



INTERNATIONAL ROAD DYNAMICS INC.

**Unaudited Interim Condensed Consolidated Financial Statements**

Three and six months ended May 31, 2014 and 2013

The accompanying unaudited interim condensed consolidated financial statements have been prepared by management of International Road Dynamics Inc. and have not been reviewed by the Company's independent external auditor.

# INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Financial Position

Unaudited

Canadian Dollars	Note	May 31, 2014	November 30, 2013
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	4	\$ 841,280	\$ 1,389,874
Accounts receivable		9,232,148	9,940,910
Unbilled revenue		3,918,657	3,192,468
Inventories	5	6,417,223	5,822,522
Prepaid expenses and deposits		1,261,842	958,776
		21,671,150	21,304,550
Property, plant and equipment	6	1,899,557	1,836,403
Investment in XPCT	7	5,795,307	5,434,735
Investment tax credits recoverable		2,540,023	2,450,023
Deferred taxes		1,080,680	1,072,344
		\$ 32,986,717	\$ 32,098,055
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Bank indebtedness	8	\$ 5,662,400	\$ 5,663,619
Accounts payable and accrued liabilities		5,959,424	5,267,320
Income taxes payable		80,252	341,501
Current portion of deferred revenue		2,274,854	2,382,839
		13,976,930	13,655,279
Deferred revenue		966,688	876,215
Shareholders' equity:			
Share capital	11	12,089,601	12,077,209
Contributed surplus		299,180	293,304
Retained earnings		5,588,229	5,186,945
Accumulated other comprehensive income		66,089	9,103
		18,043,099	17,566,561
		\$ 32,986,717	\$ 32,098,055

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		Six months ended	
		May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Revenue	10	\$ 11,553,548	\$ 11,245,384	\$ 21,878,364	\$ 19,053,867
Cost of goods sold		7,935,078	7,498,021	15,332,553	12,744,900
		3,618,470	3,747,363	6,545,811	6,308,967
Administrative and marketing expenses		3,041,441	2,909,757	5,806,065	5,484,053
Research and development, net	12	308,474	320,366	598,481	698,955
Financing costs (income)	15	133,831	(19,294)	(123,996)	83,271
Other expense (income)		(36,270)	60	(48,662)	(41,809)
XPCT (earnings)	7	(155,895)	(213,608)	(273,992)	(209,709)
Earnings before income taxes		326,889	750,082	587,915	294,206
Income tax expense	9	141,398	130,500	186,631	57,624
Net earnings		\$ 185,491	\$ 619,582	\$ 401,284	\$ 236,582
Earnings per share	14				
Basic		\$ 0.01	\$ 0.05	\$ 0.03	\$ 0.02
Diluted		\$ 0.01	\$ 0.05	\$ 0.03	\$ 0.02

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

Unaudited

Canadian Dollars		Three months ended		Six months ended	
		May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Net earnings		\$ 185,491	\$ 619,582	\$ 401,284	\$ 236,582
Other comprehensive income (loss):					
Unrealized foreign currency translation gains (losses)		(253,169)	(83,753)	56,986	316,983
Total comprehensive income (loss)		\$ (67,678)	\$ 535,829	\$ 458,270	\$ 553,565

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, 2012		\$ 12,071,009	\$ 281,581	\$ 4,274,898	\$ (77,907)	\$ 16,549,581
Net loss		-	-	236,582	-	236,582
Other comprehensive income:						
Exchange differences on translation of foreign operations		-	-	-	316,983	316,983
Share-based compensation	11(c)	-	5,628	-	-	5,628
Balance at May 31, 2013		\$ 12,071,009	\$ 287,209	\$ 4,511,480	\$ 239,076	\$ 17,108,774
Balance at December 1, 2013		\$ 12,077,209	\$ 293,304	\$ 5,186,945	\$ 9,103	\$ 17,566,561
Issuance of capital stock	11(b)	12,392	(1,026)	-	-	11,366
Net earnings		-	-	401,284	-	401,284
Other comprehensive income:						
Exchange differences on translation of foreign operations		-	-	-	56,986	56,986
Share-based compensation	11(c)	-	6,902	-	-	6,902
Balance at May 31, 2014		\$ 12,089,601	\$ 299,180	\$ 5,588,229	\$ 66,089	\$ 18,043,099

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 interim condensed consolidated financial statements.

## INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Cash Flows

Unaudited

	Note	Three months ended		Six months ended	
		May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Cash flows from (used in):					
Operations:					
Net earnings		\$ 185,491	\$ 619,582	\$ 401,284	\$ 236,582
Adjustments for:					
Deferred revenue		(451,998)	(1,497,549)	(17,512)	606,757
Depreciation	13(b)	142,354	124,535	272,437	256,930
Bad debt expense (recovery)	16	(43,693)	112,210	(32,961)	125,835
Share-based compensation	11(c)	3,451	2,814	6,902	5,628
XPCT (earnings)	7	(155,895)	(213,608)	(273,992)	(209,709)
Interest expense	15	94,525	100,609	193,506	233,731
Gain on disposal of property, plant and equipment		(6,376)	-	(6,376)	-
Investment tax credits earned		(45,000)	(45,000)	(90,000)	(90,000)
Income tax expense	9	141,398	130,500	186,631	57,624
Income taxes recovered (paid)		(420,394)	58,269	(456,896)	(120,529)
Other operating items	19	42,613	31,042	(237,341)	54,752
		(513,524)	(576,596)	(54,318)	1,157,601
Investing:					
Dividend received from XPCT	7	-	-	-	491,601
Proceeds from sale of property, plant and equipment		12,704	-	12,704	-
Additions to property, plant and equipment	6	(264,756)	(197,976)	(349,763)	(263,847)
		(252,052)	(197,976)	(337,059)	227,754
Financing:					
Interest paid		(94,525)	(100,609)	(193,506)	(233,731)
Bank indebtedness increase (decrease)		(685,789)	1,251,313	(1,219)	(307,916)
Issuance of capital stock	11(b)	10,333	-	11,366	-
		(769,981)	1,150,704	(183,359)	(541,647)
Increase (decrease) in cash and cash equivalents		(1,535,557)	376,132	(574,736)	843,708
Exchange rate changes on foreign currency cash balances		30,443	(64,563)	26,142	2,479
Cash and cash equivalents, beginning of period		2,346,394	1,692,116	1,389,874	1,157,498
Cash and cash equivalents, end of period		\$ 841,280	\$ 2,003,685	\$ 841,280	\$ 2,003,685

See accompanying notes to interim condensed consolidated financial statements.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and six months ended May 31, 2014 and 2013

Canadian dollars

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## 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, 2014 comprise International Road Dynamics Inc. and its wholly-owned subsidiaries (together the "Company") and the Company's 50% 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, 2013.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on July 9, 2014.

### (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, 2013.

Estimates and underlying assumptions are reviewed on an ongoing basis. 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 months and six months ended May 31, 2014 and 2013

Canadian dollars

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## 2. Basis of preparation – continued:

Judgments included in the financial statements are decisions made by management, based on an analysis of relevant information available at the time the decision is made. Judgments relate to application of accounting policies, and decisions related to the measurement, recognition and disclosure of financial amounts.

Estimates, judgments and underlying assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key areas involving estimation, uncertainty and critical judgments include the following:

(i) Stage of completion of contracted projects

Contract revenue, contract costs, deferred contract revenue and costs and unbilled revenue include amounts derived using the percentage of completion method applied to project contracts. Percentage of completion is calculated by comparing the actual costs incurred to the total estimated costs for the contract. In determining the estimated costs to complete the contract, assumptions and estimates are required to evaluate issues related to schedule, material and labour costs, changes in contract scope and subcontractor costs. Due to the nature of project contracts, estimates may change significantly between accounting periods.

(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

The Company performs impairment testing on its long-lived assets and its equity accounted investment on an annual basis, and when circumstances indicate that there may be impairment.

In assessing recoverability of long-lived assets, judgment is required in the determination of either the appropriate grouping of assets that generate cash inflows or the 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.

Management uses the value-in-use method for performing impairment analysis for both its long-lived assets and equity accounted investments. Assessments of recoverability involve significant estimations on future cash flows, revenue and costs, sustaining capital requirements and discount rates. These assessments and assumptions could affect the Company's future results if the current estimates of future performance, capital requirements, and discount rates change.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and six months ended May 31, 2014 and 2013

Canadian dollars

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## 2. Basis of preparation – continued:

- (iv) 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 management makes judgments on the ability of the Company to realize deferred taxes and investment tax credits reported as assets based on their estimations of amounts and timing of future taxable income and future cash flows in the related jurisdiction.

- (v) Functional currency

Management must use judgment when identifying the functional currency of the Company's subsidiaries.

## 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, 2013, except for new accounting standards adopted during this period, as described below.

Accounting standards adopted

*Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities*

Effective December 1, 2013 the Company adopted IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*. The adoption of these new standards had no impact on the recognition or measurement of any items in the Company's interim condensed consolidated financial statements. Disclosure requirements relating to IFRS 12 are annual disclosures only.

*Fair Value Measurement*

Effective December 1, 2013 the Company adopted IFRS 13 *Fair Value Measurement* on a prospective basis. The adoption of IFRS 13, which is limited to the Company's embedded derivatives, had no material impact on the Company's disclosure.



# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and six months ended May 31, 2014 and 2013

Canadian dollars

### 3. Significant accounting policies – continued:

Recent accounting pronouncements not yet adopted

#### *Annual Improvement to IFRS*

Annual Improvements to IFRS (2010-2012) and (2011-2013). Issued in March 2014 amendments were made to various standards including IFRS 2 *Share-based payments*, IFRS 3 *Business Combinations*, IFRS 8 *Operating Segments*, IFRS 13 *Fair Value Measurement*, IAS 16 *Property Plant and Equipment*, IAS 38 *Intangible Assets*, IAS 24 *Related Party Disclosures*, and IAS 40 *Investment Property*. These amendments are effective for annual periods beginning on or after July 1, 2014. Management is assessing the potential impact of these amendments and does not expect a significant impact.

#### *Financial Instruments*

IFRS 9 – *Financial Instruments* provides a single financial instrument accounting standard addressing classification and measurement, impairment, and hedge accounting. The tentative effective date is for annual periods beginning on or after January 1, 2018. Management is currently assessing the potential impact of this standard and does not expect a significant impact.

### 4. Cash and cash equivalents:

	May 31, 2014	November 30, 2013
Cash	\$ 479,563	\$ 802,903
Short-term investments	-	241,295
Restricted cash	361,717	345,676
	<u>\$ 841,280</u>	<u>\$ 1,389,874</u>

Cash and cash equivalents consist of cash and short-term investments that are highly liquid in nature and have a maturity date of less than 90 days. The Company's cash and cash equivalents are held and transacted with banks and financial counterparties that are considered credit worthy with high credit ratings. However, certain cash held in South Asia is subject to restrictions that require bank approvals to allow repatriation of funds out of the local jurisdiction.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and six months ended May 31, 2014 and 2013

Canadian dollars

## 5. Inventories:

	May 31, 2014	November 30, 2013
Raw materials	\$ 633,822	\$ 547,492
Original equipment manufacturer materials	3,267,338	2,601,904
Work in process	1,626,800	1,783,518
Finished goods	889,263	889,608
	<b>\$ 6,417,223</b>	<b>\$ 5,822,522</b>

During the quarter, inventories expensed within cost of goods sold were \$4,809,487 (2013 - \$5,310,037) and \$8,882,048 for the first six months (2013 - \$8,165,768). During the quarter the Company also recorded a provision for excess and obsolete inventories within cost of sales of \$nil (2013 - \$25,000) and \$57,767 for the first six months (2013 - \$25,000).

## 6. Property, plant and equipment:

	Land and Buildings	Office Equipment	Manufacturing Equipment	Automotive Equipment	Computer Equipment	Computer Software	Total
<b>Cost</b>							
Balance at November 30, 2013	\$ 292,149	\$ 975,927	\$ 2,948,303	\$ 1,485,342	\$ 2,231,966	\$ 1,273,005	\$ 9,206,692
Additions	19,678	11,957	89,075	192,038	36,626	389	349,763
Disposals	-	-	-	(60,230)	-	-	(60,230)
Effect on movements in exchange rates	(2,715)	15,143	(1,751)	(2,504)	9,998	(7)	18,164
Balance at May 31, 2014	<b>\$ 309,112</b>	<b>\$ 1,003,027</b>	<b>\$ 3,035,627</b>	<b>\$ 1,614,646</b>	<b>\$ 2,278,590</b>	<b>\$ 1,273,387</b>	<b>\$ 9,514,389</b>
<b>Accumulated Depreciation</b>							
Balance at November 30, 2013	\$ 29,206	\$ 901,320	\$ 2,336,246	\$ 836,269	\$ 2,002,110	\$ 1,265,138	\$ 7,370,289
Additions	7,825	10,361	117,277	99,352	35,408	3,934	274,157
Disposals	-	-	-	(53,902)	-	-	(53,902)
Effect on movements in exchange rates	(374)	15,372	(1,408)	95	10,612	(9)	24,288
Balance at May 31, 2014	<b>\$ 36,657</b>	<b>\$ 927,053</b>	<b>\$ 2,452,115</b>	<b>\$ 881,814</b>	<b>\$ 2,048,130</b>	<b>\$ 1,269,063</b>	<b>\$ 7,614,832</b>
<b>Carrying Amounts</b>							
Balance at November 30, 2013	\$ 262,943	\$ 74,607	\$ 612,057	\$ 649,073	\$ 229,856	\$ 7,867	\$ 1,836,403
Balance at May 31, 2014	<b>\$ 272,455</b>	<b>\$ 75,974</b>	<b>\$ 583,512</b>	<b>\$ 732,832</b>	<b>\$ 230,460</b>	<b>\$ 4,324</b>	<b>\$ 1,899,557</b>

## INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and six months ended May 31, 2014 and 2013

Canadian dollars

### 7. Investment in XPCT:

	Three months ended		Six months ended		Year ended
	May 31,	May 31,	May 31,	May 31,	November 30,
	2014	2013	2014	2013	2013
<b>Xuzhou-PAT Control Technologies Limited (XPCT)</b>					
Balance, beginning of period	\$ 5,881,160	\$ 4,542,536	\$ 5,434,735	\$ 4,875,618	\$ 4,875,618
Currency gain (loss) on financial statement translation	(241,748)	130,500	86,580	292,918	423,494
Equity earnings	155,895	213,608	273,992	209,709	885,399
Dividend received	-	-	-	(491,601)	(749,776)
<b>Balance, end of period</b>	<b>\$ 5,795,307</b>	<b>\$ 4,886,644</b>	<b>\$ 5,795,307</b>	<b>\$ 4,886,644</b>	<b>\$ 5,434,735</b>

The Company had \$nil sales to XPCT during the quarter (2013 - \$nil) and \$286,781 (2013 - \$nil) in the first six months under normal trade terms. At May 31, 2014 accounts receivable from XPCT were \$293,366 (November 30, 2013 - \$120,550).

### 8. Bank indebtedness:

	May 31,	November 30,
	2014	2013
Revolving credit facility of \$8.5 million authorized and secured by a general security agreement:		
HSBC Bank Canada with interest at bank prime plus 1.5%	\$ 4,664,219	\$ -
Royal Bank of Canada with interest at bank prime plus 3.5%	-	4,850,041
Revolving credit facility of \$1.2 million (maximum equivalent) authorized and secured by a standby letter of credit issued by HSBC Bank Canada and guaranteed by Export Development Canada (EDC):		
The Hongkong and Shanghai Banking Corporation Limited with interest at 13.0%	998,181	813,578
	<b>\$ 5,662,400</b>	<b>\$ 5,663,619</b>

The Company has no issued letters of credit against the HSBC Bank Canada (HSBC) or the Royal Bank of Canada (RBC) credit facilities as of May 31, 2014 and November 30, 2013 for bid and performance guarantees.

The Company has an additional HSBC credit facility of \$900,000 US (November 30, 2013 – HSBC \$900,000 US and RBC \$350,000 US) that is guaranteed by EDC for the support of performance guarantees provided by the Company's subsidiary in India. The Canadian dollar value of performance guarantees outstanding at May 31, 2014 totaled \$108,014 (November 30, 2013 - \$234,162).

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and six months ended May 31, 2014 and 2013

Canadian dollars

## 8. Bank indebtedness - continued:

During the first quarter the Company entered into new banking arrangements with HSBC replacing the RBC revolving credit facility. All or a portion of the HSBC credit facility may be borrowed by way of banker's acceptances at prevailing market rates or by way of U.S. dollar advances to a maximum of \$8.0 million US at bank U.S. base rate plus 1.5%.

The HSBC demand revolving loan is subject to margins on specific assets and is secured by a general security agreement on the assets of the Company held in Canada. In addition, the Company's subsidiaries in the United States, Chile and India have provided corporate guarantees as security.

See note 16 for a discussion of liquidity risk.

## 9. 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, XPCT net 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 \$421,949 (2013 - \$201,261) due to uncertainty that sufficient future earnings will be generated in this entity to offset current tax losses prior to expiry.

## 10. Revenue:

	Three months ended		Six months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Contracted projects	\$ 4,853,667	\$ 4,194,952	\$ 9,393,407	\$ 6,992,199
Service	4,254,141	4,758,455	6,950,835	7,739,862
Product sales	2,445,740	2,291,977	5,534,122	4,321,806
<b>Total</b>	<b>\$ 11,553,548</b>	<b>\$ 11,245,384</b>	<b>\$ 21,878,364</b>	<b>\$ 19,053,867</b>

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and six months ended May 31, 2014 and 2013

Canadian dollars

## 11. Share capital:

(a) Authorized:

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

(b) Share transactions:

	Number of shares	Amount
Balance, November 30, 2013	14,018,337	\$ 12,077,209
Shares issued on exercise of stock options	36,666	12,392
Balance, May 31, 2014	14,055,003	\$ 12,089,601

(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, 2014 460,665 (November 30, 2013 – 455,665) options remain available to be granted, subject to approval by the Board of Directors. Stock options become exercisable at dates determined by the Compensation Committee of the Board of Directors.

At May 31, 2014, the following stock options to officers, employees and others were outstanding:

Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at May 31, 2014	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at May 31, 2014	Weighted-Average Exercise Price
\$ 0.31	748,334	2.41	\$ 0.31	479,984	\$ 0.31
0.43	100,000	3.45	0.43	33,333	0.43
0.44	40,000	3.51	0.44	13,333	0.44
0.63	200,000	4.36	0.63	-	-
1.20	525,000	4.75	1.20	525,000	1.20
	1,613,334	3.50	\$ 0.65	1,051,650	\$ 0.76

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and six months ended May 31, 2014 and 2013

Canadian dollars

## 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, November 30, 2013	1,655,000	\$ 0.64
Options exercised	(36,666)	0.31
Options forfeited	(5,000)	0.31
Outstanding, May 31, 2014	1,613,334	\$ 0.65

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

Share-based compensation expense of \$3,451 and \$6,902 was recorded for the three and six months ended May 31, 2014 (2013 - \$2,814 and \$5,628) along with a corresponding increase in contributed surplus in shareholders' equity for options vesting during the period.

## 12. Research and development, net:

	Three months ended		Six months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Research and development expenditures	\$ 353,474	\$ 365,366	\$ 688,481	\$ 788,955
Less investment tax credits	(45,000)	(45,000)	(90,000)	(90,000)
	\$ 308,474	\$ 320,366	\$ 598,481	\$ 698,955

## 13. Expense classification:

### (a) Personnel expenses:

	Three months ended		Six months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Wages and salaries	\$ 3,298,019	\$ 3,055,828	\$ 6,464,113	\$ 5,903,557
Statutory benefits	280,821	189,292	477,739	370,584
Other employment benefits	178,844	173,955	374,600	340,591
Defined contribution plans	67,535	64,002	134,846	125,140
Share-based payment transactions	3,451	2,814	6,902	5,628
	\$ 3,828,670	\$ 3,485,891	\$ 7,458,200	\$ 6,745,500

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.

## INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and six months ended May 31, 2014 and 2013

Canadian dollars

### 13. Expense classification - continued:

#### (b) Depreciation expense:

	Three months ended		Six months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Depreciation on property, plant and equipment	\$ 139,104	\$ 123,752	\$ 274,157	\$ 257,064
Add: Depreciation in opening inventory	19,848	17,113	14,878	16,196
Less: Depreciation in closing inventory	(16,598)	(16,330)	(16,598)	(16,330)
Depreciation expense	\$ 142,354	\$ 124,535	\$ 272,437	\$ 256,930

Depreciation expense is allocated as follows:

Cost of goods sold	\$ 114,414	\$ 97,737	\$ 215,831	\$ 202,030
Administration and marketing expenses	27,940	26,798	56,606	54,900
	\$ 142,354	\$ 124,535	\$ 272,437	\$ 256,930

### 14. Earnings per share:

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

	Three months ended		Six months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Net earnings	\$ 185,491	\$ 619,582	\$ 401,284	\$ 236,582
Weighted average number of common shares outstanding:				
Basic	14,036,090	13,998,337	14,027,494	13,998,337
Effect of stock options	473,135	261,646	473,135	261,646
Diluted	14,509,225	14,259,983	14,500,629	14,259,983
Earnings per share:				
Basic	\$ 0.01	\$ 0.05	\$ 0.03	\$ 0.02
Diluted	\$ 0.01	\$ 0.05	\$ 0.03	\$ 0.02

The Company has stock options outstanding to purchase 1,613,334 common shares at May 31, 2014 (May 31, 2013 – 1,505,000).

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### 15. Financing costs (income):

	Three months ended		Six months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Interest on bank indebtedness	\$ 94,525	\$ 100,609	\$ 193,506	\$ 233,731
Bad debt expense (recovery) (note 16)	(43,693)	112,210	(32,961)	125,835
Foreign exchange losses (gains)	82,999	(232,113)	(284,541)	(276,295)
	\$ 133,831	\$ (19,294)	\$ (123,996)	\$ 83,271

### 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:

#### Credit risk:

The Company's cash and cash equivalents are held and transacted with banks and financial counterparties that are considered credit worthy with high credit ratings. However, certain cash held in South Asia is subject to restrictions that require bank approvals to allow repatriation of funds out of country.

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.

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

	Three months ended		Six months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Balance, beginning of period	\$ 1,714,274	\$ 1,070,876	\$ 1,623,348	\$ 1,006,851
Bad debt expense (recovery)	(43,693)	112,210	(32,961)	125,835
Recovery (write offs)	-	(292)	771	(292)
Foreign currency revaluation	26,169	(31,470)	105,592	18,930
Balance, end of period	\$ 1,696,750	\$ 1,151,324	\$ 1,696,750	\$ 1,151,324



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## 16. Financial risk (continued):

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. Credit risk is more significant for certain customers in South Asia due to higher risk of financial instability.

### 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 U.S. dollar denominated sales contracts in its Chilean subsidiary.

The Company has exposure to the U.S. dollar, Indian rupee, Chilean peso, Mexican peso, Bangladeshi taka and Chinese yuan. 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 both the Canadian dollar and Chilean peso can significantly affect both earnings and cash flow. During the six months ended May 31, 2014 approximately 82% (2013 – 76%) of the Company's sales were denominated in U.S. dollars. The average Canadian exchange rate against the U.S. dollar weakened during the first six months of 2014 relative to the first six months of 2013 by approximately 8.4%. This resulted in an increase in the Canadian dollar value of the Company's U.S. dollar denominated sales of approximately \$1.4 million during the first six months of 2014. This impact is partially offset by the corresponding effect of the 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 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 and for the period ended May 31, 2014 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 HSBC, as disclosed in note 8. At May 31, 2014 the remaining amount available to be drawn under this credit facility based on margin capacity is approximately \$1.5 million.

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

The Company maintains an operating line of credit for its operations in India with The Hongkong and Shanghai Banking Corporation Limited which is secured by a standby letter of credit from HSBC. At May 31, 2014 an amount of 54.4 million Indian rupees (\$1.0 million) was drawn upon this facility. EDC has guaranteed this facility up to September 30, 2014 at which time it is up for renewal.

In addition, EDC has provided a guarantee to May 31, 2015 of the Company's additional HSBC credit facility of \$900,000 US (November 30, 2013 – HSBC \$900,000 US and RBC \$350,000 US) for the support of performance guarantees provided by the Company's Indian subsidiary. As at May 31, 2014, the Canadian dollar value of outstanding performance guarantees totaled \$108,014 (November 30, 2013 - \$234,162). The Company's Chilean subsidiary also maintains a secured line of credit to support performance guarantees required for selected projects. As at May 31, 2014, the Canadian dollar value of these performance guarantees totaled \$948,768 (November 30, 2013 - \$546,325).

#### **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 and the embedded derivative portion of the unearned revenue of U.S. dollar denominated sales contracts in its Chilean subsidiary. Estimates of fair value for embedded derivatives are determined using Level 2 measurements. At May 31, 2014 and November 30, 2013, no other derivative contracts were outstanding.

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 bank indebtedness approximates the carrying amounts since the debt bears interest at current market rates.

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### 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 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	2,241,012
	<u>\$ 5,136,012</u>

During the three and six months ended May 31, 2014 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 10.0 million yuan or \$1.8 million (November 30, 2013 – 7.5 million yuan or \$1.3 million) for 50% of a bank loan to XPCT. The guarantee provided by the Company is proportionate to its shareholding in XPCT.

### 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.

Reportable segments represent the Company's geographic business units and reflect management's current focus on allocating resources and measuring performance. Reportable segments offer similar products and services, have separate management structures, and their own sales force.

The revenue disclosed in the tables is from internal and external customers. Intersegment revenue and expenditures are eliminated on consolidation and are illustrated in the tables below.

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## 18. Segmented information - continued:

Three Months Ended May 31, 2014	Canada and United States	Latin America	South Asia	Intersegment Adjustments	Total
Revenue	\$ 9,980,613	\$ 1,268,165	\$ 402,444	\$ (97,674)	\$ 11,553,548
Cost of goods sold	6,766,477	1,004,381	229,681	(65,461)	7,935,078
	3,214,136	263,784	172,763	(32,213)	3,618,470
Administrative and marketing expenses	2,196,305	599,344	245,792	-	3,041,441
Research and development, net	273,244	35,230	-	-	308,474
Financing costs (income)	137,568	(32,258)	28,521	-	133,831
Other income	(4,299)	(25,178)	(6,793)	-	(36,270)
XPCT (earnings)	(155,895)	-	-	-	(155,895)
Earnings (loss) before income taxes	767,213	(313,354)	(94,757)	(32,213)	326,889
Income tax expense (recovery)	232,857	(82,995)	-	(8,464)	141,398
Net earnings (loss)	\$ 534,356	\$ (230,359)	\$ (94,757)	\$ (23,749)	\$ 185,491

Three Months Ended May 31, 2013	Canada and United States	Latin America	South Asia	Intersegment Adjustments	Total
Revenue	\$ 8,599,834	\$ 1,664,507	\$ 1,152,351	\$ (171,308)	\$ 11,245,384
Cost of goods sold	5,826,766	912,954	933,497	(175,196)	7,498,021
	2,773,068	751,553	218,854	3,888	3,747,363
Administrative and marketing expenses	2,115,539	523,825	237,653	32,740	2,909,757
Research and development, net	267,650	52,727	(11)	-	320,366
Financing costs (income)	42,940	(207,843)	143,618	1,991	(19,294)
Other expense (income)	42,033	(7,242)	-	(34,731)	60
XPCT (earnings)	(213,608)	-	-	-	(213,608)
Earnings (loss) before income taxes	518,514	390,086	(162,406)	3,888	750,082
Income tax expense (recovery)	115,567	18,771	-	(3,838)	130,500
Net earnings (loss)	\$ 402,947	\$ 371,315	\$ (162,406)	\$ 7,726	\$ 619,582

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## 18. Segmented information - continued:

Six Months Ended May 31, 2014	Canada and United States	Latin America	South Asia	Intersegment Adjustments	Total
Revenue	\$ 17,309,694	\$ 4,197,042	\$ 700,432	\$ (328,804)	\$ 21,878,364
Cost of goods sold	12,349,495	2,727,673	554,100	(298,715)	15,332,553
	4,960,199	1,469,369	146,332	(30,089)	6,545,811
Administrative and marketing expenses	4,222,768	1,108,303	474,994	-	5,806,065
Research and development, net	498,092	100,389	-	-	598,481
Financing costs (income)	(49,914)	(172,639)	98,557	-	(123,996)
Other income	(2,601)	(40,791)	(5,270)	-	(48,662)
XPCT (earnings)	(273,992)	-	-	-	(273,992)
Earnings (loss) before income taxes	565,846	474,107	(421,949)	(30,089)	587,915
Income tax expense (recovery)	122,339	72,782	-	(8,490)	186,631
Net earnings (loss)	\$ 443,507	\$ 401,325	\$ (421,949)	\$ (21,599)	\$ 401,284
Current assets	\$ 14,615,632	\$ 4,130,363	\$ 3,021,551	\$ (96,396)	\$ 21,671,150
Investment in XPCT	5,795,307	-	-	-	5,795,307
Other non-current assets	13,377,324	1,303,176	-	(9,160,240)	5,520,260
Total assets	\$ 33,788,263	\$ 5,433,539	\$ 3,021,551	\$ (9,256,636)	\$ 32,986,717
Total liabilities	\$ 12,136,369	\$ 975,926	\$ 10,009,966	\$ (8,178,643)	\$ 14,943,618

  

Six Months Ended May 31, 2013	Canada and United States	Latin America	South Asia	Intersegment Adjustments	Total
Revenue	\$ 14,073,400	\$ 3,429,316	\$ 2,093,751	\$ (542,600)	\$ 19,053,867
Cost of goods sold	9,615,556	2,098,422	1,676,600	(645,678)	12,744,900
	4,457,844	1,330,894	417,151	103,078	6,308,967
Administrative and marketing expenses	4,027,697	1,010,921	445,435	-	5,484,053
Research and development, net	529,594	169,275	86	-	698,955
Financing costs (income)	60,424	(150,044)	172,891	-	83,271
Other income	(27,166)	(14,643)	-	-	(41,809)
XPCT (earnings)	(209,709)	-	-	-	(209,709)
Earnings (loss) before income taxes	77,004	315,385	(201,261)	103,078	294,206
Income tax expense	26,591	8,752	-	22,281	57,624
Net earnings (loss)	\$ 50,413	\$ 306,633	\$ (201,261)	\$ 80,797	\$ 236,582
Current assets	\$ 13,130,188	\$ 4,888,119	\$ 4,503,179	\$ (131,447)	\$ 22,390,039
Investment in XPCT	4,886,644	-	-	-	4,886,644
Other non-current assets	12,771,027	636,357	-	(8,057,139)	5,350,245
Total assets	\$ 30,787,859	\$ 5,524,476	\$ 4,503,179	\$ (8,188,586)	\$ 32,626,928
Total liabilities	\$ 11,585,888	\$ 1,172,727	\$ 9,902,736	\$ (7,143,197)	\$ 15,518,154

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### 18. Segmented information - continued:

Revenue from external customers by geographic area is as follows:

	Three months ended		Six months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Canada	\$ 636,628	\$ 803,799	\$ 1,086,949	\$ 1,360,349
United States	7,881,832	6,997,059	13,305,149	10,838,101
Latin America	1,213,613	1,664,507	4,142,490	3,429,316
South Asia	402,444	1,152,351	700,432	2,093,751
Other offshore	1,419,031	627,668	2,643,344	1,332,350
Total	\$ 11,553,548	\$ 11,245,384	\$ 21,878,364	\$ 19,053,867

### 19. Statements of cash flows:

Other operating items

	Three months ended		Six months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Accounts receivable	\$ 1,392,636	\$ 127,522	\$ 726,751	\$ 64,233
Unbilled revenue	(1,726,250)	43,262	(737,307)	1,378,321
Inventories	(921,262)	(193,639)	(616,196)	(373,495)
Prepaid expenses and deposits	234,836	(236,083)	(308,556)	(222,933)
Accounts payable and accrued liabilities	1,062,653	289,980	697,967	(791,374)
	\$ 42,613	\$ 31,042	\$ (237,341)	\$ 54,752

### 20. Key management personnel and directors compensation:

In addition to salaries and benefits, executive officers participate in the share option program (note 11). 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, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Salaries and short-term employee benefits	\$ 296,987	\$ 274,546	\$ 570,750	\$ 551,079
Share-based compensation	2,035	1,281	4,070	2,562
	\$ 299,022	\$ 275,827	\$ 574,820	\$ 553,641

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## **21. Comparative figures:**

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.