INTERNATIONAL ROAD DYNAMICS INC.

Unaudited Interim Condensed Consolidated Financial Statements

Three months ended February 28, 2015 and 2014

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

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Financial Position

Unaudited

Canadian Dollars	Note	February 28, 2015	November 30, 2014
Assets			
Current assets:			
Cash and cash equivalents		$ 929,433	$ 1,399,332
Accounts receivable		12,873,419	11,872,154
Unbilled revenue		3,882,088	4,089,057
Income taxes receivable		217,551	101,964
Inventories	4	7,162,366	6,345,363
Prepaid expenses and deposits		1,871,825	1,296,998
		26,936,682	25,104,868
Property, plant and equipment	5	2,002,835	2,000,161
Investment in XPCT	6	6,640,000	6,005,724
Investment tax credits recoverable		2,421,489	2,376,489
Deferred tax assets		1,162,848	1,144,458
		$ 39,163,854	$ 36,631,700
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	7	$ 6,235,540	$ 6,713,897
Accounts payable and accrued liabilities		5,831,379	5,730,032
Current portion of deferred revenue		4,831,972	2,985,405
Current portion of long-term debt	8	128,572	128,572
		17,027,463	15,557,906
Deferred revenue		1,102,080	1,128,245
Long-term debt	8	739,285	771,428
Shareholders' equity:			
Share capital	11	12,160,015	12,123,093
Contributed surplus		304,131	303,290
Retained earnings		6,515,726	6,559,048
Accumulated other comprehensive income		1,315,154	188,690
		20,295,026	19,174,121
		$ 39,163,854	$ 36,631,700

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Earnings (Loss)
Unaudited

Canadian Dollars	Note	Three months ended February 28, 2015	February 28, 2014
Revenue	10	$ 10,696,815	$ 10,324,816
Cost of goods sold		7,428,633	7,397,475
		3,268,182	2,927,341
Administrative and marketing expenses		2,985,830	2,764,624
Research and development, net	12	375,232	290,007
Financing costs (income)	15	(2,003)	(257,827)
Other (income)		(11,621)	(12,392)
XPCT (earnings)	6	(76,306)	(118,097)
Earnings (loss) before income taxes		(2,950)	261,026
Income tax expense	9	40,372	45,233
Net earnings (loss)		$ (43,322)	$ 215,793
Earnings (loss) per share	14		
Basic		$ (0.00)	$ 0.02
Diluted		$ (0.00)	$ 0.01

Interim Condensed Consolidated Statements of Comprehensive Income
Unaudited

Canadian Dollars	Three months ended February 28, 2015	February 28, 2014
Net earnings (loss)	$ (43,322)	$ 215,793
Other comprehensive income which may be reclassified to net earnings:		
Unrealized foreign currency translation gains	1,126,464	310,155
Total comprehensive income	$ 1,083,142	$ 525,948

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited

Canadian Dollars	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance at December 1, 2013		$ 12,077,209	$ 293,304	$ 5,186,945	$ 9,103	$ 17,566,561
Issuance of capital stock		1,033	-	-	-	1,033
Net earnings		-	-	215,793	-	215,793
Other comprehensive income:						
Exchange differences on translation of foreign operations		-	-	-	310,155	310,155
Share-based compensation	11(c)	-	3,451	-	-	3,451
Balance at February 28, 2014		$ 12,078,242	$ 296,755	$ 5,402,738	$ 319,258	$ 18,096,993
Balance at December 1, 2014		$ 12,123,093	$ 303,290	$ 6,559,048	$ 188,690	$ 19,174,121
Issuance of capital stock	11(b)	36,922	(2,797)	-	-	34,125
Net loss		-	-	(43,322)	-	(43,322)
Other comprehensive income:						
Exchange differences on translation of foreign operations		-	-	-	1,126,464	1,126,464
Share-based compensation	11(c)	-	3,638	-	-	3,638
Balance at February 28, 2015		$ 12,160,015	$ 304,131	$ 6,515,726	$ 1,315,154	$ 20,295,026

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

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Cash Flows

Unaudited

		Three months ended	
		February 28,	February 28,
Canadian Dollars	Note	2015	2014
Cash flows from (used in):			
Operations:			
Net earnings (loss)		$ (43,322)	$ 215,793
Adjustments for:			
Deferred revenue		1,820,402	434,486
Depreciation expense	13(b)	159,210	130,083
Bad debt expense	16	13,135	10,732
Share-based compensation	11(c)	3,638	3,451
XPCT (earnings)	6	(76,306)	(118,097)
Interest expense	15	95,730	98,981
Gain on disposal of property, plant and equipment		(10,686)	-
Investment tax credits earned	12	(45,000)	(45,000)
Income tax expense	9	40,372	45,233
Income taxes paid		(119,782)	(36,502)
Other operating items	19	(1,691,687)	(279,954)
		145,704	459,206
Investing:			
Proceeds from sale of property, plant and equipment		15,914	-
Additions to property, plant and equipment	5	(127,232)	(85,007)
		(111,318)	(85,007)
Financing:			
Interest paid		(97,185)	(98,981)
Bank indebtedness net increase (decrease)	7	(478,357)	684,570
Long-term debt decrease	8	(32,143)	-
Issuance of capital stock	11(b)	34,125	1,033
		(573,560)	586,622
Increase (decrease) in cash and cash equivalents		(539,174)	960,821
Exchange rate changes on foreign currency cash balances		69,275	(4,301)
Cash and cash equivalents, beginning of period		1,399,332	1,389,874
Cash and cash equivalents*, end of period		$ 929,433	$ 2,346,394
*Comprised of the following:			
Cash		$ 826,306	$ 1,196,863
Short-term investments		-	795,887
Restricted cash		103,127	353,644
Total cash and cash equivalents		$ 929,433	$ 2,346,394

See accompanying notes to interim condensed consolidated financial statements.

1. Reporting entity

International Road Dynamics Inc. is incorporated under the *Canada Business Corporations Act*. The address of its registered office is 702 43rd Street East, Saskatoon, Saskatchewan, Canada, S7K 3T9. The interim condensed consolidated financial statements as at and for the period ended February 28, 2015 comprise International Road Dynamics Inc. and its wholly-owned subsidiaries (together the "Company") and the Company's 50% investment in Xuzhou-PAT Control Technologies Limited (XPCT). The Company is a highway traffic management technology company specializing in supplying products and integrated systems to the global Intelligent Transportation Systems (ITS) industry. The Company's common shares are traded on the Toronto Stock Exchange under the symbol IRD.

2. Basis of preparation

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and, in particular, IAS 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the most recent annual consolidated financial statements as at and for the year ended November 30, 2014.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on April 9, 2015.

(b) Basis of presentation

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. They have been prepared on the historical cost basis except for derivative instruments which are recorded at fair value through profit and loss.

The preparation of the interim condensed consolidated financial statements in conformance with IFRS requires management to use judgement in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgements are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The following discusses the most significant accounting judgements and estimates that the company has made in the preparation of the financial statements:

2. Basis of preparation – continued:

(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 asset's recoverable amount is estimated.

In assessing recoverability of non-financial assets, judgment is required in the determination of either, 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 adjusted if there has been a change in the estimates used to determine the recoverable amount of a previously impaired asset or CGU.

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:

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the Company's most recent annual audited consolidated financial statements for the year ended November 30, 2014, except for new accounting standards adopted during this period, as described below.

Accounting standards adopted during the quarter:

The following standards became effective for the Company beginning December 1, 2014 and did not have any impact on the Company's financial reporting.

Annual Improvements to IFRS (2010-2012) and (2011-2013). Issued in March 2014 amendments were made to various standards including IFRS 2 *Share–based payments*, IFRS 3 *Business Combinations*, IFRS 8 *Operating Segments*, IFRS 13 *Fair Value Measurement*, IAS 16 *Property Plant and Equipment*, IAS 38 *Intangible Assets*, IAS 24 *Related Party Disclosures*, and IAS 40 *Investment Property*. These amendments were effective for annual periods beginning on or after July 1, 2014.

3. Significant accounting policies – continued:

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

Recent accounting pronouncements not yet adopted:

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.

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.

4. Inventories:

	February 28, 2015	November 30, 2014
Raw materials	$ 643,046	$ 557,595
Original equipment manufacturer materials	3,649,772	2,896,819
Work in process	1,410,333	1,374,418
Finished goods	1,459,215	1,516,531
	$ 7,162,366	$ 6,345,363

During the quarter, inventories expensed within cost of goods sold were $5,647,356 (2014 - $4,072,561). During the quarter the Company also recorded an incremental provision for excess and obsolete inventories within cost of goods sold of $nil (2014 - $57,767).

5. Property, plant and equipment:

	Land and Buildings	Office Equipment	Operations Equipment	Automotive Equipment	Computer Equipment	Computer Software	Total
Cost							
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
Additions	-	-	13,820	101,294	12,118	-	127,232
Disposals	-	-	-	(39,563)	-	-	(39,563)
Effect of movements in exchange rates	14,487	26,555	12,567	36,502	25,032	746	115,889
Balance at February 28, 2015	$ 319,632	$1,027,489	$ 3,246,582	$1,479,249	$ 2,460,549	$ 1,305,754	$ 9,839,255
Accumulated Depreciation							
Balance at November 30, 2014	$ 43,211	$ 936,170	$ 2,548,255	$ 714,168	$ 2,105,481	$ 1,288,251	$ 7,635,536
Additions	4,058	4,759	63,693	53,519	24,666	5,230	155,925
Disposals	-	-	-	(34,335)	-	-	(34,335)
Effect of movements in exchange rates	2,255	25,454	11,332	18,055	21,762	436	79,294
Balance at February 28, 2015	$ 49,524	$ 966,383	$ 2,623,280	$ 751,407	$ 2,151,909	$ 1,293,917	$ 7,836,420
Carrying Amounts							
Balance at November 30, 2014	$ 261,934	$ 64,764	$ 671,940	$ 666,848	$ 317,918	$ 16,757	$ 2,000,161
Balance at February 28, 2015	$ 270,108	$ 61,106	$ 623,302	$ 727,842	$ 308,640	$ 11,837	$ 2,002,835

6. Investment in XPCT:

	Three months ended February 28, 2015	Three months ended February 28, 2014	Year ended November 30, 2014
Xuzhou-PAT Control Technologies Limited (XPCT)			
Balance, beginning of period	$ 6,005,724	$ 5,434,735	$ 5,434,735
Currency gain on financial statement translation	557,970	328,328	427,355
Company's share of earnings	76,306	118,097	326,050
Dividend received	-	-	(182,416)
Balance, end of period	$ 6,640,000	$ 5,881,160	$ 6,005,724

The Company had $282,450 sales to XPCT during the quarter (2014 - $286,781). At February 28, 2015 accounts receivable from XPCT were $306,102 (November 30, 2014 - $16,532).

7. Bank indebtedness:

	February 28, 2015	November 30, 2014
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%	$ 1,598,427	$ 1,828,244
HSBC Bank Canada - borrowing in U.S. dollars with interest at U.S. bank base rate plus 1.5%	4,637,113	4,227,860
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%	-	657,793
	$ 6,235,540	$ 6,713,897

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 February 28, 2015 of $32.6 million (November 30, 2014 - $31.5 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 February 28, 2015 the Company is in compliance with these covenants.

During the quarter the Company repaid and cancelled the credit facility in India with The Hongkong and Shanghai Banking Corporation Limited.

See note 16 for a discussion of liquidity risk.

8. Long-term debt:

	February 28, 2015	November 30, 2014
HSBC Bank Canada term loan, repayable in quarterly instalments of $32,143 with interest at bank prime plus 0.5%. Due September 30, 2021	$ 867,857	$ 900,000
Less current portion	128,572	128,572
	$ 739,285	$ 771,428

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.

9. Income taxes:

The effective tax rate can vary from the Canadian tax rate of approximately 27% applied to earnings before income taxes as a result of different rates of tax on foreign income, XPCT net earnings or losses, and foreign currency translation gains or losses on consolidation of foreign subsidiaries. As a result, the consolidated effective tax rate is not representative of statutory rates effective in the jurisdictions in which the Company operates.

No income tax recovery has been recorded in the Company's Indian subsidiary on year to date losses of $53,535 (2014 - $327,192) due to uncertainty that sufficient future earnings will be generated in this entity to offset current tax losses prior to expiry.

10. Revenue:

	Three months ended February 28, 2015	Three months ended February 28, 2014
Contracted projects	$ 5,992,795	$ 4,539,740
Service	2,686,585	2,696,694
Products	2,017,435	3,088,382
Total	$ 10,696,815	$ 10,324,816

11. Share capital:

(a) Authorized:

An unlimited number of common voting shares.

(b) Common shares:

	Number of shares	Amount
Balance, November 30, 2014	14,149,170	$ 12,123,093
Shares issued on exercise of stock options	100,000	31,000
Shares issued for directors compensation	3,765	3,125
Adjustment from contributed surplus	-	2,797
Balance, February 28, 2015	14,252,935	$ 12,160,015

(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 February 28, 2015 160,665 (November 30, 2014 - 460,665) options remain available to be granted, subject to approval by the Board of Directors. Stock options become exercisable at dates determined by the Compensation Committee of the Board of Directors.

At February 28, 2015, the following stock options to officers, employees and others were outstanding:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding at February 28, 2015	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at February 28, 2015	Weighted-Average Exercise Price
$ 0.31	566,667	1.66	$ 0.31	566,667	$ 0.31
0.43	87,500	2.70	0.43	54,166	0.43
0.44	40,000	2.76	0.44	26,666	0.44
0.63	200,000	3.61	0.63	66,666	0.63
0.72	300,000	4.76	0.72	100,000	0.72
1.20	525,000	4.00	1.20	525,000	1.20
	1,719,167	3.22	$ 0.70	1,339,165	$ 0.71

11. Share capital (continued):

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

	Number of Common Shares Issuable	Weighted Average Exercise Price
Outstanding, November 30, 2014	1,519,167	$ 0.67
Options granted	300,000	0.72
Options exercised	(100,000)	0.31
Outstanding, February 28, 2015	1,719,167	$ 0.70

Outstanding options expire between October 26, 2016 and December 1, 2019.

Share-based compensation expense of $3,638 was recorded for the three months ended February 28, 2015 (2014 - $3,451) along with a corresponding increase in contributed surplus in shareholders' equity for options vesting during the period.

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

	December 2014
Number of options granted	300,000
Average strike price	$0.72
Expected volatility	42%
Risk-free interest rate	1.0%
Expected life of option	5 years
Weighted average grant date fair values	$0.28

12. Research and development, net:

	Three months ended February 28, 2015	Three months ended February 28, 2014
Research and development expenditures	$ 420,232	$ 335,007
Less investment tax credits	(45,000)	(45,000)
	$ 375,232	$ 290,007

13. Expense classification:

(a) Personnel expenses:

	Three months ended February 28, 2015	Three months ended February 28, 2014
Wages and salaries	$ 3,454,411	$ 3,166,094
Statutory benefits	207,384	196,918
Other employment benefits	176,312	195,756
Defined contribution plans	72,976	67,311
Share-based payment transactions	3,638	3,451
	$ 3,914,721	$ 3,629,530

Personnel expenses are allocated to cost of goods sold, administrative and marketing expenses and research and development on the basis of the functions performed by employees.

(b) Depreciation expense:

	Three months ended February 28, 2015	Three months ended February 28, 2014
Depreciation on property, plant and equipment	$ 155,925	$ 135,053
Add: Depreciation in opening inventory	14,932	14,878
Less: Depreciation in closing inventory	(11,647)	(19,848)
Depreciation expense	$ 159,210	$ 130,083
Depreciation expense is allocated as follows:		
Cost of goods sold	$ 123,905	$ 101,417
Administration and marketing expenses	35,305	28,666
	$ 159,210	$ 130,083

14. Earnings (loss) per share:

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

	Three months ended February 28, 2015	Three months ended February 28, 2014
Net earnings (loss)	$ (43,322)	$ 215,793
Weighted average number of common shares outstanding:		
Basic	14,168,979	14,018,707
Effect of stock options	475,253	418,111
Diluted	14,644,232	14,436,818
Earnings (loss) per share:		
Basic	$ (0.00)	$ 0.02
Diluted	$ (0.00)	$ 0.01

As disclosed in note 11 the Company has stock options outstanding to purchase 1,719,167 common shares at February 28, 2015 (November 30, 2014 - 1,519,167).

15. Financing costs (income):

	Three months ended February 28, 2015	Three months ended February 28, 2014
Interest on bank indebtedness	$ 87,926	$ 98,981
Interest on long-term debt	7,804	-
Bad debt expense (note 16)	13,135	10,732
Foreign exchange (gains)	(110,868)	(367,540)
	$ (2,003)	$ (257,827)

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:

16. Financial risk (continued):

Credit risk:

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

The Company is exposed to credit risk from its customers on its trade receivables and unbilled revenue. The maximum exposure to credit risk is represented by the carrying amount of its receivables and unbilled revenue.

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

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 movement in the allowance for doubtful accounts is as follows:

	Three months ended February 28, 2015	Three months ended February 28, 2014
Balance, beginning of period	$ 1,759,789	$ 1,623,348
Bad debt expense	13,135	10,732
Recovery (write offs)	(3,583)	771
Foreign currency revaluation	157,922	79,423
Balance, end of period	$ 1,927,263	$ 1,714,274

16. Financial risk (continued):

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 and Mexican subsidiaries.

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 three months ended February 28, 2015 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 the first quarter 2015 relative to the first quarter 2014 by approximately 10.7%. This resulted in an increase in the Canadian dollar value of the Company's U.S. dollar denominated sales of approximately $0.9 million during the quarter. 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 three months ended February 28, 2015 the Company had no foreign exchange forward contracts.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they become due. The Company facilitates this in part by maintaining a line of credit in the amount of $8.5 million with HSBC, as disclosed in note 7. At February 28, 2015 the remaining amount available to be drawn under this credit facility based on margin capacity is approximately $2.3 million.

In the prior year, the Company maintained an operating line of credit for its operations in India with The Hongkong and Shanghai Banking Corporation Limited. As described in note 7 this facility was fully repaid from funds received under the HSBC term loan in December 2014.

16. Financial risk (continued):

In addition, EDC has provided a guarantee to May 31, 2016 of the Company's additional HSBC credit facility of $900,000 U.S. (November 30, 2014 – $900,000 U.S.) for the support of performance guarantees provided by the Company's subsidiaries. As at February 28, 2015, the Canadian dollar value of these outstanding performance guarantees totaled $591,174 (November 30, 2014 - $57,210).

The Company's Chilean subsidiary also maintains a secured line of credit to support performance guarantees required for selected projects. As at February 28, 2015, the Canadian dollar value of these performance guarantees totaled $917,763 (November 30, 2014 - $1,024,436).

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, determined by multiplying the unearned revenue balances by the change in quoted forward foreign exchange rates as of the contract date and the reporting date. The resulting amount is then discounted to present value.

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.

17. Commitments:

The Company leases land and building under an operating lease expiring on April 14, 2023. Contractual lease obligations comprised of base rent and certain operating costs for the next five years are as follows:

Due within 1 year	$	579,000
Due between 1 and 2 years		579,000
Due between 2 and 3 years		579,000
Due between 3 and 4 years		579,000
Due between 4 and 5 years		579,000
Thereafter		1,806,846
	$	4,701,846

During the three months ended February 28, 2015 $144,750 (February 28, 2014 - $144,750) was recognized as an expense in respect of the operating lease for land and building.

The Company has provided a guarantee in the amount of 7.5 million yuan or $1.5 million (November 30, 2014 – 7.5 million yuan or $1.4 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 and safety 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.

18. Segmented information - continued:

Three Months Ended February 28, 2015	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue	$ 8,187,651	$ 2,317,443	$ 344,643	$ (152,922)	$ 10,696,815
Cost of goods sold	5,456,406	1,895,024	229,875	(152,672)	7,428,633
	2,731,245	422,419	114,768	(250)	3,268,182
Administrative and marketing expenses	2,262,237	650,170	167,062	(93,639)	2,985,830
Research and development, net	358,546	16,686	-	-	375,232
Financing costs (income)	(14,045)	10,801	1,241	-	(2,003)
Other (income)	(99,879)	(5,381)	-	93,639	(11,621)
XPCT (earnings)	(76,306)	-	-	-	(76,306)
Earnings (loss) before income taxes	300,692	(249,857)	(53,535)	(250)	(2,950)
Income tax expense (recovery)	82,356	(41,934)	-	(50)	40,372
Net earnings (loss)	$ 218,336	$ (207,923)	$ (53,535)	$ (200)	$ (43,322)
Current assets	$ 16,362,012	$ 7,718,496	$ 3,013,497	$ (157,323)	$ 26,936,682
Investment in XPCT	6,640,000	-	-	-	6,640,000
Other non-current assets	14,797,322	1,041,028	-	(10,251,178)	5,587,172
Total assets	$ 37,799,334	$ 8,759,524	$ 3,013,497	$ (10,408,501)	$ 39,163,854
Total liabilities	$ 15,078,930	$ 3,526,249	$ 8,792,546	$ (8,528,897)	$ 18,868,828

Three Months Ended February 28, 2014	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue	$ 7,329,081	$ 2,928,877	$ 297,988	$ (231,130)	$ 10,324,816
Cost of goods sold	5,583,018	1,723,292	324,419	(233,254)	7,397,475
	1,746,063	1,205,585	(26,431)	2,124	2,927,341
Administrative and marketing expenses	2,114,279	508,959	229,202	(87,816)	2,764,624
Research and development, net	224,848	65,159	-	-	290,007
Financing costs (income)	(187,482)	(140,381)	70,036	-	(257,827)
Other (income)	(86,118)	(15,613)	1,523	87,816	(12,392)
XPCT (earnings)	(118,097)	-	-	-	(118,097)
Earnings (loss) before income taxes	(201,367)	787,461	(327,192)	2,124	261,026
Income tax expense (recovery)	(110,518)	155,777	-	(26)	45,233
Net earnings (loss)	$ (90,849)	$ 631,684	$ (327,192)	$ 2,150	$ 215,793
Current assets	$ 14,326,908	$ 5,086,456	$ 2,812,990	$ (64,183)	$ 22,162,171
Investment in XPCT	5,881,160	-	-	-	5,881,160
Other non-current assets	13,189,608	1,856,556	-	(9,715,104)	5,331,060
Total assets	$ 33,397,676	$ 6,943,012	$ 2,812,990	$ (9,779,287)	$ 33,374,391
Total liabilities	$ 12,079,864	$ 2,228,622	$ 9,721,645	$ (8,752,733)	$ 15,277,398

18. Segmented information - continued:

Revenue from external customers by geographic area is as follows:

	Three months ended February 28, 2015	February 28, 2014
Canada	$ 528,460	$ 450,321
United States	6,811,964	5,423,317
Latin America and Mexico	2,317,443	2,928,877
India	344,643	297,988
Other offshore	694,305	1,224,313
Total	$ 10,696,815	$ 10,324,816

19. Statements of cash flows:

Other operating items

	Three months ended February 28, 2015	February 28, 2014
Accounts receivable	$ (722,495)	$ (665,886)
Unbilled revenue	279,043	988,944
Inventories	(751,832)	305,066
Prepaid expenses and deposits	(518,744)	(543,392)
Accounts payable and accrued liabilities	22,341	(364,686)
	$ (1,691,687)	$ (279,954)

20. Key management personnel and directors compensation:

In addition to salaries and benefits, executive officers participate in the share option program (note 11). The Company compensates external directors through fees payable in cash or shares of the Company at the directors' discretion.

Upon resignation executive officers are subject to a notice term of six months. Executive officers are entitled to termination benefits ranging from 18 to 24 months' gross salary.

Key management and directors compensation includes:

	Three months ended February 28, 2015	February 28, 2014
Salaries and short-term employee benefits	$ 297,231	$ 273,763
Share-based compensation	1,005	2,035
	$ 298,236	$ 275,798