

INTERNATIONAL ROAD DYNAMICS INC.

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements
Period Ended August 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.

October 8, 2013

[Signed]
Terry Bergan
Chief Executive Officer

[Signed]
David Cortens
Chief Financial Officer

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Financial Position

Unaudited

Canadian dollars	Note	August 31, 2013	November 30, 2012
Assets			
Current assets:			
Cash and cash equivalents		\$ 1,801,851	\$ 1,157,498
Accounts receivable		10,191,734	10,945,984
Unbilled revenue		3,893,336	3,739,866
Income taxes receivable		26,316	49,397
Inventories	4	6,885,940	5,913,184
Prepaid expenses and deposits		881,387	643,509
		<u>23,680,564</u>	<u>22,449,438</u>
Property, plant and equipment	5	1,697,267	1,575,860
Investment in XPCT	6	5,305,409	4,875,618
Investment tax credits recoverable		2,963,469	2,837,134
Deferred taxes		535,039	827,184
		<u>\$ 34,181,748</u>	<u>\$ 32,565,234</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	7	\$ 7,432,392	\$ 6,575,722
Accounts payable and accrued liabilities		5,601,010	6,138,825
Current portion of deferred revenue		2,872,075	2,731,648
		<u>15,905,477</u>	<u>15,446,195</u>
Deferred revenue		790,252	569,458
Shareholders' equity:			
Share capital	10	12,071,009	12,071,009
Contributed surplus		290,024	281,581
Retained earnings		5,045,505	4,274,898
Accumulated other comprehensive income (loss)		79,481	(77,907)
		<u>17,486,019</u>	<u>16,549,581</u>
		<u>\$ 34,181,748</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
Unaudited

Canadian dollars	Note	Three months ended		Nine months ended	
		August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Revenue	9	\$ 12,014,765	\$ 11,126,338	\$ 31,068,632	\$ 30,615,761
Cost of goods sold		8,178,556	7,472,765	20,923,456	21,428,222
		3,836,209	3,653,573	10,145,176	9,187,539
Administrative and marketing expenses		2,688,819	2,539,935	8,172,872	7,670,559
Research and development, net	11	232,913	282,909	931,868	789,654
Financing costs, net	14	355,738	329,066	439,009	505,411
Other income		(32,510)	(10,019)	(74,319)	(36,401)
XPCT loss (earnings)	6	(293,953)	(65,812)	(503,662)	2,243
Earnings before income taxes		885,202	577,494	1,179,408	256,073
Income tax expense	8	351,177	199,940	408,801	155,981
Net earnings		\$ 534,025	\$ 377,554	\$ 770,607	\$ 100,092
Earnings per share	13				
Basic		\$ 0.04	\$ 0.03	\$ 0.05	\$ 0.01
Diluted		\$ 0.04	\$ 0.03	\$ 0.05	\$ 0.01

Interim Condensed Consolidated Statements of Comprehensive Income
Unaudited

Canadian dollars	Three months ended		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Net earnings	\$ 534,025	\$ 377,554	\$ 770,607	\$ 100,092
Other comprehensive income (loss):				
Unrealized foreign currency translation gains (losses)	(159,595)	34,339	157,388	(81,983)
Total comprehensive income	\$ 374,430	\$ 411,893	\$ 927,995	\$ 18,109

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 earnings		-	-	100,092	-	100,092
Other comprehensive income (loss):						
Exchange differences on translation of foreign operations		-	-	-	(81,983)	(81,983)
Share-based compensation	10(c)	-	10,614	-	-	10,614
Balance at August 31, 2012		\$ 12,071,009	\$ 273,514	\$ 5,022,448	\$ (121,092)	\$ 17,245,879
Balance at December 1, 2012		\$ 12,071,009	\$ 281,581	\$ 4,274,898	\$ (77,907)	\$ 16,549,581
Net earnings		-	-	770,607	-	770,607
Other comprehensive income (loss):						
Exchange differences on translation of foreign operations		-	-	-	157,388	157,388
Share-based compensation	10(c)	-	8,443	-	-	8,443
Balance at August 31, 2013		\$ 12,071,009	\$ 290,024	\$ 5,045,505	\$ 79,481	\$ 17,486,019

Accumulated other comprehensive income (loss) is comprised solely of exchange differences on translation of foreign operations.

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		Nine months ended	
		August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Cash flows from (used in):					
Operations:					
Net earnings		\$ 534,025	\$ 377,554	\$ 770,607	\$ 100,092
Adjustments for:					
Deferred revenue		(245,536)	266,231	361,221	769,627
Depreciation	12(b)	139,575	138,448	396,505	466,690
Bad debt expense	14,15	304,684	14,182	430,519	29,702
Share-based compensation	10(c),12(a)	2,815	3,778	8,443	10,614
XPCT loss (earnings)	6	(293,953)	(65,812)	(503,662)	2,243
Interest expense	14	127,039	121,223	360,770	324,105
Loss on disposal of property, plant and equipment		1,840	-	1,840	-
Investment tax credits earned	11	(45,000)	(132,013)	(135,000)	(310,795)
Income tax expense		351,177	199,940	408,801	155,981
Income taxes recovered (paid)		36,794	703	(83,735)	(104,483)
Other operating items	18	(1,837,222)	156,879	(1,782,470)	519,449
		(923,762)	1,081,113	233,839	1,963,225
Investing:					
Dividend received from XPCT	6	-	143,739	491,601	143,739
Proceeds from sale of property, plant and equipment		1,700	-	1,700	-
Additions to property, plant and equipment	5	(247,746)	(59,772)	(511,593)	(169,304)
		(246,046)	83,967	(18,292)	(25,565)
Financing:					
Interest paid	14	(127,039)	(121,223)	(360,770)	(324,105)
Bank indebtedness		1,164,586	(902,500)	856,670	(961,725)
Repayment of long-term debt		-	(227,264)	-	(672,565)
		1,037,547	(1,250,987)	495,900	(1,958,395)
Increase (decrease) in cash and cash equivalents		(132,261)	(85,907)	711,447	(20,735)
Exchange rate changes on foreign currency cash balances		(69,573)	28,585	(67,094)	23,444
Cash and cash equivalents, beginning of period		2,003,685	977,192	1,157,498	917,161
Cash and cash equivalents, end of period		\$ 1,801,851	\$ 919,870	\$ 1,801,851	\$ 919,870

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three and nine months ended August 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 August 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 October 8, 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 and nine months ended August 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 and nine months ended August 31, 2013 and 2012

Canadian dollars

4. Inventories:

	August 31, 2013	November 30, 2012
Raw materials	\$ 762,905	\$ 465,469
Original equipment manufacturer materials	3,397,730	3,123,395
Work in process	1,922,901	1,826,457
Finished goods	802,404	497,863
	\$ 6,885,940	\$ 5,913,184

During the quarter, inventories expensed within cost of goods sold were \$5,369,465 (2012 - \$5,484,954) and \$13,535,233 for the first nine months (2012 - \$14,452,788). During the quarter the company also recorded a provision for excess and obsolete inventories within cost of sales of \$98,400 (2012 - \$81,000) and \$123,400 for the first nine months (2012 - \$197,000).

5. Property, plant and equipment:

	Land and Buildings	Office Equipment	Manufacturing Equipment	Automotive Equipment	Computer Equipment	Total
Cost						
Balance at November 30, 2012	\$ 166,435	\$ 969,165	\$ 2,711,340	\$ 1,239,416	\$ 3,435,176	\$ 8,521,532
Additions	75,959	2,261	108,324	268,470	56,579	511,593
Disposals	-	-	-	(46,665)	-	(46,665)
Effect on movements in						
exchange rates	(207)	(27,687)	3,269	(2,340)	(20,402)	(47,367)
Balance at August 31, 2013	\$ 242,187	\$ 943,739	\$ 2,822,933	\$ 1,458,881	\$ 3,471,353	\$ 8,939,093
Accumulated Depreciation						
Balance at November 30, 2012	\$ 23,924	\$ 894,596	\$ 2,081,309	\$ 761,982	\$ 3,183,861	\$ 6,945,672
Additions	3,468	14,067	196,188	117,513	64,063	395,299
Disposals	-	-	-	(43,125)	0	(43,125)
Effect on movements in						
exchange rates	(88)	(27,729)	(1,415)	(6,479)	(20,309)	(56,020)
Balance at August 31, 2013	\$ 27,304	\$ 880,934	\$ 2,276,082	\$ 829,891	\$ 3,227,615	\$ 7,241,826
Carrying Amounts						
Balance at November 30, 2012	\$ 142,511	\$ 74,569	\$ 630,031	\$ 477,434	\$ 251,315	\$ 1,575,860
Balance at August 31, 2013	\$ 214,883	\$ 62,805	\$ 546,851	\$ 628,990	\$ 243,738	\$ 1,697,267

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements
 Unaudited
 For the three and nine months ended August 31, 2013 and 2012
 Canadian dollars

6. Investment in XPCT:

	Three months ended		Nine months ended		Year ended
	August 31,	August 31,	August 31,	August 31,	November 30,
	2013	2012	2013	2012	2012
Xuzhou-PAT Control Technologies Limited (XPCT)					
Balance - beginning of period	\$4,886,644	\$4,700,006	\$4,875,618	\$4,781,709	\$4,781,709
Currency gain (loss) on financial statement translation	124,812	(165,831)	417,730	(179,479)	(124,888)
Equity earnings (loss)	293,953	65,812	503,662	(2,243)	378,507
Dividend received	-	(143,739)	(491,601)	(143,739)	(159,710)
Balance - end of period	\$5,305,409	\$4,456,248	\$5,305,409	\$4,456,248	4,875,618

The Company had sales of \$361,367 to XPCT during the quarter (2012 - \$11,289) and \$361,367 for the first nine months (2012 - \$363,739) under normal trade terms. At August 31, 2013 accounts receivable from XPCT were \$380,205 (November 30, 2012 - \$280,517).

7. Bank indebtedness:

	August 31,	November 30,
	2013	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.	\$ 6,696,233	\$ 5,705,699
HDFC Bank Limited credit facility. Authorized to a maximum of 46.7 million Indian Rupees (approximately \$736,000), which was fully drawn at August 31, 2013, with interest at 12.6% and secured by a standby letter of credit issued by Royal Bank of Canada and guaranteed by Export Development Canada ("EDC")	736,159	870,023
	\$ 7,432,392	\$ 6,575,722

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

The Company has an additional credit facility of \$1.25 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 August 31, 2013 totaled \$216,434 (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 and nine months ended August 31, 2013 and 2012

Canadian dollars

8. Income taxes:

The effective tax rate can vary from the Canadian tax rate of approximately 27% applied to earnings before income taxes as a result of different rates of tax on foreign income and the inclusion in earnings 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.

No income tax recovery has been recorded in the Company's Indian subsidiary on year to date losses of \$664,342 (2012 - \$124,143) due to uncertainty that sufficient future earnings will be generated in this entity to offset current tax losses prior to their expiry.

9. Revenue:

	Three months ended		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Contracted projects	\$ 5,727,308	\$ 5,374,570	\$12,719,507	\$12,680,346
Service	3,560,759	3,133,216	11,300,621	9,455,057
Product sales	2,726,698	2,618,552	7,048,504	8,480,358
Total	\$ 12,014,765	\$ 11,126,338	\$ 31,068,632	\$ 30,615,761

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 August 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 August 31, 2013, 655,665 (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 and nine months ended August 31, 2013 and 2012
Canadian dollars

10. Share capital (continued):

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

Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at August 31, 2013	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at August 31, 2013	Weighted-Average Exercise Price
\$ 0.31	810,000	3.16	\$ 0.31	269,975	\$ 0.31
0.43	100,000	4.19	0.43	-	-
0.44	40,000	4.26	0.44	-	-
1.20	525,000	5.50	1.20	525,000	1.20
	1,475,000	4.09	\$ 0.64	794,975	\$ 0.90

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	(245,000)	0.35
Options expired	(95,000)	1.29
Outstanding, August 31, 2013	1,475,000	\$ 0.64

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

Share-based compensation expense of \$2,815 and \$8,443 was recorded for the three and nine months ended August 31, 2013 (2012 - \$3,778 and \$10,614) 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		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Research and development expenditures	\$ 277,913	\$ 414,922	\$ 1,066,868	1,100,449
Less investment tax credits	(45,000)	(132,013)	(135,000)	(310,795)
	\$ 232,913	\$ 282,909	\$ 931,868	\$ 789,654

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three and nine months ended August 31, 2013 and 2012

Canadian dollars

12. Expense classification:

(a) Personnel expenses:

	Three months ended		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Wages and salaries	\$ 3,048,984	\$ 2,897,910	\$ 8,952,541	\$ 8,466,089
Statutory benefits	191,343	151,621	561,927	499,907
Other employment benefits	174,331	173,093	514,922	526,801
Defined contribution plans	65,670	63,114	190,810	173,328
Share-based payment transactions	2,815	3,778	8,443	10,614
	<u>\$ 3,483,143</u>	<u>\$ 3,289,516</u>	<u>\$ 10,228,643</u>	<u>\$ 9,676,739</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		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Depreciation on property, plant and equipment	\$ 138,235	\$ 136,082	\$ 395,299	\$ 457,061
Add: Depreciation in opening inventory	16,329	15,834	16,195	23,097
Less: Depreciation in closing inventory	(14,989)	(13,468)	(14,989)	(13,468)
Depreciation expense	<u>\$ 139,575</u>	<u>\$ 138,448</u>	<u>\$ 396,505</u>	<u>\$ 466,690</u>

Depreciation expense is allocated as follows:

Cost of goods sold	\$ 104,287	\$ 89,048	\$ 306,317	\$ 322,264
Administration and marketing expenses	35,288	49,400	90,188	144,426
	<u>\$ 139,575</u>	<u>\$ 138,448</u>	<u>\$ 396,505</u>	<u>\$ 466,690</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three and nine months ended August 31, 2013 and 2012

Canadian dollars

13. Earnings per share:

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

	Three months ended		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Net earnings	\$ 534,025	\$ 377,554	\$ 770,607	\$ 100,092
Weighted average number of common shares outstanding:				
Basic	13,998,337	13,998,337	13,998,337	13,998,337
Effect of stock options	269,702	-	269,702	-
Diluted	14,268,039	13,998,337	14,268,039	13,998,337
Earnings per share:				
Basic	\$ 0.04	\$ 0.03	\$ 0.05	\$ 0.01
Diluted	\$ 0.04	\$ 0.03	\$ 0.05	\$ 0.01

The Company has stock options outstanding to purchase 1,475,000 common shares at August 31, 2013 (August 31, 2012 – 1,785,000).

14. Financing costs, net:

	Three months ended		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Interest on bank indebtedness	\$ 127,039	\$ 111,062	\$ 360,770	\$ 285,004
Interest on long-term debt	-	10,161	-	39,101
Interest expense	127,039	121,223	360,770	324,105
Bad debt expense (note 15)	304,684	14,182	430,519	29,702
Foreign exchange losses (gains)	(75,985)	298,682	(352,280)	176,254
Derivative gains	-	(105,021)	-	(24,650)
	\$ 355,738	\$ 329,066	\$ 439,009	\$ 505,411

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three and nine months ended August 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		Nine months ended		
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012	November 30 2012
Balance, beginning of period	\$ 1,151,324	\$ 793,086	\$ 1,006,851	\$ 953,842	\$ 953,842
Bad debt expense	304,684	14,182	430,519	29,702	381,301
Write offs	(67,125)	(172,575)	(67,417)	(285,981)	(254,369)
Foreign currency revaluation	(128,830)	(17,317)	(109,900)	(80,187)	(73,923)
Balance, end of period	\$ 1,260,053	\$ 617,376	\$ 1,260,053	\$ 617,376	\$ 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 mitigate 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 expenses and capital expenditures, translation of foreign currency subsidiary operations from their 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 and nine months ended August 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 nine months ended August 31, 2013 approximately 79% 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. As at August 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 August 31, 2013 the remaining amount available to be drawn under this credit facility based on margin capacity is approximately \$1.5 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 August 31, 2013 this credit facility is fully drawn. The current guarantee of this facility by EDC has been extended to October 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 \$1.25 million US with RBC for the support of performance guarantees provided by the Company's Indian subsidiary. As at August 31, 2013, the Canadian dollar value of outstanding performance guarantees under this facility totaled \$216,434 (November 30, 2012 - \$459,362). The Company's Chilean subsidiary also maintains a secured line of credit to support performance guarantees required for selected projects. As at August 31, 2013, the Canadian dollar value of these performance guarantees totaled \$441,857 (November 30, 2012 - \$374,440).

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three and nine months ended August 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	2,674,978
	<u>\$ 5,569,978</u>

During the three and nine months ended August 31, 2013 and in the prior year's comparative periods \$144,750 and \$434,250 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		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Canada and United States	\$ 8,974,000	\$ 8,081,235	\$ 21,172,450	\$ 20,650,194
Latin America	1,635,936	998,490	5,065,252	3,710,404
South Asia	376,004	1,471,948	2,469,755	4,089,396
Other International	1,028,825	574,665	2,361,175	2,165,767
Total	<u>\$ 12,014,765</u>	<u>\$ 11,126,338</u>	<u>\$ 31,068,632</u>	<u>\$ 30,615,761</u>

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

	August 31 2013	November 30 2012
Canada and United States	\$ 9,835,076	\$ 9,497,946
Latin America	666,108	617,850
Total	<u>\$ 10,501,184</u>	<u>\$ 10,115,796</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three and nine months ended August 31, 2013 and 2012

Canadian dollars

18. Statements of cash flows:

Other operating items

	Three months ended		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Accounts receivable	\$ 229,975	\$ 1,662,723	\$ 294,208	\$ 33,649
Unbilled revenue	(1,545,786)	(1,985,632)	(167,465)	(145,156)
Inventories	(689,287)	198,282	(1,062,782)	(95,775)
Prepaid expenses and deposits	(36,638)	(23,857)	(259,571)	(145,208)
Accounts payable and accrued liabilities	204,514	305,363	(586,860)	871,939
	<u>\$(1,837,222)</u>	<u>\$ 156,879</u>	<u>\$(1,782,470)</u>	<u>\$ 519,449</u>

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		Nine months ended	
	August 31, 2013	August 31, 2012	August 31, 2013	August 31, 2012
Salaries and short-term employee benefits	\$ 272,667	\$ 260,778	\$ 823,746	\$ 806,147
Share-based compensation	1,281	2,601	3,843	7,083
	<u>\$ 273,948</u>	<u>\$ 263,379</u>	<u>\$ 827,589</u>	<u>\$ 813,230</u>