

Consolidated Financial Statements of

**INTERNATIONAL ROAD DYNAMICS INC.**

Years ended November 30, 2014 and 2013

## **MANAGEMENT'S REPORT**

To the Shareholders of International Road Dynamics Inc.

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

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

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

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

Terry Bergan  
President and  
Chief Executive Officer

David Cortens  
Vice President Finance and  
Chief Financial Officer

Saskatoon, Canada

February 23, 2015



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of International Road Dynamics Inc.

We have audited the accompanying consolidated financial statements of International Road Dynamics Inc., which comprise the consolidated statements of financial position as at November 30, 2014 and November 30, 2013, the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of International Road Dynamics Inc. as at November 30, 2014 and November 30, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

February 23, 2015  
Saskatoon, Canada

# INTERNATIONAL ROAD DYNAMICS INC.

## Consolidated Statements of Financial Position

November 30, 2014 and 2013

(\$ Canadian)

|                                    | Note | 2014          | 2013          |
|------------------------------------|------|---------------|---------------|
| <b>Assets</b>                      |      |               |               |
| Current assets:                    |      |               |               |
| Cash and cash equivalents          |      | \$ 1,399,332  | \$ 1,389,874  |
| Accounts receivable                | 16   | 11,872,154    | 9,940,910     |
| Unbilled revenue                   | 16   | 4,089,057     | 3,192,468     |
| Income taxes receivable            |      | 101,964       | -             |
| Inventories                        | 4    | 6,345,363     | 5,822,522     |
| Prepaid expenses and deposits      |      | 1,296,998     | 958,776       |
|                                    |      | 25,104,868    | 21,304,550    |
| Property, plant and equipment      | 5    | 2,000,161     | 1,836,403     |
| Investment in XPCT                 | 6    | 6,005,724     | 5,434,735     |
| Investment tax credits recoverable | 9    | 2,376,489     | 2,450,023     |
| Deferred tax assets                | 9    | 1,144,458     | 1,072,344     |
|                                    |      | \$ 36,631,700 | \$ 32,098,055 |

## Liabilities and Shareholders' Equity

### Current liabilities:

|  |    |               |               |
|--|----|---------------|---------------|
| Bank indebtedness                        | 7  | \$ 6,713,897  | \$ 5,663,619  |
| Accounts payable and accrued liabilities |    | 5,730,032     | 5,267,320     |
| Income taxes payable                     |    | -             | 341,501       |
| Current portion of deferred revenue      |    | 2,985,405     | 2,382,839     |
| Current portion of long-term debt        | 8  | 128,572       | -             |
|  |    | 15,557,906    | 13,655,279    |
| Deferred revenue                         |    | 1,128,245     | 876,215       |
| Long-term debt                           | 8  | 771,428       | -             |
| Shareholders' equity:                    |    |               |               |
| Share capital                            | 11 | 12,123,093    | 12,077,209    |
| Contributed surplus                      |    | 303,290       | 293,304       |
| Retained earnings                        |    | 6,559,048     | 5,186,945     |
| Accumulated other comprehensive income   |    | 188,690       | 9,103         |
|  |    | 19,174,121    | 17,566,561    |
|  |    | \$ 36,631,700 | \$ 32,098,055 |

See accompanying notes to consolidated financial statements.

Approved by the Board:

Terry Bergan, Director (signed)

Ray Harris, Director (signed)

## INTERNATIONAL ROAD DYNAMICS INC.

### Consolidated Statements of Earnings

Years ended November 30, 2014 and 2013  
(\$ Canadian)

|                                       | Note | 2014          | 2013          |
|---------------------------------------|------|---------------|---------------|
| Revenue                               | 10   | \$ 45,101,507 | \$ 43,645,728 |
| Cost of goods sold                    |      | 31,098,994    | 29,991,971    |
|                                       |      | 14,002,513    | 13,653,757    |
| Administrative and marketing expenses |      | 11,706,364    | 10,986,065    |
| Research and development, net         | 12   | 1,243,922     | 1,166,487     |
| Financing costs (income)              | 15   | (307,021)     | 788,650       |
| Other (income)                        |      | (33,457)      | (129,368)     |
| XPCT (earnings)                       | 6    | (326,050)     | (885,399)     |
| Earnings before income taxes          |      | 1,718,755     | 1,727,322     |
| Income tax expense                    | 9    | 346,652       | 815,275       |
| Net earnings                          |      | \$ 1,372,103  | \$ 912,047    |
| Earnings per share                    | 14   |               |               |
| Basic                                 |      | \$ 0.10       | \$ 0.07       |
| Diluted                               |      | \$ 0.09       | \$ 0.06       |

### Consolidated Statements of Comprehensive Income

Years ended November 30, 2014 and 2013  
(\$ Canadian)

|   | 2014         | 2013       |
|---|--------------|------------|
| Net earnings  | \$ 1,372,103 | \$ 912,047 |
| Other comprehensive income which may be reclassified to net earnings: |              |            |
| Unrealized foreign currency translation gains                         | 179,587      | 87,010     |
| Total comprehensive income  | \$ 1,551,690 | \$ 999,057 |

See accompanying notes to consolidated financial statements.

## INTERNATIONAL ROAD DYNAMICS INC.

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

|   | Note  | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income (loss) | Total shareholders' equity |
|---|-------|---------------|---------------------|-------------------|---|----------------------------|
| Balance at December 1, 2012                               |       | \$ 12,071,009 | \$ 281,581          | \$ 4,274,898      | \$ (77,907)                                   | \$ 16,549,581              |
| Issuance of capital stock                                 | 11(b) | 6,200         | -                   | -                 | -   | 6,200                      |
| Net earnings  |       | -             | -                   | 912,047           | -   | 912,047                    |
| Other comprehensive income:                               |       |               |                     |                   |   |                            |
| Exchange differences on translation of foreign operations |       | -             | -                   | -                 | 87,010  | 87,010                     |
| Share-based compensation                                  | 11(c) | -             | 11,723              | -                 | -   | 11,723                     |
| Balance at November 30, 2013                              |       | \$ 12,077,209 | \$ 293,304          | \$ 5,186,945      | \$ 9,103                                      | \$ 17,566,561              |
| Balance at December 1, 2013                               |       | \$ 12,077,209 | \$ 293,304          | \$ 5,186,945      | \$ 9,103                                      | \$ 17,566,561              |
| Issuance of capital stock                                 | 11(b) | 45,884        | (3,818)             | -                 | -   | 42,066                     |
| Net earnings  |       | -             | -                   | 1,372,103         | -   | 1,372,103                  |
| Other comprehensive income:                               |       |               |                     |                   |   |                            |
| Exchange differences on translation of foreign operations |       | -             | -                   | -                 | 179,587                                       | 179,587                    |
| Share-based compensation                                  | 11(c) | -             | 13,804              | -                 | -   | 13,804                     |
| Balance at November 30, 2014                              |       | \$ 12,123,093 | \$ 303,290          | \$ 6,559,048      | \$ 188,690                                    | \$ 19,174,121              |

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

See accompanying notes to consolidated financial statements.

# INTERNATIONAL ROAD DYNAMICS INC.

## Consolidated Statements of Cash Flows

Years ended November 30, 2014 and 2013  
(\$ Canadian)

|  | Note  | 2014             | 2013               |
|--|-------|------------------|--------------------|
| Cash flows from (used in):                               |       |                  |                    |
| Operations:  |       |                  |                    |
| Net earnings   |       | \$ 1,372,103     | \$ 912,047         |
| Adjustments for:   |       |                  |                    |
| Deferred revenue   |       | 854,596          | (42,052)           |
| Depreciation expense                                     | 13(b) | 628,306          | 553,659            |
| Bad debt expense   | 16    | 220,741          | 731,973            |
| Share-based compensation                                 | 11(c) | 13,804           | 11,723             |
| XPCT (earnings)  | 6     | (326,050)        | (885,399)          |
| Interest expense   | 15    | 415,928          | 480,722            |
| Loss (gain) on disposal of property, plant and equipment |       | 81,921           | (322)              |
| Investment tax credits earned                            | 12    | (180,000)        | (180,000)          |
| Income tax expense                                       | 9     | 346,652          | 815,275            |
| Income taxes paid  |       | (623,376)        | (104,532)          |
| Other operating items                                    | 19    | (3,642,608)      | (549,308)          |
|  |       | <u>(837,983)</u> | <u>1,743,786</u>   |
| Investing:   |       |                  |                    |
| Dividend received from XPCT                              | 6     | 182,416          | 749,776            |
| Proceeds from sale of property, plant and equipment      |       | 59,208           | 7,857              |
| Additions to property, plant and equipment               | 5     | (963,101)        | (829,477)          |
|  |       | <u>(721,477)</u> | <u>(71,844)</u>    |
| Financing:   |       |                  |                    |
| Interest paid  |       | (390,169)        | (480,722)          |
| Bank indebtedness increase (decrease)                    | 7     | 1,050,278        | (912,103)          |
| Long-term debt increase                                  | 8     | 900,000          | -                  |
| Issuance of capital stock                                | 11(b) | 42,066           | 6,200              |
|  |       | <u>1,602,175</u> | <u>(1,386,625)</u> |
| Increase in cash and cash equivalents                    |       | 42,715           | 285,317            |
| Exchange rate changes on foreign currency cash balances  |       | (33,257)         | (52,941)           |
| Cash and cash equivalents, beginning of period           |       | 1,389,874        | 1,157,498          |
| Cash and cash equivalents*, end of period                |       | \$ 1,399,332     | \$ 1,389,874       |
| *Comprised of the following:                             |       |                  |                    |
| Cash   |       | \$ 1,305,742     | \$ 802,903         |
| Short-term investments                                   |       | -                | 241,295            |
| Restricted cash  |       | 93,590           | 345,676            |
| Total cash and cash equivalents                          |       | \$ 1,399,332     | \$ 1,389,874       |

See accompanying notes to consolidated financial statements.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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(\$ Canadian, except as noted)

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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 consolidated financial statements as at and for the years ended November 30, 2014 and 2013 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements were authorized for issue by the Board of Directors on February 23, 2015.

### (b) Basis of presentation

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

The consolidated financial statements have been prepared on the historical cost basis except for derivative instruments at fair value through profit and loss.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements. Actual results may vary from these estimates.

Estimates 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.

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.



# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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## 2. Basis of preparation – continued:

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 estimated earnings in excess of billings 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 non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

In assessing recoverability of non-financial 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.

The recoverable amount of an asset or CGU is estimated at the higher of its value in use and fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Assessments of recoverability involve significant estimations on future cash flows, revenue and costs, sustaining capital reinvestments 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.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of a previously impaired asset or CGU.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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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 consolidated 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.

- (vi) Joint arrangements

Management must use judgment in determining whether joint control exists in its joint arrangements which are classified as either joint operations or joint ventures. The determination as to whether a joint arrangement is a joint venture or a joint operation also requires significant judgment based on the structure of the arrangement, the legal form of any separate vehicle, the contractual terms of the arrangement and other facts and circumstances.

## 3. Significant accounting policies:

The accounting policies set out below have been applied consistently by all reporting entities of the Company and to all periods presented in these consolidated financial statements unless otherwise indicated.

- (a) Basis of consolidation

- (i) Subsidiaries

Subsidiaries are entities controlled by the Company and include the following wholly-owned entities located in Chile, the United States, India and Mexico, respectively: PAT Traffic Limitada, International Road Dynamics Corporation, International Road Dynamics South Asia Pvt. Ltd. and PAT Traffic Mexico S.A. de C.V.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are consistent with the policies adopted by the Company.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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## 3. Significant accounting policies - continued:

### (ii) Joint arrangements

Joint arrangements are those arrangements over which the Company has joint control established by contractual arrangements and requiring unanimous consent of the parties to the arrangement for financial and operating decisions. The Company's joint arrangements have been determined to be joint ventures and are structured through a separate legal entity. Joint ventures are accounted for using the equity method whereby the investments are initially recorded at cost. The investments are increased or decreased to reflect the Company's proportionate share of the earnings or losses and equity movements of the investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee. The Company has an interest in one joint venture, its 50% investment in XPCT which is located in Xuzhou, China.

### (iii) Transactions eliminated on consolidation

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

## (b) Foreign currency

### (i) Foreign currency transactions

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

### (ii) Foreign operations

The functional currency of the Company's subsidiary in Chile - PAT Traffic Limitada is the Chilean peso, the functional currency of its subsidiary in India - International Road Dynamics South Asia Pvt. Ltd. is the Indian rupee and the functional currency of its subsidiary in Mexico - PAT Traffic Mexico S.A. de C.V is the Mexican peso. All assets and liabilities are translated to Canadian dollars at exchange rates in effect at the financial reporting date and all revenue and expenses are translated into Canadian dollars using the average monthly rate of exchange. Exchange gains and

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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### 3. Significant accounting policies - continued:

losses arising from this translation, representing the net unrealized foreign currency translation gain (loss) on the Company's investment, are recorded in accumulated other comprehensive income (loss).

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

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

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

#### (c) Revenue recognition

##### (i) Contracted projects

The majority of sales of integrated systems are delivered as contracted projects. The Company's contract types include fixed price and time and materials contracts. Contract revenue includes the initial amount agreed in the contract plus any amendments in contract work to the extent that it is probable they will result in revenue and can be reliably measured. Contract values considered to include multiple arrangements are allocated to their component parts, generally defined as warranty values as a separate portion of the total contract revenue. In circumstances where contracts are expected to exceed one year and full payment is not expected until contracts are completed, management considers these contracts to also include a financing component.

For fixed price contracts, revenue from each of the component values within the contracted projects is recorded in accordance with the stage of completion of the contract by comparing the actual costs incurred to the total estimated costs for that component project. Revenue from the financing component is considered to be earned over the period from contract inception up to expected date of final payment. An expected loss on a contract is recognized immediately in the consolidated statement of earnings.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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## 3. Significant accounting policies - continued:

For time and materials contracts, labour and material rates are established within the contract. Revenues from time and materials contracts are recognized progressively on the basis of costs incurred during the period plus the estimated margin earned.

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

### (ii) Product sales

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

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

### (iii) Services

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

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

### (d) Financial instruments

#### (i) Financial assets

All financial assets are initially recorded at fair value. Subsequent measurement is dependent upon classification as one of the following: financial assets at fair value through profit and loss, held-to-maturity financial assets, loans and receivables or available-for-sale financial assets.

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

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

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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### 3. Significant accounting policies - continued:

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

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

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

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

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

Cash, accounts receivable and unbilled revenue are classified as "loans and receivables".

(ii) Financial liabilities

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

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

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities, bank indebtedness and long-term debt.

(iii) Share capital

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

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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### 3. Significant accounting policies - continued:

(iv) Derivative financial instruments

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

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

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

(e) Inventories

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

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

(f) Property, plant and equipment

(i) Recognition and measurement

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

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

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

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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### 3. Significant accounting policies - continued:

(ii) Depreciation

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

(g) Leased assets

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

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

(h) Impairment

(i) Financial assets

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

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

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

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.



# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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### 3. Significant accounting policies - continued:

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value is determined as the amount that would be obtained from the sale of the asset or CGU in an arm's length transaction between knowledgeable and willing parties. In the absence of market related comparative information, the fair value less costs to sell is determined based on the present value of estimated future cash flows from each non-financial asset or CGU using the assumptions that market participants would use. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

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

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

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

(i) Research and development costs:

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

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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## 3. Significant accounting policies - continued:

### (j) Employee benefits

#### (i) Share-based compensation

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

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

#### (ii) Short-term employee benefits

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

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

### (k) Provisions

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

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

### (l) Financing costs

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

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

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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### 3. Significant accounting policies - continued:

#### (m) Income tax

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

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

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

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

#### (n) Earnings per share

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

#### (o) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Company's other components. All operating segment results for which discrete financial information is available are reviewed regularly by the Company's Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and to assess its performance.

Operating segment results that are reported to the CEO include items directly attributable to the segments.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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### 3. Significant accounting policies - continued:

(p) Accounting standards adopted during the year:

The following standards became effective for the Company beginning December 1, 2013 and did not have any impact on the Company's financial reporting except as disclosed below:

IFRS 10, Consolidated Financial Statements provides a single model to be applied in the analysis of control for the purpose of consolidation. This new standard builds on the existing principles of control and elaborates on the definition of control when determining whether an entity should be consolidated.

IFRS 11, Joint Arrangements focuses on the rights and obligations of an arrangement rather than its legal form to determine accounting for interests in jointly controlled entities. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. Joint ventures are now required to be accounted for using the equity method.

IFRS 12, Disclosure of Interests in Other Entities provides new disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), and associates. Additional disclosures required as a result of the adoption of IFRS 12 are included in note 6.

IFRS 13, Fair Value Measurement replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance.

Amendments to IFRS 7, Financial Instruments provide disclosure requirements for financial assets and liabilities that are offset or subject to a master netting arrangement.

(q) Recent accounting pronouncements:

The following is a summary of recent accounting pronouncements which may be applicable to subsequent reporting periods. The Company is currently reviewing the standards and amendments to determine the impact on its consolidated financial statements, if any:

IFRS 9 Financial Instruments provides guidance on the classification, measurement and disclosure of financial instruments and general hedge accounting requirements. The standard must be applied retrospectively and is effective for annual periods beginning after January 1, 2018, with earlier application permitted. The Company intends to adopt the standard in the period beginning December 1, 2018.

Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities clarify the requirements relating to the offset of financial assets and liabilities. The amendments must be applied retrospectively and are effective for annual reporting periods on or after January 1, 2014.

Amendments to IAS 36, Impairment of Assets address disclosure information about the recoverable amount of impaired assets if that amount is based on fair value less costs to sell. The amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2014.

IFRS 15, Revenue from Contracts with Customers supersedes current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard may be applied retrospectively or with a modified transition approach and is effective for reporting periods beginning on or after January 1, 2017, with earlier application permitted. The Company intends to adopt the standard in the period beginning December 1, 2017.

# INTERNATIONAL ROAD DYNAMICS INC.

## Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

### 4. Inventories:

|   | 2014                | 2013                |
|---|---------------------|---------------------|
| Raw materials                             | \$ 557,595          | \$ 547,492          |
| Original equipment manufacturer materials | 2,896,819           | 2,601,904           |
| Work in process                           | 1,374,418           | 1,783,518           |
| Finished goods                            | 1,516,531           | 889,608             |
|   | <b>\$ 6,345,363</b> | <b>\$ 5,822,522</b> |

During the year, inventories expensed within cost of goods sold were \$18,928,332 (2013 - \$19,179,040). The Company also recorded an incremental provision for excess and obsolete inventories within cost of goods sold of \$57,767 (2013 - \$158,420).

### 5. Property, plant and equipment:

|                     | Land and<br>buildings | Office<br>equipment | Operations<br>equipment | Automotive<br>equipment | Computer<br>equipment | Computer<br>software | Total        |
|---------------------|-----------------------|---------------------|-------------------------|-------------------------|-----------------------|----------------------|--------------|
| <b>Cost</b>         |                       |                     |                         |                         |                       |                      |              |
| Balance at          |                       |                     |                         |                         |                       |                      |              |
| December 1, 2012    | \$ 166,436            | \$ 969,164          | \$ 2,803,027            | \$ 1,239,416            | \$ 2,177,882          | \$ 1,256,596         | \$ 8,612,521 |
| Additions           | 133,023               | 20,455              | 241,328                 | 351,959                 | 66,974                | 15,738               | 829,477      |
| Disposals/other     | -                     | -                   | (91,605)                | (94,824)                | -                     | -                    | (186,429)    |
| Effect of movements |                       |                     |                         |                         |                       |                      |              |
| in exchange rates   | (7,310)               | (13,692)            | (4,447)                 | (11,209)                | (12,890)              | 671                  | (48,877)     |
| 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           | 24,996                | 12,639              | 305,961                 | 400,099                 | 186,983               | 32,423               | 963,101      |
| Disposals/other     | -                     | -                   | (24,724)                | (482,396)               | -                     | -                    | (507,120)    |
| Effect of movements |                       |                     |                         |                         |                       |                      |              |
| in exchange rates   | (12,000)              | 12,368              | (9,345)                 | (22,029)                | 4,450                 | (420)                | (26,976)     |
| Balance at          |                       |                     |                         |                         |                       |                      |              |
| November 30, 2014   | \$ 305,145            | \$1,000,934         | \$ 3,220,195            | \$ 1,381,016            | \$ 2,423,399          | \$ 1,305,008         | \$ 9,635,697 |

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 5. Property, plant and equipment - continued:

|                                 | Land and<br>buildings | Office<br>equipment | Operations<br>equipment | Automotive<br>equipment | Computer<br>equipment | Computer<br>software | Total        |
|---------------------------------|-----------------------|---------------------|-------------------------|-------------------------|-----------------------|----------------------|--------------|
| <b>Accumulated Depreciation</b> |                       |                     |                         |                         |                       |                      |              |
| Balance at                      |                       |                     |                         |                         |                       |                      |              |
| December 1, 2012                | \$ 23,924             | \$ 894,562          | \$ 2,172,915            | \$ 762,021              | \$ 1,932,291          | \$ 1,250,948         | \$ 7,036,661 |
| Additions                       | 6,281                 | 19,999              | 260,449                 | 171,126                 | 80,266                | 14,221               | 552,342      |
| Disposals/other                 | -                     | -                   | (91,605)                | (87,289)                | -                     | -                    | (178,894)    |
| Effect of movements             |                       |                     |                         |                         |                       |                      |              |
| in exchange rates               | (999)                 | (13,241)            | (5,513)                 | (9,589)                 | (10,447)              | (31)                 | (39,820)     |
| Balance at                      |                       |                     |                         |                         |                       |                      |              |
| November 30, 2013               | \$ 29,206             | \$ 901,320          | \$ 2,336,246            | \$ 836,269              | \$ 2,002,110          | \$ 1,265,138         | \$ 7,370,289 |
| Additions                       | 15,708                | 21,337              | 239,857                 | 232,164                 | 96,003                | 23,291               | 628,360      |
| Disposals/other                 | -                     | -                   | (19,944)                | (346,047)               | -                     | -                    | (365,991)    |
| Effect of movements             |                       |                     |                         |                         |                       |                      |              |
| in exchange rates               | (1,703)               | 13,513              | (7,904)                 | (8,218)                 | 7,368                 | (178)                | 2,878        |
| Balance at                      |                       |                     |                         |                         |                       |                      |              |
| November 30, 2014               | \$ 43,211             | \$ 936,170          | \$ 2,548,255            | \$ 714,168              | \$ 2,105,481          | \$ 1,288,251         | \$ 7,635,536 |
| <b>Carrying amounts</b>         |                       |                     |                         |                         |                       |                      |              |
| At November 30,                 |                       |                     |                         |                         |                       |                      |              |
| 2013                            | \$ 262,943            | \$ 74,607           | \$ 612,057              | \$ 649,073              | \$ 229,856            | \$ 7,867             | \$ 1,836,403 |
| At November 30,                 |                       |                     |                         |                         |                       |                      |              |
| 2014                            | \$ 261,934            | \$ 64,764           | \$ 671,940              | \$ 666,848              | \$ 317,918            | \$ 16,757            | \$ 2,000,161 |

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 6. Investment in XPCT:

|   | 2014                | 2013                |
|---|---------------------|---------------------|
| <b>Xuzhou-PAT Control Technologies Limited (XPCT)</b>   |                     |                     |
| Balance, beginning of year                              | \$ 5,434,735        | \$ 4,875,618        |
| Currency gain (loss) on financial statement translation | 427,355             | 423,494             |
| Company's share of earnings                             | 326,050             | 885,399             |
| Dividends received                                      | (182,416)           | (749,776)           |
| <b>Balance, end of year</b>                             | <b>\$ 6,005,724</b> | <b>\$ 5,434,735</b> |

The Company had sales to XPCT of \$286,781 during the year (2013 - \$481,367). At November 30, 2014 accounts receivable from XPCT was \$16,532 (2013 - \$120,550).

The Company's ownership interest includes a 50% share of net assets and net earnings of XPCT as well as purchase price adjustments to allocate fair values assigned to certain assets and liabilities at the time of acquisition. Summary financial information for XPCT is as follows:

| Year ended November 30, 2014  | Financial<br>summary | Purchase<br>Adjustments | Adjusted<br>summary | Company's<br>share  |
|-------------------------------|----------------------|-------------------------|---------------------|---------------------|
| Cash                          | \$ 4,241,999         | \$ -                    | \$ 4,241,999        | \$ 2,120,999        |
| Other current assets          | 12,967,360           | -                       | 12,967,360          | 6,483,680           |
| Non-current assets            | 638,662              | 4,381,249               | 5,019,911           | 2,509,956           |
| Current liabilities           | (10,191,791)         | (26,031)                | (10,217,822)        | (5,108,911)         |
| <b>Net assets</b>             | <b>\$ 7,656,230</b>  | <b>\$ 4,355,218</b>     | <b>\$12,011,448</b> | <b>\$ 6,005,724</b> |
| Revenue                       | \$10,202,217         | \$ -                    | \$10,202,217        | \$ 5,101,109        |
| Cost of sales                 | 6,646,572            | 33,202                  | 6,679,774           | 3,339,887           |
| Depreciation and amortization | 132,495              | -                       | 132,495             | 66,248              |
| Finance costs                 | 134,107              | -                       | 134,107             | 67,054              |
| Other costs                   | 2,461,597            | -                       | 2,461,597           | 1,230,799           |
| Earnings before income taxes  | 827,446              | (33,202)                | 794,244             | 397,121             |
| Income taxes                  | 147,122              | (4,980)                 | 142,142             | 71,071              |
| <b>Net earnings</b>           | <b>\$ 680,324</b>    | <b>\$ (28,222)</b>      | <b>\$ 652,102</b>   | <b>\$ 326,050</b>   |

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 6. Investment in XPCT - continued:

| Year ended November 30, 2013  | Financial<br>summary | Purchase<br>Adjustments | Adjusted<br>summary | Company's<br>share  |
|-------------------------------|----------------------|-------------------------|---------------------|---------------------|
| Cash                          | \$ 1,983,276         | \$ -                    | \$ 1,983,276        | \$ 991,638          |
| Other current assets          | 8,196,264            | -                       | 8,196,264           | 4,098,132           |
| Non-current assets            | 362,251              | 4,102,351               | 4,464,602           | 2,232,301           |
| Current liabilities           | (3,745,728)          | (28,943)                | (3,774,671)         | (1,887,336)         |
| <b>Net assets</b>             | <b>\$ 6,796,063</b>  | <b>\$ 4,073,408</b>     | <b>\$10,869,471</b> | <b>\$ 5,434,735</b> |
| Revenue                       | \$11,281,163         | \$ -                    | \$11,281,163        | \$ 5,640,582        |
| Cost of sales                 | 7,550,071            | -                       | 7,550,071           | 3,775,036           |
| Depreciation and amortization | 102,291              | 43,488                  | 145,779             | 72,890              |
| Finance costs                 | 141,972              | -                       | 141,972             | 70,986              |
| Other costs                   | 1,362,025            | -                       | 1,362,025           | 681,012             |
| Earnings before income taxes  | 2,124,804            | (43,488)                | 2,081,316           | 1,040,658           |
| Income taxes                  | 317,041              | (6,523)                 | 310,518             | 155,259             |
| <b>Net earnings</b>           | <b>\$ 1,807,763</b>  | <b>\$ (36,965)</b>      | <b>\$ 1,770,798</b> | <b>\$ 885,399</b>   |

## 7. Bank indebtedness:

|  | 2014                | 2013                |
|--|---------------------|---------------------|
| Revolving credit facility of \$8.5 million authorized and secured by a general security agreement:   |                     |                     |
| HSBC Bank Canada – borrowing in Canadian dollars with interest at bank prime plus 1.5%   | \$ 1,828,244        | \$ -                |
| HSBC Bank Canada – borrowing in U.S. dollars with interest at U.S. bank base rate plus 1.5%  | 4,227,860           | -                   |
| Royal Bank of Canada – borrowing in Canadian dollars with interest at bank prime plus 3.5%   | -                   | 4,850,041           |
| Revolving credit facility authorized and secured by a standby letter of credit of \$1.1 million U.S. issued by HSBC Bank Canada and guaranteed by Export Development Canada (EDC): |                     |                     |
| The Hongkong and Shanghai Banking Corporation Limited – borrowing in Indian rupees with interest at 12.7% (2013 – 13.0%)   | 657,793             | 813,578             |
|  | <b>\$ 6,713,897</b> | <b>\$ 5,663,619</b> |



# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 7. Bank indebtedness - continued:

The Company entered into a new credit facility in January 2014 with HSBC Bank Canada (HSBC) replacing the credit facility with Royal Bank of Canada (RBC). The \$8.5 million HSBC credit facility is subject to margins on specific assets and 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 \$7.1 million U.S.

The Company's demand facility and long-term debt with HSBC are secured by a general security agreement on the assets of the Company held in Canada with a carrying value at November 30, 2014 of \$31.5 million (2013 - \$28.6 million). In addition, the Company's subsidiaries in the United States, Chile and India have provided corporate guarantees as security.

The Company is subject to covenants on its credit facility and long-term debt with HSBC as follows: current ratio greater than 1.2 to 1 (tested quarterly), debt to tangible net worth less than 2.5 to 1 (tested quarterly) and debt service coverage ratio greater than 1.25 to 1 (tested annually). At November 30, 2014 the Company is in compliance with these covenants.

The Company repaid and cancelled the credit facility in India with The Hongkong and Shanghai Banking Corporation Limited subsequent to November 30, 2014.

## 8. Long-term debt:

|  | 2014              | 2013        |
|--|-------------------|-------------|
| HSBC Bank Canada term loan, repayable in quarterly instalments of \$32,143 with interest at bank prime plus 0.5%. Due September 30, 2021 | \$ 900,000        | \$ -        |
| Less current portion   | 128,572           | -           |
|  | <u>\$ 771,428</u> | <u>\$ -</u> |

The HSBC term loan is secured by a general security agreement on the assets of the Company in Canada and is guaranteed by EDC. As described in note 7 the Company is in compliance with the covenants under the terms of its credit facilities with HSBC.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 9. Income taxes:

### Reconciliation of income tax expense:

Income tax expense attributable to earnings differs from the amounts computed by applying the Canadian statutory income tax rate of 27.0% (2013 – 27.0%) to earnings before income tax expense as a result of the following:

|   | 2014         | 2013         |
|---|--------------|--------------|
| Earnings before income taxes                        | \$ 1,718,755 | \$ 1,727,322 |
| Computed "expected" tax expense                     | 464,000      | 466,000      |
| Increase (decrease) in income taxes resulting from: |              |              |
| Non-deductible expenses                             | (50,000)     | 75,000       |
| Manufacturing and processing deduction              | (4,000)      | (28,000)     |
| XPCT earnings                                       | (88,000)     | (239,000)    |
| Rate difference in foreign jurisdictions            | (18,000)     | (29,000)     |
| Change in expected future tax rates                 | (32,000)     | -            |
| Unrecognized loss carry forwards                    | 75,000       | 494,000      |
| Other   | (348)        | 76,275       |
|   | \$ 346,652   | \$ 815,275   |

|                                     | 2014       | 2013         |
|-------------------------------------|------------|--------------|
| Income tax expense is comprised of: |            |              |
| Current income taxes                | \$ 440,040 | \$ 1,068,401 |
| Deferred income taxes               | (93,388)   | (253,126)    |
|                                     | \$ 346,652 | \$ 815,275   |

# INTERNATIONAL ROAD DYNAMICS INC.

## Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

### 9. Income taxes - continued:

#### Recognized deferred income tax assets (liabilities):

|   | November 30, 2012 | Recognized 2013 | Effect of movement in exchange rates | November 30, 2013 | Recognized 2014 | Effect of movement in exchange rates | November 30, 2014 |
|---|-------------------|-----------------|--------------------------------------|-------------------|-----------------|--------------------------------------|-------------------|
| Non-capital losses                          | \$ 183,416        | \$ 119,582      | \$ -                                 | \$ 302,998        | \$ 1,356        | \$ -                                 | \$ 304,354        |
| Unclaimed research and development expenses | 393,232           | (26,420)        | -                                    | 366,812           | 66,573          | -                                    | 433,385           |
| Other                                       | 59,522            | (115,874)       | (894)                                | (57,246)          | 23,639          | (3,076)                              | (36,683)          |
| Inventory                                   | 52,980            | (52,980)        | -                                    | -                 | -               | -                                    | -                 |
| Deferred revenue                            | 210,766           | 282,265         | (6,852)                              | 486,179           | (94,032)        | (17,094)                             | 375,053           |
| Investment tax credits                      | (380,003)         | 15,227          | (220)                                | (364,996)         | 53,113          | (1,104)                              | (312,987)         |
| Property, plant and equipment               | 307,271           | 31,326          | -                                    | 338,597           | 42,739          | -                                    | 381,336           |
| Net deferred income tax assets              | \$ 827,184        | \$ 253,126      | \$ (7,966)                           | \$ 1,072,344      | \$ 93,388       | \$ (21,274)                          | \$ 1,144,458      |

Based on projections of future earnings, realization of these net deferred tax assets is probable and consequently a deferred tax asset has been recorded.

#### Unrecognized deferred income tax assets:

Unrecognized deferred income tax assets relate to unrecognized timing differences and non-capital losses in India and Mexico.

|                                 | November 30, 2012 | Change in 2013 | Adjustment to prior year | November 30, 2013 | Change in 2014 | Adjustment to prior year | November 30, 2014 |
|---------------------------------|-------------------|----------------|--------------------------|-------------------|----------------|--------------------------|-------------------|
| Unrecognized timing differences | \$ -              | \$ 120,000     | \$ -                     | \$ 120,000        | \$ -           | \$ -                     | \$ 120,000        |
| Non-capital losses              | 1,355,000         | 374,000        | (75,000)                 | 1,654,000         | 75,000         | (528,000)                | 1,201,000         |
|                                 | \$ 1,355,000      | \$ 494,000     | \$ (75,000)              | \$ 1,774,000      | \$ 75,000      | \$ (528,000)             | \$ 1,321,000      |

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 9. Income taxes - continued:

### Non-capital loss carry forward:

Non-capital loss carry forward at November 30, 2014 expire as follows:

| Year | Canada       | India        | Mexico     | Total        |
|------|--------------|--------------|------------|--------------|
| 2020 | \$ -         | \$ 3,033,281 | \$ -       | \$ 3,033,281 |
| 2021 | -            | 331,340      | -          | 331,340      |
| 2022 | -            | 385,898      | 74,799     | 460,697      |
| 2023 | -            | -            | 64,484     | 64,484       |
| 2028 | 1,178,982    | -            | -          | 1,178,982    |
|      | \$ 1,178,982 | \$ 3,750,519 | \$ 139,283 | \$ 5,068,784 |

### Investment tax credits:

At November 30, 2014, the Company has recognized investment tax credits of \$2,376,489 (2013 - \$2,450,023) as a result of its research and development activities. Investment tax credits can be carried forward and used to reduce Canadian federal and provincial taxes of future years. Federal investment tax credits earned in 1998 and later years may be carried forward for 20 years. Saskatchewan investment tax credits prior to March 19, 2009 and after March 31, 2012 can be carried forward for 10 years.

Investment tax credits available for carry forward at November 30, 2014 expire as follows:

| Year(s)  | Federal      | Saskatchewan | Total        |
|--|--------------|--------------|--------------|
| 2015   | \$ -         | \$ 75,825    | \$ 75,825    |
| 2016   | -            | 219,806      | 219,806      |
| 2017   | -            | 264,278      | 264,278      |
| 2018   | -            | 224,333      | 224,333      |
| 2019   | -            | 57,424       | 57,424       |
| 2022 - 2024  | -            | 406,566      | 406,566      |
| After 2027   | 1,565,630    | -            | 1,565,630    |
|  | 1,565,630    | 1,248,232    | 2,813,862    |
| Less amounts not expected to be realized prior to expiry | -            | (437,373)    | (437,373)    |
|  | \$ 1,565,630 | \$ 810,859   | \$ 2,376,489 |

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 10. Revenue:

|                     | 2014          | 2013          |
|---------------------|---------------|---------------|
| Contracted projects | \$ 20,459,799 | \$ 19,071,459 |
| Service             | 14,275,314    | 15,134,942    |
| Product sales       | 10,366,394    | 9,439,327     |
| Total revenue       | \$ 45,101,507 | \$ 43,645,728 |

## 11. Share capital:

### (a) Authorized:

An unlimited number of common voting shares.

### (b) Common shares:

|  | Number of shares | Amount        |
|--|------------------|---------------|
| Balance, November 30, 2012                 | 13,998,337       | \$ 12,071,009 |
| Shares issued on exercise of stock options | 20,000           | 6,200         |
| Balance, November 30, 2013                 | 14,018,337       | \$ 12,077,209 |
| Shares issued on exercise of stock options | 130,833          | 42,066        |
| Adjustment from contributed surplus        | -                | 3,818         |
| Balance, November 30, 2014                 | 14,149,170       | \$ 12,123,093 |

### (c) Options:

Under the terms of a stock option plan approved by the shareholders in May, 1997 and amended in 1998, the Company is authorized to grant officers, employees and others options to purchase common shares at prices based on the market price of shares as determined on the date of the grant. At November 30, 2014, 460,665 (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.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 11. Share capital - continued:

At November 30, 2014, the following stock options to officers, employees and others were outstanding:

| Exercise Prices | Options Outstanding                     |   |                                 | Options Exercisable                     |                                 |  |
|-----------------|---|---|---------------------------------|---|---------------------------------|--|
|                 | Number Outstanding at November 30, 2014 | Weighted-Average Remaining Contractual Life (years) | Weighted-Average Exercise Price | Number Exercisable at November 30, 2014 | Weighted-Average Exercise Price |  |
| \$ 0.31         | 666,667                                 | 1.91  | \$ 0.31                         | 666,667                                 | \$ 0.31                         |  |
| 0.43            | 87,500                                  | 2.95  | 0.43                            | 54,166                                  | 0.43                            |  |
| 0.44            | 40,000                                  | 3.01  | 0.44                            | 13,333                                  | 0.44                            |  |
| 0.63            | 200,000                                 | 3.86  | 0.63                            | 66,666                                  | 0.63                            |  |
| 1.20            | 525,000                                 | 4.25  | 1.20                            | 525,000                                 | 1.20                            |  |
|                 | 1,519,167                               | 3.06  | \$ 0.67                         | 1,325,832                               | \$ 0.68                         |  |

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                | 240,000                          | 0.60                            |
| Options exercised              | (20,000)                         | 0.31                            |
| Options expired                | (95,000)                         | 1.29                            |
| Options forfeited              | (245,000)                        | 0.35                            |
| Outstanding, November 30, 2013 | 1,655,000                        | \$ 0.64                         |
| Options exercised              | (130,833)                        | 0.32                            |
| Options forfeited              | (5,000)                          | 0.31                            |
| Outstanding, November 30, 2014 | 1,519,167                        | \$ 0.67                         |

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

During the year the Company recorded share-based compensation expense of \$13,804 (2013 - \$11,723) along with a corresponding increase in contributed surplus in shareholders' equity for options vesting during the year.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 11. Share capital - continued:

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

|   | October<br>2013 | December<br>2012 |
|---|-----------------|------------------|
| Number of options granted               | 200,000         | 40,000           |
| Average strike price                    | \$0.63          | \$0.44           |
| Expected volatility                     | 43%             | 43%              |
| Risk-free interest rate                 | 1.0%            | 1.0%             |
| Expected life of option                 | 5 years         | 5 years          |
| Weighted average grant date fair values | \$0.22          | \$0.16           |

### (d) Shareholders' rights plan:

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

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

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

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

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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## 11. Share capital - continued:

- if more than 50% of the common shares held by independent shareholders are tendered to the bid, the offeror must extend the bid for 10 days to allow shareholders who did not tender initially to take advantage of the bid if they so choose.

The Plan had an initial term of three years. The Plan contains a provision that, at or prior to the first annual meeting of shareholders following the third anniversary of the date of the Plan, the Board may submit a resolution to the shareholders approving the extension of the Plan for a further three years. At the Company's annual meeting held on May 9, 2013, the shareholders approved the extension of the Plan for a further three years. The extended Plan contains a provision that, at or prior to the first annual meeting of shareholders following the third anniversary of the date of the extended Plan, the Board may submit a resolution to the shareholders approving the extension of the Plan for a further three years.

## 12. Research and development, net:

|                                       | 2014         | 2013         |
|---------------------------------------|--------------|--------------|
| Research and development expenditures | \$ 1,423,922 | \$ 1,346,487 |
| Less investment tax credits           | (180,000)    | (180,000)    |
|                                       | \$ 1,243,922 | \$ 1,166,487 |

## 13. Expense classification:

### (a) Personnel expenses

|   | 2014          | 2013          |
|---|---------------|---------------|
| Wages and salaries                          | \$ 13,189,995 | \$ 12,215,950 |
| Statutory benefits                          | 817,629       | 704,563       |
| Other employment benefits                   | 710,589       | 710,936       |
| Contributions to defined contribution plans | 273,137       | 256,997       |
| Share-based payment transactions            | 13,804        | 11,723        |
|   | \$ 15,005,154 | \$ 13,900,169 |



# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 13. Expense classification - continued:

### (b) Depreciation expense:

|  | 2014       | 2013       |
|--|------------|------------|
| Depreciation charge on property, plant and equipment | \$ 628,360 | \$ 552,342 |
| Add: Depreciation in opening inventory               | 14,878     | 16,195     |
| Less: Depreciation in closing inventory              | (14,932)   | (14,878)   |
| Depreciation expense                                 | \$ 628,306 | \$ 553,659 |
| Depreciation expense is allocated as follows:        |            |            |
| Cost of goods sold                                   | \$ 474,582 | \$ 419,698 |
| Administrative and marketing expenses                | 153,724    | 133,961    |
|  | \$ 628,306 | \$ 553,659 |

## 14. Earnings per share:

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

|   | 2014         | 2013       |
|---|--------------|------------|
| Net earnings  | \$ 1,372,103 | \$ 912,047 |
| Weighted average number of common shares outstanding: |              |            |
| Basic   | 14,054,270   | 13,999,268 |
| Effect of stock options                               | 457,732      | 305,970    |
| Diluted   | 14,512,002   | 14,305,238 |
| Earnings per share:                                   |              |            |
| Basic   | \$ 0.10      | \$ 0.07    |
| Diluted   | \$ 0.09      | \$ 0.06    |

As disclosed in note 11 the Company has stock options outstanding to purchase 1,519,167 common shares at November 30, 2014 (2013 - 1,655,000).

## 15. Financing costs (income)

|                               | 2014         | 2013       |
|-------------------------------|--------------|------------|
| Interest on bank indebtedness | \$ 415,928   | \$ 480,722 |
| Bad debt expense (note 16)    | 220,741      | 731,973    |
| Foreign exchange (gains)      | (943,690)    | (424,045)  |
|                               | \$ (307,021) | \$ 788,650 |

# INTERNATIONAL ROAD DYNAMICS INC.

## Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

### 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 balances 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.

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. Canada and U.S. billings 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. The following table provides a breakdown of accounts receivable as described above:

|                                   | 2014          | 2013          |
|-----------------------------------|---------------|---------------|
| Government                        | \$ 4,205,021  | \$ 4,212,752  |
| Non-Government                    |               |               |
| Secured                           |               |               |
| Letter of credit                  | 489,276       | 164,018       |
| Export Development Canada insured | 2,822,941     | 2,624,795     |
| Embedded derivative assets        | 743,919       | 259,073       |
| Other                             | 5,370,786     | 4,303,620     |
| Allowance for doubtful accounts   | (1,759,789)   | (1,623,348)   |
| Unbilled revenue                  | 11,872,154    | 9,940,910     |
|                                   | 4,089,057     | 3,192,468     |
|                                   | \$ 15,961,211 | \$ 13,133,378 |

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 16. Financial risk - continued:

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

|                              | 2014         | 2013         |
|------------------------------|--------------|--------------|
| Balance, beginning of year   | \$ 1,623,348 | \$ 1,006,851 |
| Bad debt expense             | 220,741      | 731,973      |
| Write offs                   | (190,580)    | (85,239)     |
| Foreign currency revaluation | 106,280      | (30,237)     |
| Balance, end of year         | \$ 1,759,789 | \$ 1,623,348 |

### Currency fluctuation risk:

The Company is exposed to foreign exchange risk primarily relating to sales revenue, operating expenses and capital expenditures denominated in foreign currencies and the embedded derivative portion of the unearned revenue of U.S. dollar denominated sales contracts in its Chilean subsidiary.

In addition the Company is exposed to foreign exchange risk on translation of net assets held in foreign currencies and translation of foreign currency subsidiary and joint venture operations from their functional currency to that of the Company.

The Company has exposure to the U.S. dollar, Indian rupee, Chilean peso, Mexican peso 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 year ended November 30, 2014 approximately 84% of the Company's sales were denominated in U.S. dollars. The average Canadian exchange rate against the U.S. dollar weakened during 2014 relative to 2013 by approximately 7.1%. This resulted in an increase in the Canadian dollar value of the Company's U.S. dollar denominated sales of approximately \$2.5 million during the 2014 fiscal year. This impact is partially offset by the corresponding higher value of U.S. dollar denominated expenses.

The Company has reduced its exposure to U.S. currency volatility by maintaining a portion of its bank indebtedness in U.S. funds. 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 year ended November 30, 2014 the Company had no foreign exchange forward contracts.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 16. Financial risk - continued:

The following table illustrates the Company's exposure to exchange risk and the pre-tax effects on earnings and other comprehensive income (OCI) of a 5% decrease in the Canadian dollar in comparison to the relevant foreign currency. This analysis assumes all other variables remain constant.

|   | Foreign currency<br>exposure at<br>November 30, 2014 | Foreign exchange risk<br>5% decrease in Cdn \$<br>Income | OCI     |
|---|--|--|---------|
| Net asset:                                      |  |  |         |
| U.S. dollar                                     | 3,665,000  | 183,250  |         |
| Indian rupee                                    | 362,000  |  | 18,100  |
| Chilean peso                                    | 380,000  |  | 19,000  |
| Chinese yuan                                    | 6,005,724  |  | 300,286 |
| U.S. dollar sales contract embedded derivatives | 7,331,000  | 366,550  |         |

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

### Interest rate risk:

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

At November 30, 2014, the effect of a 1% increase or decrease in the Canadian and U.S. bank prime rates, with all other variables held constant would have resulted in an increase or decrease of \$58,000 to the Company's net earnings for the year.

### Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they become due. The Company facilitates this in part by maintaining a line of credit in the amount of \$8.5 million with HSBC, as disclosed in note 7. At November 30, 2014 the remaining amount available to be drawn under this credit facility based on margin capacity is approximately \$1.6 million.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 16. Financial risk - continued:

Also as disclosed in note 7, 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 November 30, 2014 an amount of 35.9 million Indian rupees (\$0.7 million) was drawn upon this facility. As described in note 7 this facility was fully repaid from funds received under the HSBC term loan in December 2014.

In addition, EDC has provided a guarantee to May 31, 2015 of the Company's additional credit facility of \$900,000 (2013 – HSBC \$900,000, and RBC \$350,000) for the support of performance guarantees provided by the Company's subsidiaries. At November 30, 2014 performance guarantees totaling \$57,210 (2013 – \$234,162) were outstanding under this credit facility. The Company's Chilean subsidiary also maintains a secured line of credit to support performance guarantees required for selected projects. As at November 30, 2014 the Canadian dollar value of these performance guarantees totaled \$1,024,436 (2013 – \$546,325).

The table below presents a maturity analysis of the Company's financial liabilities based on the expected cash flows from November 30, 2014 to the contractual maturity date. The amounts represent the contractual undiscounted cash flows (thousands of dollars).

|  | Carrying<br>Amount of<br>Liability at<br>November<br>30, 2014 | Contractual<br>Cash Flows<br>Including<br>Interest | Less<br>than 1<br>year | 1 to 7<br>years |
|--|---|--|------------------------|-----------------|
| Bank indebtedness*                       | \$ 6,714  | \$ 7,061   | \$ 7,061               | \$ -            |
| Accounts payable and accrued liabilities | \$ 5,730  | \$ 5,730   | \$ 5,730               | \$ -            |
| Long-term debt                           | \$ 900  | \$ 1,004   | \$ 156                 | \$ 848          |

\* Assumes balance is outstanding for 365 days.

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

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

## 16. Financial risk - continued:

### Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and, to provide an adequate return to shareholders.

The Company manages the capital structure with a mix of debt and equity and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may assume more debt, issue new shares, purchase and cancel shares previously issued, return capital to shareholders or sell assets to reduce debt.

The capital structure of the Company is as follows:

|                      | 2014          | 2013          |
|----------------------|---------------|---------------|
| Bank indebtedness    | \$ 6,713,897  | \$ 5,663,619  |
| Long-term debt       | 900,000       | -             |
| Shareholders' equity | 19,174,121    | 17,566,561    |
| Total capital        | \$ 26,788,018 | \$ 23,230,180 |

### 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 and Mexican subsidiaries. Estimates of fair value for embedded derivatives are determined using Level 2 measurements. The fair value of embedded derivatives is measured using a market approach, based on the difference between quoted forward foreign exchange rates as of the contract date and quoted forward foreign exchange rates as of the reporting date.

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 bank indebtedness and long-term debt approximates the carrying amounts since these debts bear interest at current market rates.

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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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 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                |    | 1,951,568 |
|                           | \$ | 4,846,568 |

During the year ended November 30, 2014 an amount of \$579,000 was recognized as an expense in the statement of earnings in respect of operating leases (2013 - \$579,000).

The Company has provided a guarantee in the amount of 7.5 million yuan or \$1.4 million (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 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 have their own sales force.

Revenue as disclosed in the following tables is from internal and external customers with intersegment revenue and expenditures eliminated on consolidation.

# INTERNATIONAL ROAD DYNAMICS INC.

## Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

### 18. Segmented information - continued:

| Year ended November 30, 2014          | Canada and<br>United States | Latin America | South Asia   | Intersegment<br>Adjustments | Total         |
|---------------------------------------|-----------------------------|---------------|--------------|-----------------------------|---------------|
| Revenue                               | \$ 36,259,284               | \$ 8,124,438  | \$ 1,366,319 | \$ (648,534)                | \$ 45,101,507 |
| Cost of goods sold                    | 25,991,300                  | 5,026,587     | 885,656      | (804,549)                   | 31,098,994    |
|                                       | 10,267,984                  | 3,097,851     | 480,663      | 156,015                     | 14,002,513    |
| Administrative and marketing expenses | 8,891,161                   | 2,283,846     | 886,206      | (354,849)                   | 11,706,364    |
| Research and development, net         | 1,059,762                   | 184,160       | -            | -                           | 1,243,922     |
| Financing costs (income)              | 119,118                     | (764,057)     | 337,918      | -                           | (307,021)     |
| Other (income)                        | (326,925)                   | (30,593)      | (30,788)     | 354,849                     | (33,457)      |
| XPCT (earnings)                       | (326,050)                   | -             | -            | -                           | (326,050)     |
| Earnings (loss) before income taxes   | 850,918                     | 1,424,495     | (712,673)    | 156,015                     | 1,718,755     |
| Income tax expense                    | 134,593                     | 207,780       | -            | 4,279                       | 346,652       |
| Net earnings (loss)                   | \$ 716,325                  | \$ 1,216,715  | \$ (712,673) | \$ 151,736                  | \$ 1,372,103  |
| Current assets                        | \$ 16,019,275               | \$ 6,477,081  | \$ 2,772,198 | \$ (163,686)                | \$ 25,104,868 |
| Investment in XPCT                    | 6,005,724                   | -             | -            | -                           | 6,005,724     |
| Other non-current assets              | 13,669,291                  | 944,362       | -            | (9,092,545)                 | 5,521,108     |
| Total assets                          | \$ 35,694,290               | \$ 7,421,443  | \$ 2,772,198 | \$ (9,256,231)              | \$ 36,631,700 |
| Total liabilities                     | \$ 13,739,450               | \$ 2,371,463  | \$ 9,574,988 | \$ (8,228,322)              | \$ 17,457,579 |



# INTERNATIONAL ROAD DYNAMICS INC.

## Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

### 18. Segmented information - continued:

| Year ended November 30, 2013          | Canada and<br>United States | Latin America | South Asia     | Intersegment<br>Adjustments | Total         |
|---------------------------------------|-----------------------------|---------------|----------------|-----------------------------|---------------|
| Revenue                               | \$ 34,801,792               | \$ 7,192,564  | \$ 2,662,017   | \$ (1,010,645)              | \$ 43,645,728 |
| Cost of goods sold                    | 24,326,767                  | 4,572,172     | 2,177,723      | (1,084,691)                 | 29,991,971    |
|                                       | 10,475,025                  | 2,620,392     | 484,294        | 74,046                      | 13,653,757    |
| Administrative and marketing expenses | 8,102,500                   | 2,062,737     | 1,192,346      | (371,518)                   | 10,986,065    |
| Research and development, net         | 990,356                     | 174,443       | 1,688          | -                           | 1,166,487     |
| Financing costs (income)              | 295,489                     | (101,923)     | 616,635        | (21,551)                    | 788,650       |
| Other (income)                        | (442,981)                   | (37,233)      | (42,222)       | 393,068                     | (129,368)     |
| XPCT (earnings)                       | (885,399)                   | -             | -              | -                           | (885,399)     |
| Earnings (loss) before income taxes   | 2,415,060                   | 522,368       | (1,284,153)    | 74,047                      | 1,727,322     |
| Income tax expense                    | 607,153                     | 186,107       | -              | 22,015                      | 815,275       |
| Net earnings (loss)                   | \$ 1,807,907                | \$ 336,261    | \$ (1,284,153) | \$ 52,032                   | \$ 912,047    |
| Current assets                        | \$ 21,611,839               | \$ 6,012,836  | \$ 2,764,956   | \$ (9,085,081)              | \$ 21,304,550 |
| Investment in XPCT                    | 5,434,735                   | -             | -              | -                           | 5,434,735     |
| Other non-current assets              | 5,437,100                   | 854,601       | -              | (932,931)                   | 5,358,770     |
| Total assets                          | \$ 32,483,674               | \$ 6,867,437  | \$ 2,764,956   | \$ (10,018,012)             | \$ 32,098,055 |
| Total liabilities                     | \$ 11,394,989               | \$ 2,722,520  | \$ 9,386,570   | \$ (8,972,585)              | \$ 14,531,494 |

Revenue from external customers by geographic area is as follows:

|                | 2014          | 2013          |
|----------------|---------------|---------------|
| Canada         | \$ 2,380,782  | \$ 3,062,509  |
| United States  | 27,503,800    | 27,588,682    |
| Latin America  | 7,903,727     | 7,192,564     |
| South Asia     | 1,366,319     | 2,662,017     |
| Other offshore | 5,946,879     | 3,139,956     |
|                | \$ 45,101,507 | \$ 43,645,728 |

### 19. Statements of cash flows:

| Other operating items                    | 2014           | 2013         |
|--|----------------|--------------|
| Accounts receivable                      | \$ (2,239,003) | \$ 89,268    |
| Unbilled revenue                         | (933,197)      | 483,746      |
| Inventories                              | (576,135)      | 16,678       |
| Prepaid expense and deposits             | (360,013)      | (332,844)    |
| Accounts payable and accrued liabilities | 465,740        | (806,156)    |
|  | \$ (3,642,608) | \$ (549,308) |

# INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2014 and 2013

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## 20. Key management personnel and directors compensation:

In addition to salaries and benefits, executive officers participate in the share option program (see 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 six months. Executive officers are entitled to termination benefits ranging from 18 to 24 months' gross salary.

Key management and directors compensation includes:

|   | 2014                | 2013                |
|---|---------------------|---------------------|
| Salaries and short-term employee benefits | \$ 1,165,301        | \$ 1,104,240        |
| Share-based compensation                  | 8,141               | 5,589               |
|   | <u>\$ 1,173,442</u> | <u>\$ 1,109,829</u> |