

Consolidated Financial Statements of

INTERNATIONAL ROAD DYNAMICS INC.

Years ended November 30, 2013 and 2012

MANAGEMENT'S REPORT

To the Shareholders of International Road Dynamics Inc.

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

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

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

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

Terry Bergan
President and
Chief Executive Officer

David Cortens
Vice President Finance and
Chief Financial Officer

Saskatoon, Canada

February 21, 2014



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of International Road Dynamics Inc.

We have audited the accompanying consolidated financial statements of International Road Dynamics Inc., which comprise the consolidated statements of financial position as at November 30, 2013 and November 30, 2012, the consolidated statements of earnings, comprehensive income (loss), changes in shareholders' equity and cash flows for the years ended November 30, 2013 and November 30, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of International Road Dynamics Inc. as at November 30, 2013 and November 30, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended November 30, 2013 and November 30, 2012 in accordance with International Financial Reporting Standards.

Chartered Accountants

February 21, 2014
Saskatoon, Canada

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Financial Position

November 30, 2013 and 2012
(\$ Canadian)

	Note	2013	2012
Assets			
Current assets:			
Cash and cash equivalents		\$ 1,389,874	\$ 1,157,498
Accounts receivable	15	9,940,910	10,945,984
Unbilled revenue	15	3,192,468	3,739,866
Income taxes receivable		-	49,397
Inventories	4	5,822,522	5,913,184
Prepaid expenses and deposits		958,776	643,509
		21,304,550	22,449,438
Property, plant and equipment	5	1,836,403	1,575,860
Investment in XPCT	6	5,434,735	4,875,618
Investment tax credits recoverable	8	2,450,023	2,837,134
Deferred taxes	8	1,072,344	827,184
		\$ 32,098,055	\$ 32,565,234
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	7	\$ 5,663,619	\$ 6,575,722
Accounts payable and accrued liabilities		5,267,320	6,138,825
Income taxes payable		341,501	-
Current portion of deferred revenue		2,382,839	2,731,648
		13,655,279	15,446,195
Deferred revenue		876,215	569,458
Shareholders' equity:			
Share capital	10	12,077,209	12,071,009
Contributed surplus		293,304	281,581
Retained earnings		5,186,945	4,274,898
Accumulated other comprehensive income (loss)		9,103	(77,907)
		17,566,561	16,549,581
		\$ 32,098,055	\$ 32,565,234

See accompanying notes to consolidated financial statements.

Approved by the Board:

Terry Bergan, Director (signed)

Ray Harris, Director (signed)

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Earnings (Loss)

Years ended November 30, 2013 and 2012
(\$ Canadian)

	Note	2013	2012
Revenue	9	\$ 43,645,728	\$ 41,577,313
Cost of goods sold		29,991,971	29,318,318
		13,653,757	12,258,995
Administrative and marketing expenses		10,986,065	10,764,001
Research and development, net	11	1,166,487	1,289,029
Financing costs	14	788,650	994,630
Other income		(129,368)	(60,293)
XPCT earnings	6	(885,399)	(378,507)
Earnings (loss) before income taxes		1,727,322	(349,865)
Income tax expense	8	815,275	297,593
Net earnings (loss)		\$ 912,047	\$ (647,458)
Earnings (loss) per share	13		
Basic		\$ 0.07	\$ (0.05)
Diluted		\$ 0.06	\$ (0.05)

Consolidated Statements of Comprehensive Income (Loss)

Years ended November 30, 2013 and 2012
(\$ Canadian)

	2013	2012
Net earnings (loss)	\$ 912,047	\$ (647,458)
Other comprehensive income (loss):		
Unrealized foreign currency translation gains (losses)	87,010	(38,798)
Total comprehensive income (loss)	\$ 999,057	\$ (686,256)

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

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

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 1, 2011		\$ 12,071,009	\$ 262,900	\$ 4,922,356	\$ (39,109)	\$ 17,217,156
Net loss		-	-	(647,458)	-	(647,458)
Other comprehensive income (loss):						
Exchange differences on translation of foreign operations		-	-	-	(38,798)	(38,798)
Share-based compensation	10(c)	-	18,681	-	-	18,681
Balance at November 30, 2012		\$ 12,071,009	\$ 281,581	\$ 4,274,898	\$ (77,907)	\$ 16,549,581
Balance at December 1, 2012		\$ 12,071,009	\$ 281,581	\$ 4,274,898	\$ (77,907)	\$ 16,549,581
Issuance of capital stock	10(b)	6,200	-	-	-	6,200
Net earnings		-	-	912,047	-	912,047
Other comprehensive income (loss):						
Exchange differences on translation of foreign operations		-	-	-	87,010	87,010
Share-based compensation	10(c)	-	11,723	-	-	11,723
Balance at November 30, 2013		\$ 12,077,209	\$ 293,304	\$ 5,186,945	\$ 9,103	\$ 17,566,561

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

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Cash Flows

Years ended November 30, 2013 and 2012
(\$ Canadian)

	Note	2013	2012
Cash flows from (used in):			
Operations:			
Net earnings (loss)		\$ 912,047	\$ (647,458)
Adjustments for:			
Deferred revenue		(42,052)	644,289
Depreciation	12	553,659	631,416
Bad debt expense	15	731,973	381,301
Share-based compensation	10(a)	11,723	18,681
XPCT earnings	6	(885,399)	(378,507)
Interest expense	14	480,722	467,521
Gain on disposal of property, plant and equipment		(322)	(12,827)
Investment tax credits earned		(180,000)	(180,262)
Income tax expense	8	815,275	297,593
Income taxes paid		(104,532)	(43,190)
Other operating items	18	(549,308)	565,059
		<u>1,743,786</u>	<u>1,743,616</u>
Investing:			
Dividend received from XPCT	6	749,776	159,710
Proceeds from sale of property, plant and equipment		7,857	62,883
Additions to property, plant and equipment	5	(829,477)	(228,028)
		<u>(71,844)</u>	<u>(5,435)</u>
Financing:			
Interest paid		(480,722)	(467,521)
Bank indebtedness increase (decrease)		(912,103)	17,333
Issuance of capital stock	10(b)	6,200	-
Repayment of long-term debt		-	(1,081,867)
		<u>(1,386,625)</u>	<u>(1,532,055)</u>
Increase in cash and cash equivalents		285,317	206,126
Exchange rate changes on foreign currency cash balances		(52,941)	34,211
Cash and cash equivalents, beginning of period		1,157,498	917,161
Cash and cash equivalents, end of period		<u>\$ 1,389,874</u>	<u>\$ 1,157,498</u>

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

(\$ Canadian, except as noted)

1. Reporting entity

International Road Dynamics Inc. is incorporated under the *Canada Business Corporations Act*. The address of its registered office is 702 43rd Street East, Saskatoon, Saskatchewan, Canada, S7K 3T9. The consolidated financial statements as at and for the years ended November 30, 2013 and 2012 comprise International Road Dynamics Inc. and its wholly-owned subsidiaries (together the "Company") and the Company's 50% investment in Xuzhou-PAT Control Technologies Limited ("XPCT"). The Company is a highway traffic management technology company specializing in supplying products and integrated systems to the global Intelligent Transportation Systems (ITS) industry. The Company's common shares are traded on the Toronto Stock Exchange under the symbol IRD.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements were authorized for issue by the Board of Directors on February 21, 2014.

(b) Basis of presentation

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

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

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

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

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 long-lived assets

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

In assessing recoverability of long-lived assets, judgment is required in the determination of either, the appropriate grouping of assets that generate cash inflows or the cash-generating units (CGUs). The determination of CGUs is based on management's assessment of independence of revenue earned, operating asset utilization, shared infrastructure, geographic proximity and similarity of risk exposures.

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

(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 refundable or 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.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

2. Basis of preparation – continued:

- (v) Functional currency

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

3. Significant accounting policies:

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

(a) Basis of consolidation

- (i) Subsidiaries

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

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

- (ii) Equity accounted investments

Investments over which the Company is able to exercise significant influence are accounted for using the equity method whereby the investments are initially recorded at cost. The investments are increased or decreased to reflect the Company's proportionate share of the earnings or losses and equity movements of the investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

The Company has one equity accounted investment in Xuzhou-PAT Control Technologies Limited (XPCT).

- (iii) Transactions eliminated on consolidation

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

3. Significant accounting policies - continued:

(b) Foreign currency

(i) Foreign currency transactions

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

(ii) Foreign operations

The functional currency of the Company's subsidiary in Chile - PAT Traffic Limitada is the Chilean peso and the functional currency of its subsidiary in India - International Road Dynamics South Asia Pvt. Ltd. is the Indian rupee. All assets and liabilities are translated to Canadian dollars at exchange rates in effect at the financial reporting date and all revenue and expenses are translated into Canadian dollars using the average monthly rate of exchange of the date of the transactions. Exchange gains and losses arising from this translation, representing the net unrealized foreign currency translation gain (loss) on the Company's investment, are recorded in accumulated other comprehensive income (loss).

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

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

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

3. Significant accounting policies - continued:

(c) Revenue recognition

(i) Contracted projects

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

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

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

(ii) Product sales

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

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

(iii) Services

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

3. Significant accounting policies - continued:

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

(d) Financial instruments

(i) Financial assets

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

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

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

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

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

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

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

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

Accounts receivable and unbilled revenue are classified as "loans and receivables".

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

3. Significant accounting policies - continued:

(ii) Financial liabilities

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

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

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

(iii) Share capital

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

(iv) Derivative financial instruments

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

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

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

(e) Inventories

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

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

3. Significant accounting policies - continued:

(f) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs (for self-constructed assets capitalized subsequent to December 1, 2010) and any other costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in a manner intended by management.

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

(ii) Depreciation

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

(g) Leased assets

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

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

(h) Impairment

(i) Financial assets

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

3. Significant accounting policies - continued:

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

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

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

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

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

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

3. Significant accounting policies - continued:

(i) Research and development costs:

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

(j) Employee benefits

(i) Share-based compensation

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

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

(ii) Short-term employee benefits

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

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

(k) Provisions

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

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

3. Significant accounting policies - continued:

(l) Financing costs

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

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

(m) Income tax

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

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

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

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

(n) Earnings (loss) per share

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

3. Significant accounting policies - continued:

(o) Segment reporting

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

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

(p) Recent Accounting Pronouncements

The following standards become effective for the Company beginning December 1, 2013:

- IFRS 10, Consolidated Financial Statements
- IFRS 11, Joint Arrangements
- IFRS 12, Disclosure of Interests in Other Entities

IFRS 10 provides a single model to be applied in the analysis of control for the purpose of consolidation. This new standard builds on the existing principles of control and elaborates on the definition of control when determining whether an entity should be consolidated. IFRS 11 focuses on the rights and obligations of an arrangement rather than its legal form to determine accounting for interests in jointly controlled entities. Joint ventures are now required to be accounted for using the equity method. IFRS 12 provides new disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), and associates. This new suite of consolidation and related standards are not expected to change accounting for the Company's subsidiaries or XPCT. The Company will provide required additional disclosure under IFRS 12 in its 2014 financial statements.

- IFRS 13, Fair Value Measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The adoption of this standard is not expected to have a material impact on the financial statements. The Company will provide required additional disclosures on fair valued items in its 2014 financial statements.

- Amendments to IFRS 7, Financial Instruments: Disclosures (Offsetting Financial Assets and Financial Liabilities)

Amendments to IFRS 7 provide disclosure requirements for financial assets and liabilities that are offset or subject to a master netting arrangement. Since the Company does not have offset arrangements, these amendments will not impact the financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

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4. Inventories:

	2013	2012
Raw materials	\$ 547,492	\$ 465,469
Original equipment manufacturer materials	2,601,904	3,123,395
Work in process	1,783,518	1,826,457
Finished goods	889,608	497,863
	<u>\$ 5,822,522</u>	<u>\$ 5,913,184</u>

During the year, inventories expensed within cost of goods sold were \$19,179,040 (2012 - \$19,405,527). The Company also recorded an incremental provision for excess and obsolete inventories within cost of goods sold of \$158,420 (2012 - \$576,341).

5. Property, plant and equipment:

	Land and buildings	Office equipment	Manufacturing equipment	Automotive equipment	Computer equipment	Computer software	Total
Cost							
Balance at							
December 1,							
2011	\$ 155,009	\$ 987,721	\$ 2,765,817	\$ 1,354,051	\$ 2,118,942	\$ 1,245,292	\$ 8,626,832
Additions	3,728	9,157	30,895	103,797	69,147	11,304	228,028
Disposals	-	(7,674)	-	(229,768)	-	-	(237,442)
Effect of movements							
in exchange rates	7,699	(20,040)	6,315	11,336	(10,207)	-	(4,897)
Balance at							
November 30, 2012	\$ 166,436	\$ 969,164	\$ 2,803,027	\$ 1,239,416	\$ 2,177,882	\$ 1,256,596	\$ 8,612,521
Additions	133,023	20,455	241,328	351,959	66,974	15,738	829,477
Disposals/other	-	-	(91,605)	(94,824)	-	-	(186,429)
Effect of movements							
in exchange rates	(7,310)	(13,692)	(4,447)	(11,209)	(12,890)	671	(48,877)
Balance at							
November 30, 2013	\$ 292,149	\$ 975,927	\$ 2,948,303	\$ 1,485,342	\$ 2,231,966	\$ 1,273,005	\$ 9,206,692

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

5. Property, plant and equipment - continued:

	Land and buildings	Office equipment	Manufacturing equipment	Automotive equipment	Computer equipment	Computer software	Total
Accumulated Depreciation							
Balance at							
December 1,							
2011	\$ 19,751	\$ 815,370	\$ 1,935,368	\$ 795,823	\$ 1,799,393	\$ 1,227,544	\$ 6,593,249
Additions	3,192	92,316	233,086	130,823	141,693	23,404	624,514
Disposals	-	-	-	(187,386)	-	-	(187,386)
Effect of movements							
in exchange rates	981	(13,124)	4,461	22,761	(8,795)	-	6,284
Balance at							
November 30, 2012	\$ 23,924	\$ 894,562	\$ 2,172,915	\$ 762,021	\$ 1,932,291	\$ 1,250,948	\$ 7,036,661
Additions	6,281	19,999	260,449	171,126	80,266	14,221	552,342
Disposals/other	-	-	(91,605)	(87,289)	-	-	(178,894)
Effect of movements							
in exchange rates	(999)	(13,241)	(5,513)	(9,589)	(10,447)	(31)	(39,820)
Balance at							
November 30, 2013	\$ 29,206	\$ 901,320	\$ 2,336,246	\$ 836,269	\$ 2,002,110	\$ 1,265,138	\$ 7,370,289
Carrying amounts							
At November 30,							
2012	\$ 142,512	\$ 74,602	\$ 630,112	\$ 477,395	\$ 245,591	\$ 5,648	\$ 1,575,860
At November 30,							
2013	\$ 262,943	\$ 74,607	\$ 612,057	\$ 649,073	\$ 229,856	\$ 7,867	\$ 1,836,403

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

6. Equity investment:

	2013	2012
Xuzhou-PAT Control Technologies Limited (XPCT)		
Balance, beginning of year	\$ 4,875,618	\$ 4,781,709
Currency gain (loss) on financial statement translation	423,494	(124,888)
Company's share of earnings	885,399	378,507
Dividends received	(749,776)	(159,710)
Balance, end of year	\$ 5,434,735	\$ 4,875,618

The Company had sales to XPCT of \$481,367 during the year (2012 - \$643,039). At November 30, 2013 accounts receivable from XPCT was \$120,550 (2012 - \$280,517).

Summary financial information for XPCT, reflecting the Company's 50% ownership interest is as follows:

	2013	2012
Current assets	\$ 7,629,274	\$ 6,960,725
Non-current assets including goodwill	2,232,301	2,200,779
Total assets	\$ 9,861,575	\$ 9,161,504
Current liabilities	4,426,840	4,285,886
Net investment	\$ 5,434,735	\$ 4,875,618

	2013	2012
Revenue	\$ 5,640,582	\$ 5,773,863
Expenses	4,596,662	5,296,699
	1,043,920	477,164
Income tax expense	158,521	98,657
Company's share of earnings	\$ 885,399	\$ 378,507

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

7. Bank indebtedness:

	2013	2012
Royal Bank of Canada credit facility. Authorized to a maximum of \$8.5 million with interest at bank prime plus 3.5% secured by a general security agreement.	\$ 4,850,041	\$ 5,705,699
The Hongkong and Shanghai Banking Corporation Limited credit facility. Authorized to a maximum equivalent of \$1.2 million (approximately 68.4 million Indian rupees), of which 47.7 million Indian rupees was drawn at November 30, 2013, with interest at 13.0% and secured by a standby letter of credit issued by HSBC Bank Canada and guaranteed by Export Development Canada.	813,578	-
HDFC Bank Limited credit facility. Authorized to a maximum of 46.7 million Indian rupees (approximately \$843,000), of which 46.6 million Indian Rupees was drawn at November 30, 2012, with interest at 12.3% and secured by a standby letter of credit issued by Royal Bank of Canada and guaranteed by Export Development Canada.	-	870,023
	\$ 5,663,619	\$ 6,575,722

The Company's demand facility with the Royal Bank of Canada ("RBC") is secured by a general security agreement on the assets of the Company held in Canada and the United States. Under the terms and conditions of this facility there were no financial covenants in effect. However, the Company is subject to certain financial reporting requirements.

The Company has an additional credit facility of \$1.25 million US that is guaranteed by Export Development Canada ("EDC") for the support of performance guarantees provided by the Company's subsidiaries. At November 30, 2013 performance guarantees totaling \$234,162 were outstanding (November 30, 2012 - \$459,362).

The Company entered into a new credit facility in January 2014 with HSBC Bank Canada ("HSBC") as described in note 20, replacing the credit facility with RBC.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

8. Income taxes:

Reconciliation of income tax expense:

Income tax expense attributable to earnings differs from the amounts computed by applying the Canadian statutory income tax rate of 27.0% (2012 – 27.1%) to earnings (loss) before income tax expense as a result of the following:

	2013	2012
Earnings (loss) before income taxes	\$ 1,727,322	\$ (349,865)
Computed "expected" tax expense (recovery)	466,000	(95,000)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	75,000	100,000
Manufacturing and processing deduction	(28,000)	-
XPCT earnings	(239,000)	(103,000)
Rate difference on foreign losses	(29,000)	(75,000)
Unrecognized loss carry forwards	494,000	427,000
Other	76,275	43,593
	\$ 815,275	\$ 297,593
	2013	2012
Income tax expense is comprised of:		
Current income taxes	\$ 1,068,401	\$ 506,221
Deferred income taxes	(253,126)	(208,628)
	\$ 815,275	\$ 297,593

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

8. Income taxes - continued:

Recognized deferred income tax assets (liabilities):

	November 30, 2011	Recognized 2012	November 30, 2012	Recognized 2013	Effect of movement in exchange rates	November 30, 2013
Non-capital losses	\$ 303,000	\$ (119,584)	\$ 183,416	\$ 119,582	\$ -	\$ 302,998
Unclaimed research and development expenses	355,000	38,232	393,232	(26,420)	-	366,812
Other	-	59,522	59,522	(115,874)	(894)	(57,246)
Inventory	-	52,980	52,980	(52,980)	-	-
Deferred revenue	167,556	43,210	210,766	282,265	(6,852)	486,179
Investment tax credits	(507,000)	126,997	(380,003)	15,227	(220)	(364,996)
Property, plant and equipment	300,000	7,271	307,271	31,326	-	338,597
Net deferred income tax assets	\$ 618,556	\$ 208,628	\$ 827,184	\$ 253,126	\$ (7,966)	\$ 1,072,344

Unrecognized deferred income tax assets (liabilities):

Unrecognized deferred income tax assets relate primarily to non-capital losses in India.

	November 30, 2011	Change in 2012	Adjustment to prior year	November 30, 2012	Change in 2013	Adjustment to prior year	November 30, 2013
Other	\$ -	\$ -	\$ -	\$ -	\$ 120,000	\$ -	\$ 120,000
Non-capital losses	1,378,000	427,000	(450,000)	1,355,000	374,000	(75,000)	1,654,000
	\$ 1,378,000	\$ 427,000	\$ (450,000)	\$ 1,355,000	\$ 494,000	\$ (75,000)	\$ 1,774,000

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

8. Income taxes - continued:

Non-capital loss carry forward:

Non-capital loss carry forward at November 30, 2013 expire as follows:

Year	Canada	India	Mexico	Total
2019	\$ -	\$ 72,977	\$ -	\$ 72,977
2020	-	2,861,426	-	2,861,426
2021	-	583,758	-	583,758
2022	-	1,240,221	34,480	1,274,701
2023	-	-	225,626	225,626
2028	1,178,982	-	-	1,178,982
2033	-	-	-	-
	\$ 1,178,982	\$ 4,758,382	\$ 260,106	\$ 6,197,470

Investment tax credits:

At November 30, 2013, the Company has recognized investment tax credits of \$2,450,023 (2012 - \$2,837,134) as a result of its research and development activities. Investment tax credits can be carried forward and used to reduce Canadian federal and provincial taxes of future years. Federal investment tax credits earned in 1998 and later years may be carried forward for 20 years. Saskatchewan investment tax credits prior to March 19, 2009 and after March 31, 2012 can be carried forward for 10 years.

Investment tax credits available for carry forward at November 30, 2013 expire as follows:

Year(s)	Federal	Saskatchewan	Total
2015	\$ -	\$ 184,005	\$ 184,005
2016	-	219,806	219,806
2017	-	264,278	264,278
2018	-	224,333	224,333
2019	-	57,424	57,424
2020 - 2023	-	259,088	259,088
After 2025	1,591,844	-	1,591,844
	1,591,844	1,208,934	2,800,778
Less amounts not recognized	(21,417)	(329,338)	(350,755)
	\$ 1,570,427	\$ 879,596	\$ 2,450,023

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

9. Revenue:

	2013	2012
Contracted projects	\$ 19,071,459	\$ 18,275,306
Service	15,134,942	12,473,472
Product sales	9,439,327	10,828,535
Total revenue	\$ 43,645,728	\$ 41,577,313

10. Share capital:

(a) Authorized:

An unlimited number of common voting shares.

(b) Common shares:

	Number of shares	Amount
Balance, November 30, 2011 and 2012	13,998,337	\$ 12,071,009
Shares issued on exercise of stock options	20,000	6,200
Balance, November 30, 2013	14,018,337	\$ 12,077,209

(c) Options:

Under the terms of a stock option plan approved by the shareholders in May, 1997 and amended in 1998, the Company is authorized to grant officers, employees and others options to purchase common shares at prices based on the market price of shares as determined on the date of the grant. At November 30, 2013, 455,665 (2012 - 355,665) 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 November 30, 2013, the following stock options to officers, employees and others were outstanding:

Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding at November 30, 2013	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at November 30, 2013	Weighted-Average Exercise Price
\$ 0.31	790,000	2.91	\$ 0.31	519,983	\$ 0.31
0.43	100,000	3.95	0.43	33,333	0.43
0.44	40,000	4.01	0.44	-	-
0.63	200,000	4.86	0.63	-	-
1.20	525,000	5.25	1.20	525,000	1.20
	1,655,000	3.98	\$ 0.64	1,078,316	\$ 0.75

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

10. 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, December 1, 2011	1,892,500	\$ 0.74
Options granted	400,000	0.36
Options expired	(167,500)	1.32
Options forfeited	(350,000)	0.54
Outstanding, November 30, 2012	1,775,000	\$ 0.64
Options granted	240,000	0.60
Options exercised	(20,000)	0.31
Options expired	(95,000)	1.29
Options forfeited	(245,000)	0.35
Outstanding, November 30, 2013	1,655,000	\$ 0.64

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

During the year the Company recorded share-based compensation expense of \$11,723 (2012 - \$18,681) along with a corresponding increase in contributed surplus in shareholders' equity for options vesting during the year.

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

	2013	2013	2012
Number of options granted	200,000	40,000	400,000
Average strike price	\$0.63	0.44	\$0.36
Expected volatility	43%	43%	41%
Risk-free interest rate	1.0%	1.0%	1.0%
Expected life of option	5 years	5 years	5 years
Weighted average grant date fair values	\$0.22	\$0.16	\$0.14

(d) Shareholders' rights plan:

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

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10. Share capital - continued:

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

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

- the bid must be made by take-over bid circular to all holders of the Company's common shares;
- the bid must be subject to an irrevocable condition that no shares shall be taken up or paid for prior to a date which is not less than 60 days after the date of the bid and only if more than 50% of the outstanding common shares held by shareholders ("independent shareholders") other than the offeror and its related parties have been tendered to the bid;
- the bid must provide that shares may be deposited at any time during the bid period and that any shares so deposited may be withdrawn at any time during such period; and;
- if more than 50% of the common shares held by independent shareholders are tendered to the bid, the offeror must extend the bid for 10 days to allow shareholders who did not tender initially to take advantage of the bid if they so choose.

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

11. Research and development:

	2013	2012
Research and development expenditures	\$ 1,346,487	\$ 1,510,624
Less investment tax credits	(180,000)	(221,595)
	<u>\$ 1,166,487</u>	<u>\$ 1,289,029</u>

INTERNATIONAL ROAD DYNAMICS INC.

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12. Expense classification:

(a) Personnel expenses

	2013	2012
Wages and salaries	\$ 12,215,950	\$ 11,354,776
Statutory benefits	704,563	676,651
Other employment benefits	710,936	698,211
Contributions to defined contribution plans	256,997	217,155
Share-based payment transactions	11,723	18,681
	<u>\$ 13,900,169</u>	<u>\$ 12,965,474</u>

(b) Depreciation expense:

	2013	2012
Depreciation charge on property, plant and equipment	\$ 552,342	\$ 624,514
Add: Depreciation in opening inventory	16,195	23,097
Less: Depreciation in closing inventory	(14,878)	(16,195)
Depreciation expense	<u>\$ 553,659</u>	<u>\$ 631,416</u>
Depreciation expense is allocated as follows:		
Cost of goods sold	\$ 419,698	\$ 420,583
Administrative and marketing expenses	133,961	210,833
	<u>\$ 553,659</u>	<u>\$ 631,416</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

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13. Earnings (loss) per share:

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

	2013	2012
Net earnings (loss)	\$ 912,047	\$ (647,458)
Weighted average number of common shares outstanding:		
Basic	13,999,268	13,998,337
Effect of stock options	305,970	–
Diluted	14,305,238	13,998,337
Earnings (loss) per share:		
Basic	\$ 0.07	\$ (0.05)
Diluted	\$ 0.06	\$ (0.05)

The Company has stock options outstanding to purchase 1,655,000 common shares at November 30, 2013 (2012 – 1,775,000). At November 30, 2012 none of the options available to purchase common shares were included in the computation of diluted loss per share as amounts were anti-dilutive.

14. Financing costs

	2013	2012
Interest on short-term debt	\$ 480,722	\$ 423,525
Interest on long-term debt	-	43,996
Interest expense	480,722	467,521
Bad debt expense (note 15)	731,973	381,301
Foreign exchange losses (gains)	(424,045)	184,608
Gains on derivatives	-	(38,800)
	\$ 788,650	\$ 994,630

15. 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:

INTERNATIONAL ROAD DYNAMICS INC.

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15. Financial risk:

Credit risk:

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

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

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

Accounts receivable include amounts due from customers in both the government and private industry sectors which exposes the Company to risk of nonpayment. Government accounts are considered secure and are normally not subjected to extensive credit reviews. Industry accounts are subjected to internal credit review in order to minimize risk of non-payment. Canadian export sales to non-government customers, not otherwise secured by letter of credit, are generally insured by EDC to the extent of 90% of the invoiced amount. Credit risk is more significant for certain customers in South Asia due to higher risk of financial instability. The following table provides a breakdown of accounts receivable as described above:

	2013	2012
Government	\$ 4,212,752	\$ 3,075,563
Non-Government		
Secured		
Letter of credit	164,018	488,808
Export Development Canada insured	2,624,795	4,147,450
Other	4,562,693	4,241,014
Allowance for doubtful accounts	(1,623,348)	(1,006,851)
	9,940,910	10,945,984
Unbilled revenue	3,192,468	3,739,866
	\$ 13,133,378	\$ 14,685,850

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

15. Financial risk - continued:

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

	2013	2012
Balance, beginning of year	\$ 1,006,851	\$ 953,842
Bad debt expense	731,973	381,301
Write offs	(85,239)	(254,369)
Foreign currency revaluation	(30,237)	(73,923)
Balance, end of year	\$ 1,623,348	\$ 1,006,851

Currency fluctuation risk:

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

The Company has exposure to the U.S. dollar, Indian rupee, Chilean peso, Mexican peso, Bangladeshi taka and Chinese yuan. The majority of the Company's sales are denominated in U.S. dollars while the majority of its costs are denominated in Canadian dollars. Fluctuations in the value of the U.S. dollar compared to both the Canadian dollar and Chilean peso can significantly affect both earnings and cash flow. During the year ended November 30, 2013 approximately 79% of the Company's sales were denominated in U.S. dollars. The average Canadian exchange rate against the U.S. dollar weakened during 2013 relative to 2012 by approximately 2.1%. This resulted in an increase in the Canadian dollar value of the Company's U.S. dollar denominated sales of approximately \$0.7 million during the 2013 fiscal year. This impact is partially offset by the corresponding higher value of U.S. dollar denominated expenses.

From time to time the Company enters into forward foreign exchange contracts to sell U.S. dollars to hedge its net accounts receivable denominated in this currency. The term of these forward contracts is of a short term nature with the objective of matching the expected payments from customers. As at and for the year ended November 30, 2013 the Company had no foreign exchange forward contracts.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

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15. Financial risk - continued:

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

	Foreign currency exposure at November 30, 2013	Foreign exchange risk 5% decrease in Cdn \$ Income	OCI
Net asset:			
U.S. dollar	5,954,000	297,700	
Indian rupee	512,000		25,600
Chilean peso	431,000		21,550
Chinese yuan	5,598,753		279,938
U.S. dollar sales contract embedded derivative	4,216,000	210,813	

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

Interest rate risk:

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

At November 30, 2013, the effect of a 1% increase or decrease in the bank prime rate, with all other variables held constant would have resulted in an increase or decrease of \$44,000 to the Company's net earnings for the year.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they become due. The Company facilitates this in part by maintaining a line of credit in the amount of \$8.5 million with the RBC, as disclosed in note 7. At November 30, 2013 the remaining amount available to be drawn under this credit facility based on margin capacity is approximately \$3.6 million.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

15. Financial risk - continued:

Also as disclosed in note 7, the Company maintains an operating line of credit up to a maximum equivalent of \$1.2 million (approximately 68.4 million Indian rupees) for its operations in India with The Hongkong and Shanghai Banking Corporation Limited which is secured by a standby letter of credit from HSBC. At November 30, 2013 an amount of 47.7 million Indian rupees was drawn upon this facility. EDC has guaranteed this facility up to September 30, 2014 at which time it is up for renewal.

In addition, EDC has provided a guarantee to May 31, 2014 of the Company's additional credit facility of \$1.25 million US for the support of performance guarantees provided by the Company's subsidiaries. At November 30, 2013 performance guarantees totaling \$234,162 CDN are outstanding under this credit facility. The Company's Chilean subsidiary also maintains a secured line of credit to support performance guarantees required for selected projects. As at November 30, 2013 the Canadian dollar value of these performance guarantees totaled \$546,325 (2012 – \$374,440).

The table below presents a maturity analysis of the Company's financial liabilities based on the expected cash flows from November 30, 2013 to the contractual maturity date. The amounts represent the contractual undiscounted cash flows (thousands of dollars).

	Carrying Amount of Liability at November 30, 2013	Contractual Cash Flows Including Interest	Less than 1 year	1 to 5 years
Bank indebtedness*	\$ 5,664	\$ 6,085	\$ 6,085	\$ -
Accounts payable and accrued liabilities	\$ 5,267	\$ 5,267	\$ 5,267	\$ -

* Assumes balance is outstanding for 365 days.

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

15. Financial risk - continued:

Management of capital

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

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

The capital structure of the Company is as follows:

	2013	2012
Bank indebtedness	\$ 5,663,619	\$ 6,575,722
Shareholders' equity	17,566,561	16,549,581
Total capital	\$ 23,230,180	\$ 23,125,303

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. Estimates of fair value for derivatives are determined using Level 3 measurements. At November 30, 2013 and November 30, 2012, no derivative contracts were outstanding.

The carrying amounts of the Company's financial assets and liabilities, including cash and cash equivalents, accounts receivable, unbilled revenue and accounts payable and accrued liabilities approximate fair value due to the short-term maturity of these items. The fair value of the bank indebtedness approximates the carrying amounts since the debt bears interest at current market rates.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

16. Commitments

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

Due within 1 year	\$ 579,000
Due between 1 and 2 years	579,000
Due between 2 and 3 years	579,000
Due between 3 and 4 years	579,000
Due between 4 and 5 years	579,000
Thereafter	2,530,456
	<u>\$ 5,425,456</u>

During the year ended November 30, 2013 an amount of \$579,000 was recognized as an expense in the statement of earnings (loss) in respect of operating leases (2012 - \$579,000).

The Company has provided a guarantee in the amount of 7.5 million yuan (\$1,297,000) for 50% of a bank loan to XPCT. The guarantee provided by the Company is proportionate to its shareholding in XPCT.

17. Segmented information:

Effective September 1, 2013, the Company changed its reportable segments to "Canada and United States", "Latin America", and "South Asia." This disclosure arises out of changes in internal reporting resulting from the chief operating decision maker's objective of enhancing head office oversight and transaction visibility within the Company's subsidiaries.

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

Segmented reporting had no impact on the Company's consolidated statements of financial position, statements of earnings (loss), statements of comprehensive income (loss) or statements of cash flows for any periods. In accordance with IFRS, the corresponding information for the prior period has been restated to reflect the new reportable segments in the current year.

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

17. Segmented information - continued:

The Company operates in one industry segment, the ITS industry, which involves the engineering, software development, manufacturing and integration of products and systems to highway departments and industry to improve the efficiency of traffic flows. All revenue and expenses within each reportable segment are derived from operating within this industry.

Information by reportable segments is as follows:

Year ended November 30, 2013	Canada and United States	Latin America	South Asia	Elimination Adjustments	Total
Revenue	\$ 34,801,792	\$ 7,192,564	\$ 2,662,017	\$ (1,010,645)	\$ 43,645,728
Cost of goods sold	24,326,768	4,572,172	2,177,723	(1,084,692)	29,991,971
	10,475,024	2,620,392	484,294	74,047	13,653,757
Administrative and marketing expenses	8,102,500	2,062,737	1,192,346	(371,518)	10,986,065
Research and development, net	990,356	174,443	1,688	-	1,166,487
Financing costs	295,489	(101,923)	616,635	(21,551)	788,650
Other income	(442,982)	(37,233)	(42,222)	393,069	(129,368)
XPCT earnings	(885,399)	-	-	-	(885,399)
Earnings (loss) before income taxes	2,415,060	522,368	(1,284,153)	74,047	1,727,322
Income tax expense	607,153	186,107	-	22,015	815,275
Net earnings (loss)	\$ 1,807,907	\$ 336,261	\$ (1,284,153)	\$ 52,032	\$ 912,047
Current assets	\$ 21,611,839	\$ 6,012,836	\$ 2,764,956	\$ (9,085,081)	\$ 21,304,550
Investment in XPCT	5,434,735	-	-	-	5,434,735
Other non-current assets	5,437,100	854,601	-	(932,931)	5,358,770
Total assets	\$ 32,483,674	\$ 6,867,437	\$ 2,764,956	\$ (10,018,012)	\$ 32,098,055
Total liabilities	\$ 11,394,989	\$ 2,722,520	\$ 9,386,570	\$ (8,972,585)	\$ 14,531,494

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

17. Segmented information - continued:

Year ended November 30, 2012	Canada and United States	Latin America	South Asia	Elimination Adjustments	Total
Revenue	\$ 32,273,934	\$ 5,456,272	\$ 5,105,289	\$ (1,258,182)	\$ 41,577,313
Cost of goods sold	22,772,046	3,154,645	4,509,075	(1,117,448)	29,318,318
	9,501,888	2,301,627	596,214	(140,734)	12,258,995
Administrative and marketing expenses	8,286,073	1,562,933	1,450,125	(535,130)	10,764,001
Research and development, net	912,051	373,834	3,144	-	1,289,029
Financing costs, net	408,059	95,839	117,340	373,392	994,630
Other income	(165,329)	(48,874)	(7,828)	161,738	(60,293)
XPCT earnings	(378,507)	-	-	-	(378,507)
Earnings (loss) before income taxes	439,541	317,895	(966,567)	(140,734)	(349,865)
Income tax expense (recovery)	304,580	29,420	-	(36,407)	297,593
Net earnings (loss)	\$ 134,961	\$ 288,475	\$ (966,567)	\$ (104,327)	\$ (647,458)
Current assets	\$ 18,708,277	\$ 4,450,471	\$ 4,809,122	\$ (5,518,432)	\$ 22,449,438
Investment in XPCT	4,875,618	-	-	-	4,875,618
Other non-current assets	4,899,389	617,850	-	(277,061)	5,240,178
Total assets	\$ 28,483,284	\$ 5,068,321	\$ 4,809,122	\$ (5,795,493)	\$ 32,565,234
Total liabilities	\$ 11,027,571	\$ 1,077,364	\$ 8,612,498	\$ (4,701,780)	\$ 16,015,653

Revenue from external customers by geographic area is as follows:

	2013	2012
Canada	\$ 3,062,509	\$ 3,135,544
United States	27,588,682	24,395,723
Latin America	7,192,564	5,456,272
South Asia	2,662,017	5,105,289
Other offshore	3,139,956	3,484,485
	\$ 43,645,728	\$ 41,577,313

18. Statements of cash flows:

Other operating items

	2013	2012
Accounts receivable	\$ 89,268	\$ (1,837,722)
Unbilled revenue	483,746	143,231
Inventories	16,678	1,066,631
Prepaid expense and deposits	(332,844)	157,064
Accounts payable and accrued liabilities	(806,156)	1,035,855
	\$ (549,308)	\$ 565,059

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2013 and 2012

19. Key management personnel and directors compensation:

In addition to salaries and benefits, executive officers also participate in the stock option program (see note 10). The Company compensates external directors through fees payable in cash or shares of the Company at the directors' discretion.

Executive officers are subject to a mutual term of notice of four months. Upon resignation at the Company's request executive officers are entitled to termination benefits ranging from 12 to 18 months' gross salary.

Key management and directors compensation includes:

	2013	2012
Salaries and short-term employee benefits	\$ 1,104,240	\$ 1,074,762
Share-based compensation	5,589	18,681
	<u>\$ 1,109,829</u>	<u>\$ 1,093,443</u>

20. Subsequent event:

The Company entered into a new credit facility agreement in January 2014 with HSBC Bank Canada with authorization to draw up to a maximum of \$8.5 million, subject to margins on specific assets, with interest payable at bank prime plus 1.5%. All or a portion of the credit facility may be borrowed by way of banker's acceptances at prevailing market rates or by way of U.S. dollar advances to a maximum of \$8.0 million US at bank U.S. base rate plus 1.5%.

This demand revolving loan replaced the RBC credit facility as disclosed in note 7 and is secured by a general security agreement on the assets of the Company held in Canada. In addition, the Company's subsidiaries in the United States, Chile and India have provided corporate guarantees as security.

21. Comparative figures:

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