INTERNATIONAL ROAD DYNAMICS INC.

Unaudited Interim Condensed Consolidated Financial Statements

Three and six months ended May 31, 2016 and 2015

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	Note	May 31, 2016	November 30, 2015
Assets			
Current assets:			
Cash		$ 2,204,630	$ 1,833,703
Accounts receivable		11,773,880	11,207,440
Embedded derivatives		361,937	481,689
Unbilled revenue		5,813,892	6,134,832
Income taxes receivable		—	160,391
Inventories	4	7,872,313	7,088,400
Prepaid expenses and deposits		2,247,011	1,982,379
		30,273,663	28,888,834
Property, plant and equipment	5	2,629,665	2,395,445
Intangible assets	6	433,678	403,706
Investment in XPCT	7	6,658,674	6,879,528
Investment tax credits recoverable		1,964,500	1,826,529
Deferred tax assets		1,384,723	1,365,696
		13,071,240	12,870,904
		$ 43,344,903	$ 41,759,738
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	8	$ 5,553,619	$ 3,959,768
Accounts payable and accrued liabilities		7,810,236	8,948,729
Income taxes payable		254,170	—
Current portion of deferred revenue		4,922,899	4,550,550
Current portion of long-term debt	9	128,572	128,572
		18,669,496	17,587,619
Deferred revenue		782,665	824,666
Long-term debt	9	578,570	642,856
		1,361,235	1,467,522
Shareholders' equity:			
Share capital	11(b)	12,357,691	12,219,737
Contributed surplus		309,850	315,733
Retained earnings		9,915,439	9,090,633
Accumulated other comprehensive income		731,192	1,078,494
		23,314,172	22,704,597
		$ 43,344,903	$ 41,759,738

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Earnings

Unaudited

$ Canadian	Note	Three months ended May 31, 2016	Three months ended May 31, 2015	Six months ended May 31, 2016	Six months ended May 31, 2015
Revenue		$ 15,284,672	$ 12,963,885	$ 30,183,059	$ 23,660,700
Cost of goods sold		10,544,036	8,574,740	20,893,156	16,003,373
		4,740,636	4,389,145	9,289,903	7,657,327
Administrative and marketing expenses		3,200,686	3,075,349	6,442,541	6,074,314
Research and development, net	12	599,587	512,001	1,094,825	887,233
Financing costs, net	15	377,263	321,843	673,257	306,705
Other income		(16,433)	(7,735)	(21,033)	(19,356)
XPCT loss (earnings)	7	(5,461)	2,778	(124,693)	(73,528)
Earnings before income taxes		584,994	484,909	1,225,006	481,959
Income tax expense	10	216,988	147,460	400,200	187,832
Net earnings		$ 368,006	$ 337,449	$ 824,806	$ 294,127
Earnings per share	14				
Basic		$ 0.03	$ 0.02	$ 0.06	$ 0.02
Diluted		$ 0.02	$ 0.02	$ 0.05	$ 0.02

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

Unaudited

$ Canadian	Three months ended May 31, 2016	Three months ended May 31, 2015	Six months ended May 31, 2016	Six months ended May 31, 2015
Net earnings	$ 368,006	$ 337,449	$ 824,806	$ 294,127
Other comprehensive income (loss) which may be reclassified to net earnings:				
Exchange differences on translation of foreign operations	(502,321)	(89,539)	(347,302)	1,036,925
Total comprehensive income (loss)	$ (134,315)	$ 247,910	$ 477,504	$ 1,331,052

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited

For the six months ended May 31, 2016 and 2015

$ Canadian	Note	Share capital	Contributed surplus	Retained Earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance at November 30, 2014		$ 12,123,093	$ 303,290	$ 6,559,048	$ 188,690	$ 19,174,121
Issuance of capital stock	11(b)	40,047	(2,797)	—	—	37,250
Net earnings		—	—	294,127	—	294,127
Other comprehensive income:						
Exchange differences on translation of foreign operations		—	—	—	1,036,925	1,036,925
Share-based compensation	11(c)	—	13,224	—	—	13,224
Balance at May 31, 2015		$ 12,163,140	$ 313,717	$ 6,853,175	$ 1,225,615	$ 20,555,647
Balance at November 30, 2015		$ 12,219,737	$ 315,733	$ 9,090,633	$ 1,078,494	$ 22,704,597
Issuance of capital stock	11(b)	137,954	(11,129)	—	—	126,825
Net earnings		—	—	824,806	—	824,806
Other comprehensive income:						
Exchange differences on translation of foreign operations		—	—	—	(347,302)	(347,302)
Share-based compensation	11(c)	—	5,246	—	—	5,246
Balance at May 31, 2016		$ 12,357,691	$ 309,850	$ 9,915,439	$ 731,192	$ 23,314,172

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		Six months ended	
		May 31,	May 31,	May 31,	May 31,
$ Canadian	Note	2016	2015	2016	2015
Cash flows from (used in):					
Operations:					
Net earnings		$ 368,006	$ 337,449	$ 824,806	$ 294,127
Adjustments for:					
Embedded derivatives		21,789	97,126	119,752	49,029
Depreciation and amortization expense	13(b)	124,003	164,127	247,313	323,337
Bad debt expense (recovery)	16	(2,547)	(51,376)	53,907	(38,241)
Share-based compensation	11(c)	2,623	9,586	5,246	13,224
XPCT loss (earnings)	7	(5,461)	2,778	(124,693)	(73,528)
Interest expense	15	76,938	116,254	160,588	211,984
Loss (gain) on disposal of property, plant and equipment		(3,107)	5,925	(4,080)	(4,761)
Investment tax credits earned	12	(154,355)	(45,000)	(199,355)	(90,000)
Income tax expense		216,988	147,460	400,200	187,832
		644,877	784,329	1,483,684	873,003
Changes in non-cash working capital	19	(778,895)	351,216	(2,114,005)	528,028
Income tax paid		142,551	291,050	110,502	171,268
Interest paid		(72,875)	(114,490)	(154,178)	(211,675)
		(64,342)	1,312,105	(673,997)	1,360,624
Investing:					
Proceeds from sale of property, plant and equipment		6,781	25,259	7,754	41,173
Additions to property, plant and equipment	5	(302,970)	(167,930)	(473,359)	(295,162)
Additions to intangibles	6	(23,786)	—	(45,621)	—
		(319,975)	(142,671)	(511,226)	(253,989)
Financing:					
Bank indebtedness increase (decrease)	8	732,246	(373,715)	1,593,851	(852,072)
Long-term debt repayment	9	(32,143)	(32,143)	(64,286)	(64,286)
Issuance of capital stock	11(b)	33,125	3,125	126,825	37,250
		733,228	(402,733)	1,656,390	(879,108)
Increase in cash		348,911	766,701	471,167	227,527
Exchange rate changes on foreign currency cash balances		(113,528)	17,048	(100,240)	86,323
Cash, beginning of period		1,969,247	929,433	1,833,703	1,399,332
Cash, end of period		$ 2,204,630	$ 1,713,182	$ 2,204,630	$ 1,713,182

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. These interim condensed consolidated financial statements as at and for the three and six months ended May 31, 2016 and May 31, 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*. These 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, 2015.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on July 11, 2016.

(b) Basis of presentation

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the parent's functional currency and presentation currency.

These statements 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. There have been no changes to the Company's assessment of significant accounting judgements and estimates from those disclosed in the most recent annual consolidated financial statements as at and for the year ended November 30, 2015.

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, 2015.

Recent accounting pronouncements which may be applicable to subsequent reporting periods and not yet adopted as at May 31, 2016 have not significantly changed from those described in the Company's most recent annual audited consolidated financial statements for the year ended November 30, 2015. The company is reviewing these standards and amendments to determine the impact on its consolidated financial statements, if any.

4. Inventories:

	May 31, 2016	November 30, 2015
Raw materials	$ 516,456	$ 538,763
Original equipment manufacturer materials	4,548,288	3,427,726
Work in process	1,468,896	1,413,583
Finished goods	1,338,673	1,708,328
	$ 7,872,313	$ 7,088,400

Inventories expensed within cost of goods sold were $5,066,834 and $9,143,768 for the three and six months ended May 31, 2016 respectively (2015 - $6,607,567 and $11,162,394). The Company also recorded an incremental provision for excess and obsolete inventories within cost of goods sold of $38,000 for the three and six months ended May 31, 2016 (2015 - $nil).

5. Property, plant and equipment:

	Land and Buildings	Office Equipment	Operations Equipment	Automotive Equipment	Computer Equipment	Computer Software	Total
Cost							
Balance at November 30, 2015	$ 303,986	$ 1,021,555	$ 3,612,716	$ 1,702,791	$ 2,528,422	$ 1,312,167	$ 10,481,637
Additions	—	3,153	261,929	160,302	46,977	998	473,359
Disposals	—	—	—	(26,211)	—	—	(26,211)
Effect of movements in exchange rates	(725)	(6,885)	(977)	(3,391)	(5,815)	(37)	(17,830)
Balance at May 31, 2016	$ 303,261	$ 1,017,823	$ 3,873,668	$ 1,833,491	$ 2,569,584	$ 1,313,128	$ 10,910,955
Accumulated Depreciation							
Balance at November 30, 2015	$ 59,082	$ 973,614	$ 2,684,431	$ 833,396	$ 2,227,112	$ 1,308,557	$ 8,086,192
Additions	8,105	7,958	13,388	151,844	50,382	2,005	233,682
Disposals	—	—	—	(22,537)	—	—	(22,537)
Effect of movements in exchange rates	(213)	(6,991)	(886)	(2,441)	(5,479)	(37)	(16,047)
Balance at May 31, 2016	$ 66,974	$ 974,581	$ 2,696,933	$ 960,262	$ 2,272,015	$ 1,310,525	$ 8,281,290
Carrying Amounts							
Balance at November 30, 2015	$ 244,904	$ 47,941	$ 928,285	$ 869,395	$ 301,310	$ 3,610	$ 2,395,445
Balance at May 31, 2016	$ 236,287	$ 43,242	$ 1,176,735	$ 873,229	$ 297,569	$ 2,603	$ 2,629,665

Operations equipment includes assets under construction of $1,138,595 (November 30, 2015 - $880,261).

6. Intangible Assets:

As at May 31, 2016 the Company had intangible assets with a net book value of $433,678 (November 30, 2015 - $403,706). Additions to intangible assets were $23,786 and $45,621 for the three and six months ended May 31, 2016 respectively (2015 - $nil and $nil). Amortization expense was $7,029 and $15,649 for the same respective periods (2015 - $529 and $1,058).

7. Investment in XPCT:

	Three months ended		Six months ended		Year ended
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015	November 30, 2015
Xuzhou-PAT Control Technologies Limited (XPCT)					
Balance, beginning of period	$ 6,925,424	$ 6,640,000	$ 6,879,528	6,005,724	6,005,724
Currency gain (loss) on financial statement translation	(272,211)	3,626	(345,547)	561,596	741,291
Company's share of earnings (loss)	5,461	(2,778)	124,693	73,528	444,705
Dividend received	—	—	—	—	(312,192)
Balance, end of period	$ 6,658,674	$ 6,640,848	$ 6,658,674	$ 6,640,848	$ 6,879,528

The Company had sales to XPCT of $290,150 for the three and six months ended May 31, 2016 (2015 - $nil and $282,450). At May 31, 2016 accounts receivable from XPCT was $7,298 (November 30, 2015 - $15,820).

8. Bank indebtedness:

	May 31, 2016	November 30, 2015
Revolving credit facility of $9.5 million authorized and secured by a general security agreement:		
HSBC Bank Canada - borrowing in Canadian dollars with interest at bank prime plus 1.5%	$ 706,280	$ 875,034
HSBC Bank Canada - borrowing in U.S. dollars with interest at U.S. bank base rate plus 1.5%	4,847,339	3,084,734
	$ 5,553,619	$ 3,959,768

The HSBC revolving credit facility may be borrowed by way of banker's acceptances at prevailing market rates to a maximum of $9.5 million or by way of U.S. dollar advances to a maximum of U.S. $6.3 million. Borrowings on this facility are restricted to the lesser of $9.5 million and the margin total on the following assets in Canada and the U.S.: 90% of secured and government accounts receivable less than 120 days and 50% of inventory to a maximum of $3 million. As at May 31, 2016 approximately $3.5 million was available to be drawn.

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 May 31, 2016 of $37 million (November 30, 2015 - $34.9 million). In addition, the Company’s subsidiaries in the United States, Chile and India have provided corporate guarantees as security.

At May 31, 2016, the Company is in compliance with covenants on its credit facility and long-term debt with HSBC. During the period there have been no changes in these covenants which are defined in note 8 of the November 30, 2015 annual consolidated financial statements.

9. Long-term debt:

		May 31, 2016		November 30, 2015
HSBC Bank Canada term loan, repayable in quarterly installments of $32,143 with interest at bank prime plus 0.5%.				
Due September 30, 2021	$	707,142		771,428
Less current portion		128,572		128,572
	$	578,570	$	642,856

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 8 the Company is in compliance with the covenants under the terms of its credit facilities with HSBC.

In addition the Company has a credit facility of U.S. $500,000 to finance construction of certain operating assets. As at May 31, 2016 no amount was drawn on this facility.

10. Income taxes:

The effective tax rate can vary from the Canadian statutory 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 income tax rates effective in the jurisdictions in which the Company operates.

In each of the Canada and United States and Latin America and Mexico business segments, the Company's income tax provision generally reflects the statutory rates applicable to those jurisdictions. No income tax recovery has been recorded in the Company's India subsidiary due to uncertainty that sufficient future earnings will be generated to offset current and prior years' available tax losses prior to their expiry date.

11. Share capital:

(a) Authorized:

An unlimited number of common voting shares, with no par value.

(b) Common shares:

	Six months ended			
	May 31, 2016		May 31, 2015	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	14,398,462	$ 12,219,737	14,149,170	$ 12,123,093
Shares issued on exercise of stock options	302,500	123,075	100,000	31,000
Shares issued for directors' compensation	2,689	3,750	6,859	6,250
Adjustment from contributed surplus	—	11,129	—	2,797
Balance, end of period	14,703,651	$ 12,357,691	14,256,029	$ 12,163,140

The weighted average market price of common shares issued during the period on exercise of stock options was $1.39.

11. Share capital - continued:

(c) Options:

Under the terms of a stock option plan approved by the shareholders and as amended in May 2016, the Company is authorized to grant officers, employees and others options to purchase common shares at prices based on the market price of shares as determined on the date of the grant. At May 31, 2016, 158,865 (November 30, 2015 - 130,665) options remain available to be granted, subject to approval by the Board of Directors. Stock options generally vest equally over three years subject to the discretion of the Compensation Committee of the Board of Directors and have a maximum term of five years.

At May 31, 2016, the following stock options to officers, employees and others were outstanding:

	Options Outstanding			Options Exercisable	
Exercise Prices ($)	Number Outstanding at May 31, 2016	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price ($)	Number Exercisable at May 31, 2016	Weighted-Average Exercise Price ($)
0.31	270,000	0.41	0.31	270,000	0.31
0.43	36,500	1.44	0.43	36,500	0.43
0.63	200,000	2.36	0.63	133,333	0.63
0.72	250,000	3.50	0.72	166,666	0.72
1.00	30,000	3.97	1.00	20,000	1.00
1.20	525,000	2.75	1.20	525,000	1.20
	1,311,500	2.34	$0.81	1,151,499	$0.83

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

	Number of Common Shares Issuable	Weighted Average Exercise Price
Outstanding, November 30, 2015	1,614,000	$ 0.74
Options exercised	(302,500)	0.41
Outstanding, May 31, 2016	1,311,500	$ 0.81

Outstanding options expire between October 26, 2016 and May 19, 2020.

Share-based compensation expense was $2,623 and $5,246 for the three and six months ended May 31, 2016 respectively (2015 - $9,586 and $13,224) along with a corresponding increase in contributed surplus in shareholders' equity.

12. Research and development, net:

	Three months ended		Six months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Research and development expenditures	$ 811,185	$ 557,001	$ 1,473,238	$ 977,233
Less:				
Government grants earned	(57,243)	—	(179,058)	—
Investment tax credits	(154,355)	(45,000)	(199,355)	(90,000)
	$ 599,587	$ 512,001	$ 1,094,825	$ 887,233

13. Expense classification:

(a) Personnel expenses:

	Three months ended		Six months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Wages and salaries	$ 4,199,669	$ 3,742,732	$ 8,276,844	$ 7,197,143
Statutory benefits	272,042	234,990	488,699	442,374
Other employment benefits	214,756	177,487	419,038	353,799
Defined contribution plan	85,925	77,964	167,077	150,940
Share-based compensation	2,623	9,586	5,246	13,224
	$ 4,775,015	$ 4,242,759	$ 9,356,904	$ 8,157,480

(b) Depreciation and amortization expense:

	Three months ended		Six months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2,015
Depreciation on property, plant and equipment	$ 116,236	$ 161,120	$ 233,682	$ 316,516
Add: Depreciation in opening inventory	13,692	11,647	10,936	14,932
Less: Depreciation in closing inventory	(12,954)	(9,169)	(12,954)	(9,169)
Depreciation expense	$ 116,974	$ 163,598	$ 231,664	$ 322,279
Depreciation expense is allocated as follows:				
Cost of goods sold	$ 84,642	$ 126,691	$ 168,276	$ 250,067
Administration and marketing expenses	32,332	36,907	63,388	72,212
	116,974	163,598	231,664	322,279
Amortization on intangibles included in cost of goods sold	7,029	529	15,649	1,058
Depreciation and amortization expense	$ 124,003	$ 164,127	$ 247,313	$ 323,337

14. Earnings per share:

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

	Three months ended		Six months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Net earnings	$ 368,006	$ 337,449	$ 824,806	$ 294,127
Weighted average number of common shares outstanding:				
Basic	14,643,224	14,253,978	14,559,845	14,211,945
Effect of stock options	535,698	635,333	530,876	567,206
Diluted	15,178,922	14,889,311	15,090,721	14,779,151
Earnings per share:				
Basic	$ 0.03	$ 0.02	0.06	$ 0.02
Diluted	$ 0.02	$ 0.02	0.05	$ 0.02

As disclosed in note 11(c) the Company has stock options outstanding to purchase 1,311,500 common shares at May 31, 2016 (2015 - 1,749,167).

15. Financing costs, net:

	Three months ended		Six months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Interest on bank indebtedness	$ 71,276	$ 109,192	$ 148,879	$ 197,118
Interest on long-term debt	5,662	7,062	11,709	14,866
Foreign exchange losses	300,325	205,589	512,669	94,721
	$ 377,263	$ 321,843	$ 673,257	$ 306,705

16. Financial instruments and related 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.

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 both embedded derivatives and forward exchange contracts 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 exchange rates as of the contract date and quoted forward exchange rates as of the reporting date. The fair value of forward exchange contracts is determined using quoted forward exchange rates at the reporting date.

The carrying amounts of the Company's financial assets and liabilities, including cash, 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 have floating interest rates.

Financial instrument risk

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.

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 uninsured portion of these financial assets.

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.

16. Financial instruments and related risk (continued):

Accounts receivable include amounts due from customers in both the government and private industry sectors which exposes the Company to risk of nonpayment. Government accounts are considered secure and are normally not subjected to extensive credit reviews. Industry accounts are subject 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 India due to higher risk of financial instability.

The ageing of accounts receivable has not changed significantly from amounts reported in the Company's most recent annual audited consolidated financial statements for the year ended November 30, 2015. The age of an invoice does not necessarily indicate an account is past due as many contracts require the successful completion of system testing and acceptance. The Company pursues collection of overdue accounts by various means including direct negotiation, withdrawal of service support, third party collection, legal claims, and recovery from EDC on insured accounts.

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

	Three months ended		Six months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Balance, beginning of period	$ 2,476,965	$ 1,927,263	$ 2,519,978	$ 1,759,789
Bad debt expense (recovery)	(2,547)	(51,376)	53,907	(38,241)
Direct recoveries (write offs)	8,535	20,215	(45,548)	16,632
Foreign currency revaluation	(32,606)	(65,607)	(77,990)	92,315
Balance, end of period	$ 2,450,347	$ 1,830,495	$ 2,450,347	$ 1,830,495

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, the embedded derivative portion of the unearned revenue of U.S. dollar denominated sales contracts in its Chilean and Mexican subsidiaries, and forward exchange contracts.

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 from operations.

16. Financial instruments and related risk (continued):

During the six months ended May 31, 2016 approximately 87% of the Company's sales were denominated in U.S. dollars. The average Canadian exchange rate against the U.S. dollar has weakened during 2016 relative to 2015 by approximately 10 %. This resulted in an increase in the Canadian dollar value of the Company's U.S. dollar denominated sales by approximately $2.4 million. This impact is partially offset by the corresponding higher value of U.S. dollar denominated expenses.

The Company has partially reduced its exposure to U.S. currency volatility by maintaining a portion of its bank indebtedness in U.S. funds. In addition, from time to time the Company enters into forward exchange contracts to sell U.S. dollars to fix 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. At May 31, 2016 the Company had six forward exchange contracts of $500,000 each to sell U.S. dollars. These contracts mature over a six month period from June 15, 2016 to November 15, 2016 at an average exchange rate of 1.252. Based on U.S. dollar forward exchange rates at May 31, 2016 these contracts have a negative fair value of $170,000. An increase in the forward sell rates of the U.S dollar by 5% would further decrease the fair value of these forward exchange contracts by $196,000.

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 $9.5 million with HSBC, as disclosed in note 8. At May 31, 2016 the remaining amount available to be drawn under this credit facility based on margin capacity is approximately $3.5 million.

In addition, EDC has provided a guarantee to May 31, 2017 of the Company's additional credit facility of U.S. $2,000,000 (November 30, 2015 - U.S. $900,000) for the support of performance guarantees provided by the Company's subsidiaries. At May 31, 2016 performance guarantees totaling $85,089 (November 30, 2015 - $101,762) 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 May 31, 2016 the Canadian dollar value of these performance guarantees totaled $920,288 (November 30, 2015 - $1,192,395). The Company has also provided a guarantee, proportionate to its shareholding in XPCT, in the amount of 10.0 million yuan or $2.0 million (November 30, 2015 - 10.0 million yuan or $2.1 million) for 50% of a bank loan to XPCT.

17. Commitments:

The Company leases land and building under an operating lease expiring on April 14, 2023. The lease includes options to renew for up to an additional 10 years. Contractual lease obligations comprised of base rent and operating costs for the next five years and thereafter 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		1,083,236
	$	3,978,236

Operating lease expense was $144,750 and $289,500 for the three and six months ended May 31, 2016 respectively (2015 - $144,750 and $289,500).

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.

Three months ended May 31, 2016	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue					
Contracted projects	$ 6,589,923	$ 833,362	$ 25,524	$ —	$ 7,448,809
Service	3,743,104	344,375	84,107	—	4,171,586
Product sales	3,523,057	177,141	2,830	(38,751)	3,664,277
	13,856,084	1,354,878	112,461	(38,751)	15,284,672
Cost of goods sold	9,605,040	903,152	78,712	(42,868)	10,544,036
	4,251,044	451,726	33,749	4,117	4,740,636
Administrative and marketing expenses	2,586,618	553,483	153,096	(92,511)	3,200,686
Research and development, net	574,626	24,961	—	—	599,587
Financing costs, net	342,683	38,447	(3,867)	—	377,263
Other expense (income)	(88,980)	(17,768)	(2,196)	92,511	(16,433)
XPCT earnings	(5,461)	—	—	—	(5,461)
Earnings (loss) before income taxes	841,558	(147,397)	(113,284)	4,117	584,994
Income tax expense (recovery)	245,694	(29,529)	—	823	216,988
Net earnings (loss)	$ 595,864	$ (117,868)	$ (113,284)	$ 3,294	$ 368,006

18. Segmented information - continued:

Three months ended May 31, 2015	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue					
Contracted projects	$ 4,946,884	$ 1,240,380	$ 39,966	$ —	$ 6,227,230
Service	4,242,767	687,416	123,127	—	5,053,310
Product sales	1,756,760	124,128	11,872	(209,415)	1,683,345
	10,946,411	2,051,924	174,965	(209,415)	12,963,885
Cost of goods sold	7,053,025	1,611,383	92,081	(181,749)	8,574,740
	3,893,386	440,541	82,884	(27,666)	4,389,145
Administrative and marketing expenses	2,274,047	690,987	197,993	(87,678)	3,075,349
Research and development, net	484,295	27,706	—	—	512,001
Financing costs, net	49,693	265,591	6,559	—	321,843
Other expense (income)	(83,000)	(11,756)	(657)	87,678	(7,735)
XPCT loss	2,778	—	—	—	2,778
Earnings (loss) before income taxes	1,165,573	(531,987)	(121,011)	(27,666)	484,909
Income tax expense (recovery)	290,558	(137,565)	—	(5,533)	147,460
Net earnings (loss)	$ 875,015	$ (394,422)	$ (121,011)	$ (22,133)	$ 337,449

18. Segmented information - continued:

Six months ended May 31, 2016	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue					
Contracted projects	$ 13,868,381	$ 2,018,387	$ 56,421	$ —	$ 15,943,189
Service	7,917,210	758,865	161,117	—	8,837,192
Product sales	5,061,439	562,028	52,133	(272,922)	5,402,678
	26,847,030	3,339,280	269,671	(272,922)	30,183,059
Cost of goods sold	18,709,567	2,288,712	181,507	(286,630)	20,893,156
	8,137,463	1,050,568	88,164	13,708	9,289,903
Administrative and marketing expenses	5,006,243	1,294,611	331,457	(189,770)	6,442,541
Research and development, net	1,024,114	70,711	—	—	1,094,825
Financing costs, net	445,180	227,152	925	—	673,257
Other expense (income)	(181,892)	(26,715)	(2,196)	189,770	(21,033)
XPCT earnings	(124,693)	—	—	—	(124,693)
Earnings (loss) before income taxes	1,968,511	(515,191)	(242,022)	13,708	1,225,006
Income tax expense (recovery)	514,967	(117,508)	—	2,741	400,200
Net earnings (loss)	$ 1,453,544	$ (397,683)	$ (242,022)	$ 10,967	$ 824,806
Current assets	$ 20,999,448	$ 7,576,481	$ 1,889,238	$ (191,504)	$ 30,273,663
Investment in XPCT	6,658,674	—	—	—	6,658,674
Other non-current assets	16,891,140	954,034	—	(11,432,608)	6,412,566
Total assets	$ 44,549,262	$ 8,530,515	$ 1,889,238	$ (11,624,112)	$ 43,344,903
Total liabilities	$ 17,163,509	$ 4,068,835	$ 8,562,072	$ (9,763,685)	$ 20,030,731
Additions to property, plant and equipment	$ 440,178	$ 33,181	$ —	$ —	$ 473,359
Additions to intangible assets	$ 45,621	$ —	$ —	$ —	$ 45,621

18. Segmented information - continued:

Six months ended May 31, 2015	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue					
Contracted projects	$ 8,882,370	$ 3,072,902	$ 264,753	$ —	$ 12,220,025
Service	6,461,449	1,041,315	237,131	—	7,739,895
Product sales	3,790,243	255,150	17,724	(362,337)	3,700,780
	19,134,062	4,369,367	519,608	(362,337)	23,660,700
Cost of goods sold	12,509,431	3,506,407	321,956	(334,421)	16,003,373
	6,624,631	862,960	197,652	(27,916)	7,657,327
Administrative and marketing expenses	4,542,856	1,347,720	365,055	(181,317)	6,074,314
Research and development, net	842,841	44,392	—	—	887,233
Financing costs, net	29,076	269,829	7,800	—	306,705
Other expense (income)	(182,879)	(17,137)	(657)	181,317	(19,356)
XPCT earnings	(73,528)	—	—	—	(73,528)
Earnings (loss) before income taxes	1,466,265	(781,844)	(174,546)	(27,916)	481,959
Income tax expense (recovery)	372,914	(179,499)	—	(5,583)	187,832
Net earnings (loss)	$ 1,093,351	$ (602,345)	$ (174,546)	$ (22,333)	$ 294,127
Current assets	$ 16,429,293	$ 8,054,424	$ 2,863,583	$ (171,041)	$ 27,176,259
Investment in XPCT	6,640,848	—	—	—	6,640,848
Other non-current assets	15,194,886	1,038,230	—	(10,601,231)	5,631,885
Total assets	$ 38,265,027	$ 9,092,654	$ 2,863,583	$ (10,772,272)	$ 39,448,992
Total liabilities	$ 14,717,307	$ 4,270,526	$ 8,780,083	$ (8,874,571)	$ 18,893,345
Additions to property, plant and equipment	$ 243,048	$ 52,115	$ —	$ —	$ 295,163
Additions to Intangibles	$ —	$ —	$ —	$ —	$ —

18. Segmented information - continued:

Revenue from external customers by geographic area is as follows:

	Three months ended		Six months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
United States	$ 11,119,940	$ 9,017,743	$ 22,620,597	$ 15,840,038
Chile	840,803	716,979	2,308,592	1,471,098
Thailand	842,069	473,696	1,264,820	473,696
Canada	697,671	760,608	1,183,541	1,231,894
Mexico	157,929	702,084	597,560	1,398,627
Paraguay	358,628	585,653	441,444	1,394,532
Republic of Korea	263,571	55,680	409,694	136,411
India	112,461	174,965	269,671	519,608
Other	891,600	476,477	1,087,140	1,194,796
	$ 15,284,672	$ 12,963,885	$ 30,183,059	$ 23,660,700

Other non-current assets by geographic area, excluding equity investment in XPCT, investment tax credits recoverable and deferred tax assets, are as follows:

	May 31, 2016	May 31, 2015
Canada	$ 936,812	$ 589,332
United States	1,702,706	905,099
Chile	423,825	481,449
	$ 3,063,343	$ 1,975,880

19. Statements of cash flows:

Changes in non-cash working capital

	Three months ended		Six months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Accounts receivable	$ (1,080,854)	$ 2,808,074	$ (571,084)	$ 2,098,786
Unbilled revenue	(203,555)	(1,367,857)	326,462	(1,101,928)
Inventories	351,306	(911,542)	(782,072)	(1,676,699)
Prepaid expenses and deposits	(191,342)	(354,541)	(264,114)	(884,072)
Accounts payable and accrued liabilities	(62,036)	471,832	(1,153,944)	502,681
Deferred revenue	407,586	(294,750)	330,747	1,589,260
	$ (778,895)	$ 351,216	$ (2,114,005)	$ 528,028

20. Related party transactions:

These interim condensed consolidated financial statements include the accounts of International Road Dynamics Inc. and its wholly-owned subsidiaries. Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions and balances with the Company's joint venture XPCT, which is also a related party, are disclosed in note 7.

Key management personnel and directors' compensation:

In addition to salaries and benefits, executive officers participate in the share option program (see note 11(c)). 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. Certain executive officers are employed through corporate entities.

Key management and directors' compensation includes:

	Three months ended		Six months ended	
	May 31, 2016	May 31, 2015	May 31, 2016	May 31, 2015
Executive officers' compensation				
Wages and salaries	$ 255,583	$ 248,688	$ 509,398	$ 493,897
Statutory and other benefits	3,104	2,828	5,998	5,656
Contributions to defined contribution plans	13,902	13,583	27,727	26,777
Share-based compensation	2,391	8,539	4,782	12,055
	274,980	273,638	547,905	538,385
Directors' compensation	36,250	28,500	74,000	64,500
	$ 311,230	$ 302,138	$ 621,905	$ 602,885

21. Comparative figures:

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