INTERNATIONAL ROAD DYNAMICS INC.

Unaudited Interim Condensed Consolidated Financial Statements

Three and nine months ended August 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	August 31, 2016	November 30, 2015
Assets			
Current assets:			
Cash		$ 3,109,755	$ 1,833,703
Accounts receivable		11,169,557	11,207,440
Embedded derivatives		331,289	481,689
Unbilled revenue		7,886,989	6,134,832
Income taxes receivable		—	160,391
Inventories	4	7,259,631	7,088,400
Prepaid expenses and deposits		2,544,937	1,982,379
		32,302,158	28,888,834
Property, plant and equipment	5	2,968,231	2,395,445
Intangible assets	6	415,676	403,706
Investment in XPCT	7	6,650,138	6,879,528
Investment tax credits recoverable		1,299,697	1,826,529
Deferred tax assets		1,567,758	1,365,696
		12,901,500	12,870,904
		$ 45,203,658	$ 41,759,738
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	8	$ 3,787,513	$ 3,959,768
Accounts payable and accrued liabilities		9,329,872	8,948,729
Income taxes payable		242,182	—
Current portion of deferred revenue		5,536,157	4,550,550
Current portion of long-term debt	9	128,572	128,572
		19,024,296	17,587,619
Deferred revenue		801,150	824,666
Long-term debt	9	546,427	642,856
		1,347,577	1,467,522
Shareholders' equity:			
Share capital	11(b)	12,379,844	12,219,737
Contributed surplus		311,196	315,733
Retained earnings		11,325,664	9,090,633
Accumulated other comprehensive income		815,081	1,078,494
		24,831,785	22,704,597
		$ 45,203,658	$ 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 August 31, 2016	Three Months Ended August 31, 2015	Nine Months Ended August 31, 2016	Nine Months Ended August 31, 2015
Revenue		$ 18,256,282	$ 18,085,508	$ 48,439,341	$ 41,746,208
Cost of goods sold		11,794,273	13,115,081	32,687,429	29,118,454
		6,462,009	4,970,427	15,751,912	12,627,754
Administrative and marketing expenses		3,591,504	3,737,118	10,034,045	9,811,432
Research and development, net	12	840,178	298,476	1,935,003	1,185,709
Financing costs (income), net	15	152,570	(591,941)	825,827	(285,236)
Other income		(36,730)	(41,139)	(57,763)	(60,495)
XPCT earnings	7	(65,165)	(399,670)	(189,858)	(473,198)
Earnings before income taxes		1,979,652	1,967,583	3,204,658	2,449,542
Income tax expense	10	569,427	509,268	969,627	697,100
Net earnings		$ 1,410,225	$ 1,458,315	$ 2,235,031	$ 1,752,442
Earnings per share	14				
Basic		$ 0.10	$ 0.10	$ 0.15	$ 0.12
Diluted		$ 0.09	$ 0.10	$ 0.15	$ 0.12

Interim Condensed Consolidated Statements of Comprehensive Income

Unaudited

$ Canadian	Three Months Ended August 31, 2016	Three Months Ended August 31, 2015	Nine Months Ended August 31, 2016	Nine Months Ended August 31, 2015
Net earnings	$ 1,410,225	$ 1,458,315	$ 2,235,031	$ 1,752,442
Other comprehensive income (loss) which may be reclassified to net earnings:				
Exchange differences on translation of foreign operations	83,889	(123,559)	(263,413)	913,366
Total comprehensive income	$ 1,494,114	$ 1,334,756	$ 1,971,618	$ 2,665,808

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 nine months ended August 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)	48,806	(3,264)	—	—	45,542
Net earnings		—	—	1,752,442	—	1,752,442
Other comprehensive income:						
Exchange differences on translation of foreign operations		—	—	—	913,366	913,366
Share-based compensation	11(c)	—	16,257	—	—	16,257
Balance at August 31, 2015		$ 12,171,899	$ 316,283	$ 8,311,490	$ 1,102,056	$ 21,901,728
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)	160,107	(12,807)	—	—	147,300
Net earnings		—	—	2,235,031	—	2,235,031
Other comprehensive loss:						
Exchange differences on translation of foreign operations		—	—	—	(263,413)	(263,413)
Share-based compensation	11(c)	—	8,270	—	—	8,270
Balance at August 31, 2016		$ 12,379,844	$ 311,196	$ 11,325,664	$ 815,081	$ 24,831,785

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		Nine Months Ended	
		August 31,	August 31,	August 31,	August 31,
$ Canadian	Note	2016	2015	2016	2015
Cash flows from (used in):					
Operations:					
Net earnings		$ 1,410,225	$ 1,458,315	$ 2,235,031	$ 1,752,442
Adjustments for:					
Embedded derivatives		30,648	(90,866)	150,400	(41,838)
Depreciation and amortization expense	13(b)	139,311	125,881	386,624	449,218
Bad debt expense (recovery)	16	(3,145)	100,968	50,762	62,727
Share-based compensation	11(c)	3,024	3,033	8,270	16,257
XPCT earnings	7	(65,165)	(399,670)	(189,858)	(473,198)
Interest expense	15	56,548	94,929	217,136	306,913
Loss (gain) on disposal of property, plant and equipment		17,621	(15,889)	13,542	(20,649)
Investment tax credits earned	12	(45,000)	(145,000)	(244,355)	(235,000)
Income tax expense		569,427	509,268	969,627	697,100
		2,113,494	1,640,969	3,597,179	2,513,972
Changes in non-cash working capital	19	1,067,667	(4,173,459)	(1,046,338)	(3,645,431)
Income tax paid (recovered)		(75,094)	(28,289)	35,407	142,979
Interest paid		(66,799)	(98,043)	(220,977)	(309,718)
		3,039,268	(2,658,822)	2,365,271	(1,298,198)
Investing:					
Proceeds from sale of property, plant and equipment		16,500	40,173	24,254	81,346
Additions to property, plant and equipment	5	(464,214)	(301,956)	(937,573)	(597,118)
Additions to intangibles, net	6	10,851	—	(34,770)	—
		(436,863)	(261,783)	(948,089)	(515,772)
Financing:					
Bank indebtedness increase (decrease)	8	(1,766,106)	2,304,539	(172,255)	1,452,467
Long-term debt repayment	9	(32,143)	(32,143)	(96,429)	(96,429)
Issuance of capital stock	11(b)	20,475	8,292	147,300	45,542
		(1,777,774)	2,280,688	(121,384)	1,401,580
Increase (decrease) in cash		824,631	(639,917)	1,295,798	(412,390)
Exchange rate changes on foreign currency cash balances		80,494	(54,088)	(19,746)	32,235
Cash, beginning of period		2,204,630	1,713,182	1,833,703	1,399,332
Cash, end of period		$ 3,109,755	$ 1,019,177	$ 3,109,755	$ 1,019,177

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 nine months ended August 31, 2016 and August 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 October 12, 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 August 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:

	August 31, 2016	November 30, 2015
Raw materials	$ 410,571	$ 538,763
Original equipment manufacturer materials	3,709,989	3,427,726
Work in process	1,546,630	1,413,583
Finished goods	1,592,441	1,708,328
	$ 7,259,631	$ 7,088,400

Inventories expensed within cost of goods sold were $5,633,348 and $14,777,116 for the three and nine months ended August 31, 2016 respectively (2015 - $4,340,242 and $15,502,636). The Company also recorded an incremental provision for excess and obsolete inventories within cost of goods sold of $75,264 and $113,264 for the three and nine months ended August 31, 2016 (2015 - $nil and $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	33,877	3,153	460,825	348,669	83,456	7,593	937,573
Disposals	—	—	—	(98,470)	—	—	(98,470)
Effect of movements in exchange rates	5,783	(5,042)	4,010	11,574	(1,549)	298	15,074
Balance at August 31, 2016	$ 343,646	$ 1,019,666	$ 4,077,551	$ 1,964,564	$ 2,610,329	$ 1,320,058	$ 11,335,814
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	12,761	11,720	19,841	239,100	78,536	4,469	366,427
Disposals	—	—	—	(87,757)	—	—	(87,757)
Effect of movements in exchange rates	1,013	(5,318)	4,397	4,671	(2,340)	298	2,721
Balance at August 31, 2016	$ 72,856	$ 980,016	$ 2,708,669	$ 989,410	$ 2,303,308	$ 1,313,324	$ 8,367,583
Carrying Amounts							
Balance at November 30, 2015	$ 244,904	$ 47,941	$ 928,285	$ 869,395	$ 301,310	$ 3,610	$ 2,395,445
Balance at August 31, 2016	$ 270,790	$ 39,650	$ 1,368,882	$ 975,154	$ 307,021	$ 6,734	$ 2,968,231

Operations equipment includes assets under construction of $1,337,491 (November 30, 2015 - $880,261).

6. Intangible Assets:

As at August 31, 2016 the Company had intangible assets with a net book value of $415,676 (November 30, 2015 - $403,706). Additions to intangible assets were $34,770 for the nine months ended August 31, 2016 (2015 - $nil). Amortization expense was $22,800 for the same respective period (2015 - $1,586).

7. Investment in XPCT:

	Three Months Ended		Nine Months Ended		Year ended
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015	November 30, 2015
Xuzhou-PAT Control Technologies Limited (XPCT)					
Balance, beginning of period	$ 6,658,674	$ 6,640,848	$ 6,879,528	$ 6,005,724	$ 6,005,724
Currency gain (loss) on financial statement translation	(73,701)	100,153	(419,248)	661,749	741,291
Company's share of earnings	65,165	399,670	189,858	473,198	444,705
Dividend received	—	—	—	—	(312,192)
Balance, end of period	$ 6,650,138	$ 7,140,671	$ 6,650,138	$ 7,140,671	$ 6,879,528

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

8. Bank indebtedness:

	August 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%	$ 1,638,580	$ 875,034
HSBC Bank Canada - borrowing in U.S. dollars with interest at U.S. bank base rate plus 1.5%	2,148,933	3,084,734
	$ 3,787,513	$ 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 August 31, 2016 approximately $5.2 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 August 31, 2016 of $36.4 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 August 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:

		August 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	$	674,999	$	771,428
Less current portion		128,572		128,572
	$	546,427	$	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 Export Development Canada (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 August 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.

For the nine months ended August 31, 2016 the Company has recorded estimated income taxes payable in each of the Canada and United States and Latin America and Mexico business segments based on statutory rates applicable to those jurisdictions, adjusted for non-taxable or non-deductible items and net of applied investment tax credit balances available to offset income taxes otherwise payable. 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:

	Nine Months Ended			
	August 31, 2016		August 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	362,500	141,675	116,667	36,167
Shares issued for directors' compensation	3,798	5,625	9,923	9,375
Adjustment from contributed surplus	—	12,807	—	3,264
Balance, end of period	14,764,760	$ 12,379,844	14,275,760	$ 12,171,899

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 August 31, 2016, 194,976 (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 August 31, 2016, the following stock options to officers, employees and others were outstanding:

	Options Outstanding			Options Exercisable	
Exercise Prices ($)	Number Outstanding at August 31, 2016	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price ($)	Number Exercisable at August 31, 2016	Weighted-Average Exercise Price ($)
0.31	210,000	0.16	0.31	210,000	0.31
0.43	36,500	1.19	0.43	36,500	0.43
0.63	200,000	2.11	0.63	133,333	0.63
0.72	250,000	3.25	0.72	166,666	0.72
1.00	30,000	3.72	1.00	20,000	1.00
1.20	525,000	2.50	1.20	525,000	1.20
1.89	30,000	4.92	1.89	—	1.89
	1,281,500	2.25	0.86	1,091,499	0.86

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	(362,500)	0.39
Options granted	30,000	1.89
Outstanding, August 31, 2016	1,281,500	$ 0.86

The weighted average market price of common shares issued during the period on exercise of stock options was $1.49. Outstanding options expire between October 26, 2016 and July 31, 2021.

Share-based compensation expense was $3,024 and $8,270 for the three and nine months ended August 31, 2016 respectively (2015 - $3,033 and $16,257) along with a corresponding increase in contributed surplus in shareholders' equity.

11. Share capital - continued:

The inputs used in the measurement of the fair values at grant date of the stock options granted during the period were as follows:

	August 2016
Number of options granted	30,000
Average strike price	$ 1.89
Expected volatility	75%
Risk-free interest rate	0.6%
Expected life of option	3 years
Weighted average grant date fair values	$ 0.91

12. Research and development, net:

	Three Months Ended		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Research and development expenditures	$ 965,336	$ 477,680	$ 2,438,574	$ 1,454,913
Less:				
Government grants earned	(80,158)	(34,204)	(259,216)	(34,204)
Investment tax credits	(45,000)	(145,000)	(244,355)	(235,000)
	$ 840,178	$ 298,476	$ 1,935,003	$ 1,185,709

13. Expense classification:

(a) Personnel expenses:

		Three Months Ended		Nine Months Ended	
	Note	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Wages and salaries		$ 4,748,042	$ 4,293,625	$ 13,024,886	$ 11,490,768
Statutory benefits		195,558	227,913	684,257	670,287
Other employment benefits		233,100	178,809	652,138	532,608
Defined contribution plan		85,824	80,554	252,901	231,494
Share-based compensation	11(c)	3,024	3,033	8,270	16,257
		$ 5,265,548	$ 4,783,934	$ 14,622,452	$ 12,941,414

13. Expense classification - continued:

(b) Depreciation and amortization expense:

	Three Months Ended		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Depreciation on property, plant and equipment	$ 132,745	$ 125,246	$ 366,427	$ 441,762
Add: Depreciation in opening inventory	12,954	9,169	10,936	14,932
Less: Depreciation in closing inventory	(13,539)	(9,062)	(13,539)	(9,062)
Depreciation expense	$ 132,160	$ 125,353	$ 363,824	$ 447,632
Depreciation expense is allocated as follows:				
Cost of goods sold	$ 96,286	$ 89,011	$ 264,562	$ 339,078
Administration and marketing expenses	35,874	36,342	99,262	108,554
	132,160	125,353	363,824	447,632
Amortization on intangibles included in cost of goods sold	7,151	528	22,800	1,586
Depreciation and amortization expense	$ 139,311	$ 125,881	$ 386,624	$ 449,218

14. Earnings per share:

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

	Three Months Ended		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Net earnings	$ 1,410,225	$ 1,458,315	$ 2,235,031	$ 1,752,442
Weighted average number of common shares outstanding:				
Basic	14,724,278	14,263,050	14,615,146	14,229,105
Effect of stock options	692,604	604,493	570,382	573,435
Diluted	15,416,882	14,867,543	15,185,528	14,802,540
Earnings per share:				
Basic	$ 0.10	$ 0.10	$ 0.15	$ 0.12
Diluted	$ 0.09	$ 0.10	$ 0.15	$ 0.12

As disclosed in note 11(c) the Company has stock options outstanding to purchase 1,281,500 common shares at August 31, 2016 (2015 - 1,732,500).

15. Financing costs (income), net:

	Three Months Ended		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Interest on bank indebtedness	$ 51,016	$ 88,281	$ 199,895	$ 285,399
Interest on long-term debt	5,532	6,648	17,241	21,514
Foreign exchange losses (gains)	96,022	(686,870)	608,691	(592,149)
	$ 152,570	$ (591,941)	$ 825,827	$ (285,236)

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.

16. Financial instruments and related risk (continued):

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.

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. Accounts receivable credit risk for certain customers in the other business segments is higher due to a change in the financial stability of these customers. As at August 31, 2016 the Company had unsecured trade receivables net of allowance for doubtful accounts of $2.7 million (November 30, 2015 - $3.3 million). The decrease is due primarily to collections received in India during the year.

The aging 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		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Balance, beginning of period	$ 2,450,347	$ 1,830,495	$ 2,519,978	$ 1,759,789
Bad debt expense (recovery)	(3,145)	100,968	50,762	62,727
Direct recoveries (write offs)	175	25,786	(45,373)	42,418
Foreign currency revaluation	3,709	41,007	(74,281)	133,322
Balance, end of period	$ 2,451,086	$ 1,998,256	$ 2,451,086	$ 1,998,256

16. Financial instruments and related 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, 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.

During the nine months ended August 31, 2016 approximately 89% 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 7%. This resulted in an increase in the Canadian dollar value of the Company's U.S. dollar denominated sales by approximately $2.6 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 August 31, 2016 the Company had five forward exchange contracts of $500,000 each to sell U.S. dollars. These contracts mature over a five month period from September 15, 2016 to January 17, 2017 at an average exchange rate of 1.269. Based on U.S. dollar forward exchange rates at August 31, 2016 these contracts have a negative fair value of $101,197 which is recorded in accounts payable and accrued liabilities. 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 $164,000.

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. Letters of credit issued against this facility at August 31, 2016 were $60,000 (2015 - $nil) for performance guarantees on certain contracts. At August 31, 2016 the remaining amount available to be drawn under this credit facility based on margin capacity is approximately $5.2 million.

16. Financial instruments and related risk (continued):

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 August 31, 2016 performance guarantees totaling $85,086 (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 August 31, 2016 the Canadian dollar value of these performance guarantees totaled $420,801 (November 30, 2015 - $1,192,395). The Company has also provided a guarantee, proportionate to its shareholding in XPCT, in the amount of 8.5 million yuan or $1.7 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		938,514
	$	3,833,514

Operating lease expense was $144,750 and $434,250 for the three and nine months ended August 31, 2016 respectively (2015 - $144,750 and $434,250).

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 August 31, 2016	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue					
Contracted projects	$ 8,840,248	$ 358,196	$ 35,819	$ —	$ 9,234,263
Service	5,229,806	577,033	81,109	—	5,887,948
Product sales	2,262,860	978,089	16,768	(123,646)	3,134,071
	16,332,914	1,913,318	133,696	(123,646)	18,256,282
Cost of goods sold	11,078,993	728,307	128,616	(141,643)	11,794,273
	5,253,921	1,185,011	5,080	17,997	6,462,009
Administrative and marketing expenses	2,997,736	563,109	123,014	(92,355)	3,591,504
Research and development, net	823,503	16,675	—	—	840,178
Financing costs (income), net	59,481	93,290	(201)	—	152,570
Other expense (income)	(107,660)	(4,275)	(17,150)	92,355	(36,730)
XPCT earnings	(65,165)	—	—	—	(65,165)
Earnings (loss) before income taxes	1,546,026	516,212	(100,583)	17,997	1,979,652
Income tax expense	461,943	102,608	—	4,876	569,427
Net earnings (loss)	$ 1,084,083	$ 413,604	$ (100,583)	$ 13,121	$ 1,410,225

18. Segmented information - continued:

Three Months Ended August 31, 2015	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue					
Contracted projects	$ 7,617,011	$ 1,934,954	$ 17,762	$ —	$ 9,569,727
Service	3,935,296	308,698	201,211	—	4,445,205
Product sales	3,900,448	538,803	7,425	(376,100)	4,070,576
	15,452,755	2,782,455	226,398	(376,100)	18,085,508
Cost of goods sold	11,419,489	2,015,784	75,240	(395,432)	13,115,081
	4,033,266	766,671	151,158	19,332	4,970,427
Administrative and marketing expenses	2,734,565	812,674	282,518	(92,639)	3,737,118
Research and development, net	268,550	29,926	—	—	298,476
Financing costs, net	(175,928)	(423,461)	7,448	—	(591,941)
Other expense (income)	(96,351)	(15,805)	(21,622)	92,639	(41,139)
XPCT earnings	(399,670)	—	—	—	(399,670)
Earnings (loss) before income taxes	1,702,100	363,337	(117,186)	19,332	1,967,583
Income tax expense	418,510	86,892	—	3,866	509,268
Net earnings (loss)	$ 1,283,590	$ 276,445	$ (117,186)	$ 15,466	$ 1,458,315

18. Segmented information - continued:

Nine Months Ended August 31, 2016	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue					
Contracted projects	$ 22,708,629	$ 2,376,583	$ 92,240	$ —	$ 25,177,452
Service	13,147,016	1,335,898	242,226	—	14,725,140
Product sales	7,324,299	1,540,117	68,901	(396,568)	8,536,749
	43,179,944	5,252,598	403,367	(396,568)	48,439,341
Cost of goods sold	29,788,560	3,017,019	310,123	(428,273)	32,687,429
	13,391,384	2,235,579	93,244	31,705	15,751,912
Administrative and marketing expenses	8,003,979	1,857,720	454,471	(282,125)	10,034,045
Research and development, net	1,847,617	87,386	—	—	1,935,003
Financing costs, net	504,661	320,442	724	—	825,827
Other expense (income)	(289,552)	(30,990)	(19,346)	282,125	(57,763)
XPCT earnings	(189,858)	—	—	—	(189,858)
Earnings (loss) before income taxes	3,514,537	1,021	(342,605)	31,705	3,204,658
Income tax expense (recovery)	976,910	(14,900)	—	7,617	969,627
Net earnings (loss)	$ 2,537,627	$ 15,921	$ (342,605)	$ 24,088	$ 2,235,031
Current assets	$ 22,342,026	$ 8,233,722	$1,791,021	$ (64,611)	$ 32,302,158
Investment in XPCT	6,650,138	—	—	—	6,650,138
Other non-current assets	16,708,052	1,059,541	—	(11,516,231)	6,251,362
Total assets	$ 45,700,216	$ 9,293,263	$1,791,021	$ (11,580,842)	$ 45,203,658
Total liabilities	$ 17,338,328	$ 4,260,262	$8,504,565	$ (9,731,282)	$ 20,371,873
Additions to property, plant and equipment	$ 904,015	$ 33,558	$ —	$ —	$ 937,573
Additions to intangible assets	$ 34,770	$ —	$ —	$ —	$ 34,770

18. Segmented information - continued:

Nine Months Ended August 31, 2015	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue					
Contracted projects	$ 16,499,381	$ 5,007,856	$ 282,515	$ —	$ 21,789,752
Service	10,396,745	1,350,013	438,342	—	12,185,100
Product sales	7,690,691	793,953	25,149	(738,437)	7,771,356
	34,586,817	7,151,822	746,006	(738,437)	41,746,208
Cost of goods sold	23,928,920	5,522,191	397,196	(729,853)	29,118,454
	10,657,897	1,629,631	348,810	(8,584)	12,627,754
Administrative and marketing expenses	7,277,421	2,160,394	647,573	(273,956)	9,811,432
Research and development, net	1,111,391	74,318	—	—	1,185,709
Financing costs, net	(146,852)	(153,632)	15,248	—	(285,236)
Other expense (income)	(279,230)	(32,942)	(22,279)	273,956	(60,495)
XPCT earnings	(473,198)	—	—	—	(473,198)
Earnings (loss) before income taxes	3,168,365	(418,507)	(291,732)	(8,584)	2,449,542
Income tax expense (recovery)	791,424	(92,607)	—	(1,717)	697,100
Net earnings (loss)	$ 2,376,941	$ (325,900)	$ (291,732)	$ (6,867)	$ 1,752,442
Current assets	$ 22,263,193	$ 8,201,842	$2,727,122	$ (74,341)	$ 33,117,816
Investment in XPCT	7,140,671	—	—	—	7,140,671
Other non-current assets	15,730,331	1,032,282	—	(10,923,720)	5,838,893
Total assets	$ 45,134,195	$ 9,234,124	$2,727,122	$ (10,998,061)	$ 46,097,380
Total liabilities	$ 20,257,262	$ 4,403,289	$8,656,782	$ (9,121,681)	$ 24,195,652
Additions to property, plant and equipment	$ 469,843	$ 127,274	$ —	$ —	$ 597,118
Additions to Intangibles	$ —	$ —	$ —	$ —	$ —

18. Segmented information - continued:

Revenue from external customers by geographic area is as follows:

	Three Months Ended		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
United States	$ 14,752,327	$ 12,792,422	$ 37,372,924	$ 28,632,458
Chile	609,308	464,518	2,917,900	1,935,617
Canada	588,800	401,682	1,772,341	1,633,575
Paraguay	1,158,562	576,980	1,600,006	1,971,512
Thailand	125,259	690,930	1,390,079	1,164,627
Republic of Korea	368,298	241,217	777,992	377,628
Mexico	154,489	1,326,721	752,049	2,725,348
India	133,696	226,398	403,367	746,006
Other	365,543	1,364,640	1,452,683	2,559,437
	$ 18,256,282	$ 18,085,508	$ 48,439,341	$ 41,746,208

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

	August 31, 2016	August 31, 2015
Canada	$ 992,002	$ 570,267
United States	1,977,901	1,049,113
Chile	414,004	482,841
	$ 3,383,907	$ 2,102,221

19. Statements of cash flows:

Changes in non-cash working capital

	Three Months Ended		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Accounts receivable	$ 628,659	$ (5,192,415)	$ 57,575	$ (3,093,629)
Unbilled revenue	(2,064,918)	(1,900,068)	(1,738,456)	(3,001,996)
Inventories	627,948	626,856	(154,124)	(1,049,843)
Prepaid expenses and deposits	(284,573)	(292,800)	(548,687)	(1,176,872)
Accounts payable and accrued liabilities	1,517,574	2,763,607	363,630	3,266,288
Deferred revenue	642,977	(178,639)	973,724	1,410,621
	$ 1,067,667	$ (4,173,459)	$ (1,046,338)	$ (3,645,431)

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		Nine Months Ended	
	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Executive officers' compensation				
Wages and salaries	$ 755,583	$ 753,688	$ 1,264,981	$ 1,247,585
Statutory and other benefits	3,104	2,829	9,102	8,485
Contributions to defined contribution plans	13,902	13,583	41,629	40,360
Share-based compensation	2,391	2,680	7,173	14,735
	774,980	772,780	1,322,885	1,311,165
Directors' compensation	35,750	25,750	109,750	90,250
	$ 810,730	$ 798,530	$ 1,432,635	$ 1,401,415

21. Comparative figures:

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