	4,875,618

The Company had \$nil sales to XPCT during the quarter (2012 - \$nil) and \$nil the first six months (2012 - \$352,450). At May 31, 2013 accounts receivable from XPCT were \$1,217 (November 30, 2012 - \$280,517).

## 7. Bank indebtedness:

	May 31, 2013	November 30, 2012
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.	\$ 5,408,690	\$ 5,705,699
HDFC Bank Limited credit facility. Authorized to a maximum of 46.7 million Indian Rupees (approximately \$859,000), which was fully drawn at May 31, 2013, with interest at 12.4% and secured by a standby letter of credit issued by Royal Bank of Canada and guaranteed by Export Development Canada ("EDC")	859,116	870,023
	\$ 6,267,806	\$ 6,575,722

The Company has no issued letters of credit against the Royal Bank of Canada (RBC) credit facility as of May 31, 2013 and November 30, 2012 for bid and performance guarantees on certain contracts.

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. The Canadian dollar value of performance guarantees outstanding at May 31, 2013 totaled \$252,562 (November 30, 2012 - \$459,362).

See note 15 for a discussion of liquidity risk.

## INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three month and six month periods ended May 31, 2013 and 2012

Canadian dollars

### 8. Income taxes:

Due to uncertainty that sufficient future earnings will be generated in the Company's Indian subsidiary to offset current tax losses prior to their expiry, no provision for income tax recovery has been recorded in this subsidiary. In addition, the effective tax rate can vary from the expected tax rate applied to earnings (loss) before income taxes as a result of different rates of tax on foreign income and the inclusion in earnings (loss) before income taxes of equity earnings or losses and foreign currency translation gains or losses on consolidation of foreign subsidiaries. As a result, the consolidated effective tax rate is not representative of statutory rates effective in the jurisdictions in which the Company operates.

### 9. Revenue:

	Three months ended		Six months ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Contracted projects	\$ 4,194,952	\$ 3,823,169	\$ 6,992,199	\$ 7,305,776
Service	4,758,455	3,389,111	7,739,862	6,321,841
Product sales	2,291,977	3,360,899	4,321,806	5,861,806
Total	\$ 11,245,384	\$ 10,573,179	\$ 19,053,867	\$ 19,489,423

### 10. Share capital:

(a) Authorized:

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

(b) Share transactions:

	Number of shares	Amount
Balance, November 30, 2012 and May 31, 2013	13,998,337	\$ 12,071,009

(c) Options:

Under the terms of the Company's stock option plan, the Company is authorized to grant officers, employees and others options to purchase common shares at prices based on the market price of shares as determined on the date of the grant. At May 31, 2013, 625,665 (November 30, 2012 – 355,665) options remain available to be granted. Stock options become exercisable at dates determined by the Compensation Committee of the Board of Directors.

## INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three month and six month periods ended May 31, 2013 and 2012

Canadian dollars

### 10. Share capital (continued):

At May 31, 2013, the following stock options to officers, employees and others were outstanding:

Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at May 31, 2013	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at May 31, 2013	Weighted-Average Exercise Price
\$ 0.31	840,000	3.41	\$ 0.31	279,973	\$ 0.31
0.43	100,000	4.45	0.43	-	-
0.44	40,000	4.51	0.44	-	-
1.20	525,000	5.75	1.20	525,000	1.20
	1,505,000	4.20	\$ 0.63	804,973	\$ 0.89

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

	Number of Common Shares Issuable	Weighted Average Exercise Price
Outstanding, November 30, 2012	1,775,000	\$ 0.64
Options granted	40,000	0.44
Options forfeited	(215,000)	0.36
Options expired	(95,000)	1.29
Outstanding, May 31, 2013	1,505,000	\$ 0.63

Outstanding options expire between October 26, 2016 and February 28, 2019.

Share-based compensation expense of \$2,814 and \$5,628 was recorded for the three and six months ended May 31, 2013 (2012 - \$3,418 and \$6,836) along with a corresponding increase in contributed surplus in shareholders' equity for options vesting during the period.

### 11. Research and development, net:

	Three months ended		Six months ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Research and development expenditures	\$ 365,366	\$ 388,243	\$ 788,955	\$ 685,527
Less investment tax credits	(45,000)	(122,782)	(90,000)	(178,782)
Total	\$ 320,366	\$ 265,461	\$ 698,955	\$ 506,745

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three month and six month periods ended May 31, 2013 and 2012

Canadian dollars

## 12. Expense classification:

### (a) Personnel expenses:

	Three months ended		Six months ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Wages and salaries	\$ 3,055,828	\$ 2,874,243	\$5,903,557	\$5,568,179
Statutory benefits	189,292	196,969	370,584	348,286
Other employment benefits	173,955	170,561	340,591	353,708
Defined contribution plans	64,002	57,189	125,140	110,214
Share-based payment transactions	2,814	3,418	5,628	6,836
	<u>\$ 3,485,891</u>	<u>\$ 3,302,380</u>	<u>\$6,745,500</u>	<u>\$6,387,223</u>

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		Six months ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Depreciation on property, plant and equipment	\$ 123,752	\$ 152,579	\$ 257,064	\$ 320,979
Add: Depreciation in opening inventory	17,113	16,161	16,196	23,097
Less: Depreciation in closing inventory	(16,330)	(15,834)	(16,330)	(15,834)
Depreciation expense	<u>\$ 124,535</u>	<u>\$ 152,906</u>	<u>\$ 256,930</u>	<u>\$ 328,242</u>

Depreciation expense is allocated as follows:

Cost of goods sold	\$ 97,737	\$ 115,106	\$ 202,030	\$ 233,216
Administration and marketing expenses	26,798	37,800	54,900	95,026
	<u>\$ 124,535</u>	<u>\$ 152,906</u>	<u>\$ 256,930</u>	<u>\$ 328,242</u>

## INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three month and six month periods ended May 31, 2013 and 2012

Canadian dollars

### 13. Earnings (loss) per share:

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

	Three months ended		Six months ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Net earnings (loss)	\$ 619,582	\$ 235,457	\$ 236,582	\$ (277,462)
Weighted average number of common shares outstanding:				
Basic	13,998,337	13,998,337	13,998,337	13,998,337
Effect of stock options	261,646	-	261,646	-
Diluted	14,259,983	13,998,337	14,259,983	13,998,337
Earnings (loss) per share:				
Basic	\$ 0.05	\$ 0.02	\$ 0.02	\$ (0.02)
Diluted	\$ 0.05	\$ 0.02	\$ 0.02	\$ (0.02)

The Company has stock options outstanding to purchase 1,505,000 common shares at May 31, 2013 (May 31, 2012 – 1,715,000). None of the options available to purchase common shares were included in the computation of diluted loss per share as amounts were anti-dilutive.

### 14. Financing costs (gains), net:

	Three months ended		Six months ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Interest on bank indebtedness	\$ 100,609	\$ 82,049	\$ 233,731	\$ 173,942
Interest on long-term debt	-	12,578	-	28,940
Interest expense	100,609	94,627	233,731	202,882
Bad debt expense (recovery) (note 15)	112,210	(17,463)	125,835	15,520
Foreign exchange gains	(128,647)	(328,630)	(172,829)	(122,428)
Derivative losses (gains)	(103,466)	147,371	(103,466)	80,371
	\$ (19,294)	\$ (104,095)	\$ 83,271	\$ 176,345

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three month and six month periods ended May 31, 2013 and 2012

Canadian dollars

## 15. 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, 2012 and there have been no changes in these risks and the methods of managing these risks. The areas of continuing significance to the Company are as follows:

### 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 which represent The Company's maximum exposure to credit risk.

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.

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

	Three months ended		Six months ended		
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012	Nov-30 2012
Balance, beginning of period	\$ 1,070,876	\$ 982,272	\$ 1,006,851	\$ 953,842	\$ 953,842
Bad debt expense (recovery)	112,210	(17,463)	125,835	15,520	381,301
Write offs	(292)	(113,406)	(292)	(113,406)	(254,369)
Foreign currency revaluation	(31,470)	(58,317)	18,930	(62,870)	(73,923)
Balance, end of period	\$ 1,151,324	\$ 793,086	\$ 1,151,324	\$ 793,086	\$ 1,006,851

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.

### Currency fluctuation risk:

The Company is exposed to foreign exchange risk primarily relating to sales revenue, operating and capital expenditures, translation of foreign currency subsidiary operations from its functional currency to that of the Company, and the embedded derivative portion of the unearned revenue of US dollar denominated sales contracts in its Chilean subsidiary.

## **INTERNATIONAL ROAD DYNAMICS INC.**

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three month and six month periods ended May 31, 2013 and 2012

Canadian dollars

---

### **15. Financial risk (continued):**

The Company has exposure to the US dollar, Indian rupee, Chilean peso, Mexican peso, Bangladeshi taka and Chinese yuan. The majority of the Company's sales are denominated in US dollars while the majority of its costs are denominated in Canadian dollars. Fluctuations in the value of the US dollar compared to both the Canadian dollar and Chilean peso can significantly affect both earnings and cash flow. During the six months ended May 31, 2013 approximately 76% of the Company's sales were denominated in US dollars.

From time to time the Company enters into forward foreign exchange contracts to sell US dollars to hedge its net accounts receivable denominated in this currency. The term of these forward contracts is of a short term nature with the objective of matching the expected payments from customers. For the six month period ended May 31, 2013 the Company had no foreign exchange forward contracts.

#### **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 May 31, 2013 the remaining amount available to be drawn under this credit facility based on margin capacity is approximately \$0.5 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 May 31, 2013 this credit facility is 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 provided a guarantee to May 31, 2014 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. The Canadian dollar value of performance guarantees outstanding at May 31, 2013 totaled \$252,562 (November 30, 2012 - \$459,362).

## INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three month and six month periods ended May 31, 2013 and 2012

Canadian dollars

### 16. Commitments

The Company leases land and building under an operating lease expiring on April 14, 2023. Contractual lease obligations comprised of base rent and certain 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		2,819,700
	\$	5,714,700

During the three and six months ended May 31, 2013 and in the prior year's comparative periods \$144,750 and \$289,500 were recognized as an expense in respect of the operating lease for land and building.

The Company has provided a guarantee in the amount of 7.5 million Yuan (\$1.3 million) for 50% of a bank loan to XPCT. The guarantee provided by the Company is proportionate to its shareholding in XPCT.

### 17. Segmented information:

The Company operates in one industry segment, the ITS industry, which involves the engineering, software development, manufacturing and integration of products and systems to highway departments and industry to improve the efficiency of traffic flows.

The Company had revenue in the following geographic areas:

	Three months ended		Six months ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Canada and United States	\$ 7,800,858	\$ 6,888,998	\$ 12,198,450	\$ 12,568,959
Latin America	1,664,507	1,525,286	3,429,316	2,711,914
South Asia	1,152,351	1,502,395	2,093,751	2,617,448
Other International	627,668	656,500	1,332,350	1,591,102
Total	\$ 11,245,384	\$ 10,573,179	\$ 19,053,867	\$ 19,489,423

Non-current assets, at carrying value, are located in the following geographic areas:

	May 31 2013	Nov-30 2012
Canada and United States	\$ 9,578,344	\$ 9,497,946
Latin America	658,545	617,850
Total	\$ 10,236,889	\$ 10,115,796



# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three month and six month periods ended May 31, 2013 and 2012

Canadian dollars

## 18. Statements of cash flows:

Other operating items	Three months ended		Six months ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Accounts receivable	\$ 127,522	\$ (256,972)	\$ 64,233	\$(1,629,074)
Unbilled revenue	43,262	923,953	1,378,321	1,840,476
Inventories	(193,639)	(399,530)	(373,495)	(294,057)
Prepaid expenses and deposits	(236,083)	(242,123)	(222,933)	(121,351)
Accounts payable and accrued liabilities	289,980	540,011	(791,374)	566,576
	\$ 31,042	\$ 565,339	\$ 54,752	\$ 362,570

## 19. Key management personnel and directors compensation:

In addition to salaries and benefits, executive officers participate in the share option program (note 10). The Company compensates external directors through fees payable in cash or shares of the Company at the directors' discretion.

Upon resignation executive officers are subject to a notice term of two or four months. Executive officers are entitled to termination benefits ranging from 12 to 18 months' gross salary.

Key management and directors compensation includes:

	Three months ended		Six months ended	
	May 31, 2013	May 31, 2012	May 31, 2013	May 31, 2012
Salaries and short-term employee benefits	\$ 274,546	\$ 278,190	\$ 551,079	\$ 545,369
Share-based compensation	1,281	2,241	2,562	4,482
	\$ 275,827	\$ 280,431	\$ 553,641	\$ 549,851