



I N T E R N A T I O N A L R O A D D Y N A M I C S I N C .

Unaudited Interim Condensed Consolidated Financial Statements

Three months ended February 28, 2017 and February 29, 2016

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.

Consolidated Statements of Financial Position

Unaudited

February 28, 2017 and February 29, 2016

\$ Canadian

	Note	February 28, 2017	November 30, 2016
Assets			
Current assets:			
Cash		\$ 2,793,215	\$ 2,721,533
Accounts receivable		9,882,985	13,557,337
Embedded derivatives		198,685	303,345
Unbilled revenue		7,500,004	6,438,751
Income taxes receivable		308,063	247,026
Inventories	4	6,900,840	6,937,858
Prepaid expenses and deposits		2,636,653	2,448,083
		<u>30,220,445</u>	<u>32,653,933</u>
Property, plant and equipment	5	2,881,413	2,950,693
Intangible assets	6	436,706	438,256
Investment in XPCT	7	6,483,683	6,686,620
Investment tax credits recoverable		864,699	783,706
Deferred tax assets		1,382,000	1,374,872
		<u>12,048,501</u>	<u>12,234,147</u>
		<u>\$ 42,268,946</u>	<u>\$ 44,888,080</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	8	\$ 2,987,067	\$ 3,596,483
Accounts payable and accrued liabilities		6,242,474	8,606,266
Current portion of deferred revenue		6,301,640	5,684,861
Current portion of long-term debt	9	128,572	128,572
		<u>15,659,753</u>	<u>18,016,182</u>
Deferred revenue		808,728	798,289
Long-term debt	9	482,141	514,284
		<u>1,290,869</u>	<u>1,312,573</u>
Shareholders' equity:			
Share capital	11(b)	12,442,554	12,442,554
Contributed surplus		312,521	309,986
Retained earnings		11,635,424	11,846,527
Accumulated other comprehensive income		927,825	960,258
		<u>25,318,324</u>	<u>25,559,325</u>
		<u>\$ 42,268,946</u>	<u>\$ 44,888,080</u>

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Earnings (Loss)

Unaudited

\$ Canadian

	Note	Three months ended	
		February 28 2017	February 29 2016
Revenue		\$ 12,126,625	\$ 14,898,387
Cost of goods sold		8,225,398	10,349,120
		3,901,227	4,549,267
Administrative and marketing expenses		2,957,473	3,241,855
Research and development, net	12	803,606	495,238
Financing costs, net	15	349,289	295,994
Other income		(17,496)	(4,600)
XPCT loss (earnings)	7	50,237	(119,232)
Earnings (loss) before income taxes		(241,882)	640,012
Income tax expense (recovery)	10	(30,779)	183,212
Net earnings (loss)		\$ (211,103)	\$ 456,800
Earnings (loss) per share	14		
Basic		\$ (0.01)	\$ 0.03
Diluted		\$ (0.01)	\$ 0.03

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

Unaudited

\$ Canadian

	Three months ended	
	February 28 2017	February 29 2016
Net earnings (loss)	\$ (211,103)	\$ 456,800
Other comprehensive income (loss) which may be reclassified to net earnings:		
Exchange differences on translation of foreign operations	(32,433)	155,019
Total comprehensive income (loss)	\$ (243,536)	\$ 611,819

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

For Three Months Ended February 28, 2017 and February 29, 2016

Unaudited

\$ Canadian

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 1, 2015		\$ 12,219,737	\$ 315,733	\$ 9,090,633	\$ 1,078,494	\$ 22,704,597
Issuance of capital stock	11(b)	101,984	(8,284)	—	—	93,700
Net earnings		—	—	456,800	—	456,800
Other comprehensive income:						
Exchange differences on translation of foreign operations		—	—	—	155,019	155,019
Share-based compensation	11(c)	—	2,623	—	—	2,623
Balance at February 29, 2016		\$ 12,321,721	\$ 310,072	\$ 9,547,433	\$ 1,233,513	\$ 23,412,739
Balance at December 1, 2016		\$ 12,442,554	\$ 309,986	\$ 11,846,527	\$ 960,258	\$ 25,559,325
Net loss		—	—	(211,103)	—	(211,103)
Other comprehensive loss:						
Exchange differences on translation of foreign operations		—	—	—	(32,433)	(32,433)
Share-based compensation	11(c)	—	2,535	—	—	2,535
Balance at February 28, 2017		\$ 12,442,554	\$ 312,521	\$ 11,635,424	\$ 927,825	\$ 25,318,324

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 interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Cash Flows

Unaudited

\$ Canadian

	Note	Three months ended	
		February 28 2017	February 29 2016
Cash flows from (used in):			
Operations:			
Net earnings (loss)		\$ (211,103)	\$ 456,800
Adjustments for:			
Embedded derivatives		104,660	97,963
Depreciation and amortization expense	13(b)	170,682	123,310
Bad debt expense (recovery)	16	(10,529)	56,454
Share-based compensation	11(c)	2,535	2,623
XPCT loss (earnings)	7	50,237	(119,232)
Interest expense	15	36,174	83,650
Loss (gain) on disposal of property, plant and equipment		3,784	(973)
Investment tax credits earned	12	(80,993)	(45,000)
Income tax expense (recovery)		(30,779)	183,212
Net funds flow from operations		34,668	838,807
Changes in non-cash working capital	19	794,357	(1,335,109)
Income tax paid		(25,674)	(32,050)
Interest paid		(46,780)	(81,303)
		756,571	(609,655)
Investing:			
Proceeds from sale of property, plant and equipment		9,047	973
Additions to property, plant and equipment	5	(88,319)	(170,389)
Additions to intangibles	6	(5,758)	(21,835)
		(85,030)	(191,251)
Financing:			
Bank indebtedness increase (decrease)	8	(609,416)	861,605
Long-term debt repayment	9	(32,143)	(32,143)
Issuance of capital stock	11(b)	—	93,700
		(641,559)	923,162
Increase in cash		29,982	122,256
Exchange rate changes on foreign currency cash balances		41,700	13,288
Cash, beginning of year		2,721,533	1,833,703
Cash, end of year		\$ 2,793,215	\$ 1,969,247

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

Three months ended February 28, 2017 and February 29, 2016

\$ 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 interim condensed consolidated financial statements as at and for the three months ended February 28, 2017 and February 29, 2016 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, 2016.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on April 12, 2017.

(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, 2016.

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, 2016.

Recent accounting pronouncements which may be applicable to subsequent reporting periods and not yet adopted as at February 28, 2017 have not significantly changed from those described in the Company's most recent annual audited consolidated financial statements for the year ended November 30, 2016. The Company is reviewing these standards and amendments to determine the impact on its consolidated financial statements, if any.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

Three months ended February 28, 2017 and February 29, 2016

\$ Canadian, except as noted

4. Inventories:

	February 28, 2017	November 30, 2016
Raw materials	\$ 330,829	\$ 410,784
Original equipment manufacturer materials	3,570,992	3,592,953
Work in process	1,357,721	1,397,375
Finished goods	1,641,298	1,536,746
	\$ 6,900,840	\$ 6,937,858

During the quarter, inventories expensed within cost of goods sold were \$2,803,695 (2016 - \$4,076,934). The Company also recorded an incremental provision for excess and obsolete inventories within cost of goods sold of \$49,935 (2016 - \$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, 2016	\$ 349,450	\$ 1,000,631	\$ 4,055,919	\$ 2,098,706	\$ 823,388	\$ 1,320,357	\$ 9,648,451
Additions	—	6,370	17,349	50,307	14,293	—	88,319
Disposals	—	—	—	(15,368)	—	—	(15,368)
Effect of movements in exchange rates	4,355	1,946	3,603	10,155	3,428	224	23,711
Balance at February 28, 2017	\$ 353,805	\$ 1,008,947	\$ 4,076,871	\$ 2,143,800	\$ 841,109	\$ 1,320,581	\$ 9,745,113
Accumulated Depreciation							
Balance at November 30, 2016	\$ 78,863	\$ 965,210	\$ 2,678,852	\$ 1,085,594	\$ 572,679	\$ 1,316,560	\$ 6,697,758
Additions	4,782	2,806	44,843	86,161	21,102	948	160,642
Disposals	—	—	—	(10,105)	—	—	(10,105)
Effect of movements in exchange rates	884	1,919	3,624	5,897	2,857	224	15,405
Balance at February 28, 2017	\$ 84,529	\$ 969,935	\$ 2,727,319	\$ 1,167,547	\$ 596,638	\$ 1,317,732	\$ 6,863,700
Carrying Amounts							
Balance at November 30, 2016	\$ 270,587	\$ 35,421	\$ 1,377,067	\$ 1,013,112	\$ 250,709	\$ 3,797	\$ 2,950,693
Balance at February 28, 2017	\$ 269,276	\$ 39,012	\$ 1,349,552	\$ 976,253	\$ 244,471	\$ 2,849	\$ 2,881,413

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements
Unaudited

Three months ended February 28, 2017 and February 29, 2016
\$ Canadian, except as noted

6. Intangible Assets:

As at February 28, 2017 the Company had intangible assets with a net book value of \$436,706 (November 30, 2016 - \$438,256). During the quarter additions to intangible assets were \$5,758 (2016 - \$21,835) and amortization expense of \$7,308 (2016 - \$8,620) was recognized.

7. Investment in XPCT:

	Three Months Ended		Year ended
	February 28, 2017	February 29, 2016	November 30, 2016
Xuzhou-PAT Control Technologies Limited (XPCT)			
Balance, beginning of period	\$ 6,686,620	\$ 6,879,528	\$ 6,879,528
Currency loss on financial statement translation	(152,700)	(73,336)	(477,142)
Company's share of earnings (loss)	(50,237)	119,232	432,836
Dividend received	—	—	(148,602)
Balance, end of period	\$ 6,483,683	\$ 6,925,424	\$ 6,686,620

The Company had no sales to XPCT for the three months ended February 28, 2017 and February 29, 2016. At February 28, 2017 accounts receivable from XPCT was \$15,808 (November 30, 2016 - \$7,298).

8. Bank indebtedness:

	February 28, 2017	November 30 2016
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%	\$ 2,751,146	\$ 958,621
HSBC Bank Canada - borrowing in U.S. dollars with interest at U.S. bank base rate plus 1.5%	235,921	2,637,862
	\$ 2,987,067	\$ 3,596,483

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 February 28, 2017 approximately \$5.4 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 February 28, 2017 of \$35.2 million (November 30, 2016 - \$37.6 million). In addition, the Company's subsidiaries in the United States, Chile and India have provided corporate guarantees as security.

At February 28, 2017, 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, 2016 annual consolidated financial statements.

See note 16 for a discussion of liquidity risk.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements
Unaudited

Three months ended February 28, 2017 and February 29, 2016

\$ Canadian, except as noted

9. Long-term debt:

	February 28, 2017	November 30 2016
HSBC Bank Canada term loan, repayable in quarterly installments of \$32,143 with interest at bank prime plus 0.5%. Due September 30, 2021	\$ 610,713	\$ 642,856
Less current portion	128,572	128,572
	<u>\$ 482,141</u>	<u>\$ 514,284</u>

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 with HSBC to finance construction of certain operating assets. As at February 28, 2017 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 three months ended February 28, 2017 the Company has recorded estimated income taxes payable in each of the Canada, United States and Chile entities 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 and Mexico subsidiaries 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:

	Three Months Ended			
	February 28, 2017		February 29, 2016	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	14,945,605	\$ 12,442,554	14,398,462	\$ 12,219,737
Shares issued on exercise of stock options	—	—	217,500	91,825
Shares issued for directors' compensation	—	—	1,330	1,875
Adjustment from contributed surplus	—	—	—	8,284
Balance, end of period	<u>14,945,605</u>	<u>\$ 12,442,554</u>	<u>14,617,292</u>	<u>\$ 12,321,721</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements
Unaudited

Three months ended February 28, 2017 and February 29, 2016

\$ Canadian, except as noted

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 February 28, 2017, 393,060 (November 30, 2016 - 423,060) 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 February 28, 2017, the following stock options to officers, employees and others were outstanding:

Options Outstanding			Options Exercisable		
Exercise Prices (\$)	Number Outstanding at February 28, 2017	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price (\$)	Number Exercisable at February 28, 2017	Weighted-Average Exercise Price (\$)
0.43	36,500	0.70	0.43	36,500	0.43
0.63	200,000	1.61	0.63	200,000	0.63
0.72	250,000	2.76	0.72	250,000	0.72
1.00	30,000	3.22	1.00	20,000	1.00
1.20	525,000	2.00	1.20	525,000	1.20
1.89	30,000	4.42	1.89	—	1.89
2.53	30,000	4.79	2.53	—	2.53
	1,101,500	2.23	1.01	1,031,500	0.94

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, 2016	1,071,500	\$ 0.97
Options granted	30,000	2.53
Outstanding, February 28, 2017	1,101,500	\$ 1.01

Outstanding options expire between November 9, 2017 and December 21, 2021.

For the three months ended February 28, 2017 share-based compensation expense was \$2,535 (2016 - \$2,623) along with a corresponding increase in contributed surplus in shareholders' equity.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

Three months ended February 28, 2017 and February 29, 2016

\$ Canadian, except as noted

11. Share capital - continued:

The inputs used in the measurement of the fair values at grant date of the stock options granted during the three months ended February 28, 2017 were as follows:

	Issued in December 2016
Number of options granted	30,000
Average strike price	\$ 2.53
Expected volatility	54%
Risk-free interest rate	0.7%
Expected life of option	3.5 years
Weighted average grant date fair values	\$ 0.98

(d) Shareholders' rights plan:

In 1998 the Company adopted a Shareholder Rights Plan (the "Plan"), which was established to deter coercive take-over tactics and to prevent an acquirer from gaining control 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, and for the Board of Directors to pursue, if appropriate, other alternatives to maximize shareholder value.

The Plan has been extended with shareholder approval until May 9, 2018, at which time the Board of Directors may submit a resolution to the shareholders approving the extension of the Plan for a further three years.

12. Research and development, net:

	Three Months Ended	
	February 28, 2017	February 29, 2016
Research and development expenditures	\$ 1,049,010	\$ 662,053
Less:		
Government grants earned	(164,411)	(121,815)
Investment tax credits	(80,993)	(45,000)
	\$ 803,606	\$ 495,238

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements
Unaudited

Three months ended February 28, 2017 and February 29, 2016
\$ Canadian, except as noted

13. Expense classification:

(a) Personnel expenses:

	Note	Three Months Ended	
		February 28, 2017	February 29, 2016
Wages and salaries		\$ 4,341,735	\$ 4,077,175
Statutory benefits		167,297	216,657
Other employment benefits		269,879	204,282
Defined contribution plan		93,777	81,152
Share-based compensation	11(c)	2,535	2,623
		\$ 4,875,223	\$ 4,581,889

(b) Depreciation and amortization expense:

		Three Months Ended	
		February 28, 2017	February 29, 2016
Depreciation on property, plant and equipment (note 5)	\$	160,642	\$ 117,446
Add: Depreciation in opening inventory		8,899	10,936
Less: Depreciation in closing inventory		(6,167)	(13,692)
Depreciation expense	\$	163,374	\$ 114,690
Depreciation expense is allocated as follows:			
Cost of goods sold	\$	135,803	\$ 83,634
Administration and marketing expenses		27,571	31,056
		163,374	114,690
Amortization on intangibles in cost of goods sold (note 6)		7,308	8,620
Depreciation and amortization expense	\$	170,682	\$ 123,310

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

Three months ended February 28, 2017 and February 29, 2016

\$ Canadian, except as noted

14. Earnings (loss) per share:

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

	Three Months Ended	
	February 28, 2017	February 29, 2016
Net earnings (loss)	\$ (211,103)	\$ 456,800
Weighted average number of common shares outstanding:		
Basic	14,945,605	14,475,550
Effect of stock options	—	587,706
Diluted	14,945,605	15,063,256
Earnings (loss) per share:		
Basic	\$ (0.01)	\$ 0.03
Diluted	\$ (0.01)	\$ 0.03

As disclosed in note 11(c) the Company has stock options outstanding to purchase 1,101,500 common shares at February 28, 2017 (November 30, 2016 - 1,071,500). None of these options available to purchase common shares were included in the computation of diluted earnings (loss) per share for the three months ended February 28, 2017 as amounts were anti-dilutive.

15. Financing costs, net:

	Three Months Ended	
	February 28, 2017	February 29, 2016
Interest on bank indebtedness	\$ 32,823	\$ 77,603
Interest on long-term debt	3,351	6,047
Foreign exchange losses	313,115	212,344
	\$ 349,289	\$ 295,994

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

Three months ended February 28, 2017 and February 29, 2016

\$ Canadian, except as noted

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 non-derivative financial assets and liabilities, including cash, accounts receivable, unbilled revenue and accounts payable and accrued liabilities approximate fair value due to the short-term maturity of these items. The fair value of bank indebtedness and long-term debt approximates the carrying amounts since these debts have floating interest rates.

Financial instrument risk

The Company is exposed to various financial instrument related risks. The following are the types of risk exposures and methods of managing these risks.

Credit risk:

The Company's cash balances are held and transacted with banks and financial counterparties that are considered credit worthy with high credit ratings.

The Company is exposed to credit risk from its customers on its trade receivables and unbilled revenue. The maximum exposure to credit risk is represented by the uninsured portion of these financial assets.

Accounts receivable is comprised of both trade and non-trade accounts. An allowance for impairment loss 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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements
Unaudited

Three months ended February 28, 2017 and February 29, 2016
\$ Canadian, except as noted

16. Financial instruments and related risk (continued):

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 February 28, 2017 the Company had unsecured trade receivables net of allowance for impairment loss of \$2.7 million (November 30, 2016 - \$3.4 million). The decrease is due primarily to collections received in the United States and Chile during the quarter.

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, 2016. 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 impairment loss is as follows:

	Three Months Ended	
	February 28, 2017	February 29, 2016
Balance, beginning of period	\$ 2,533,614	\$ 2,519,978
Bad debt expense (recovery)	(10,529)	56,454
Direct write offs	(7,770)	(54,083)
Foreign currency revaluation	5,776	(45,384)
Balance, end of period	\$ 2,521,091	\$ 2,476,965

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.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

Three months ended February 28, 2017 and February 29, 2016

\$ Canadian, except as noted

16. Financial instruments and related risk (continued):

During the three months ended February 28, 2017 approximately 88% of the Company's sales were denominated in U.S. dollars. The average Canadian exchange rate against the U.S. dollar has strengthened during the first quarter of 2017 relative to the respected prior period by approximately 2%. This resulted in a decrease in the Canadian dollar value of the Company's U.S. dollar denominated sales by approximately \$0.5 million. This impact is partially offset by the corresponding lower 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 February 28, 2017 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 March 15, 2017 to July 17, 2017 at an average exchange rate of 1.327. Based on U.S. dollar forward exchange rates at February 28, 2017 these contracts have a negative fair value of \$4,700 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 \$166,000.

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 operating funds 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 February 28, 2017 were \$60,000 (November 30, 2016 - \$60,000) for performance guarantees on certain contracts. At February 28, 2017 the remaining amount available to be drawn under this credit facility based on margin capacity is approximately \$5.4 million.

In addition, EDC has provided a guarantee to May 31, 2017 of the Company's additional credit facility of U.S. \$2,000,000 (November 30, 2016 - U.S. \$2,000,000) for the support of performance guarantees provided by the Company's subsidiaries. At February 28, 2017 performance guarantees totaling \$85,509 (November 30, 2016 - \$85,394) 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. At February 28, 2017 the Canadian dollar value of these performance guarantees totaled \$832,834 (November 30, 2016 - \$873,013). The Company has also provided a guarantee, proportionate to its shareholding in XPCT, in the amount of 10.0 million yuan or \$1.9 million (November 30, 2016 - 10.0 million yuan or \$1.9 million) for 50% of a bank loan to XPCT.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

Three months ended February 28, 2017 and February 29, 2016

\$ Canadian, except as noted

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		649,070
	\$	3,544,070

Operating lease expense was \$144,750 for the three months ended February 28, 2017 (2016 - \$144,750).

The Company has provided a guarantee in the amount of 10.0 million yuan or \$1.9 million (November 30, 2016 - 10.0 million yuan or \$1.9 million) for 50% of a bank loan to XPCT. The guarantee provided by the Company is proportionate to its shareholding in XPCT.

The Board of Directors of XPCT has amended the Articles of Association to increase XPCT's total registered capital by 45.0 million yuan or \$8.6 million. Unless otherwise amended, the term for contributing this increased capital of 22.5 million yuan or \$4.3 million per shareholder is by December 31, 2046. The Board of Directors may increase, decrease, or transfer the Company's registered capital at any time.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

Three months ended February 28, 2017 and February 29, 2016

\$ Canadian, except as noted

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 February 28, 2017	Canada and United States	Latin America and Mexico	India	Inter- segment Adjustments	Total
Revenue					
Contracted projects	\$ 5,593,172	\$ 327,148	\$ 7,470	\$ —	\$ 5,927,790
Service	3,654,465	550,426	82,389	—	4,287,280
Product sales	1,640,489	383,243	14,542	(126,719)	1,911,555
	10,888,126	1,260,817	104,401	(126,719)	12,126,625
Cost of goods sold					
	7,403,301	879,863	70,451	(128,217)	8,225,398
	3,484,825	380,954	33,950	1,498	3,901,227
Administrative and marketing expenses	2,537,712	386,646	126,080	(92,965)	2,957,473
Research and development, net	752,316	51,290	—	—	803,606
Financing costs (income), net	173,078	180,589	(4,378)	—	349,289
Other income	(98,417)	(9,321)	(2,723)	92,965	(17,496)
XPCT loss	50,237	—	—	—	50,237
Earnings (loss) before income taxes	69,899	(228,250)	(85,029)	1,498	(241,882)
Income tax expense (recovery)	15,681	(50,438)	—	3,978	(30,779)
Net earnings (loss)	\$ 54,218	\$ (177,812)	\$ (85,029)	\$ (2,480)	\$ (211,103)
Current assets	\$ 20,222,095	\$ 8,469,834	\$ 1,573,245	\$ (44,729)	\$ 30,220,445
Investment in XPCT	6,483,683	—	—	—	6,483,683
Other non-current assets	16,062,947	855,885	—	(11,354,014)	5,564,818
Total assets	\$ 42,768,725	\$ 9,325,719	\$ 1,573,245	\$ (11,398,743)	\$ 42,268,946
Total liabilities	\$ 13,494,659	\$ 4,519,444	\$ 8,472,141	\$ (9,535,622)	\$ 16,950,622
Additions to property, plant and equipment	\$ 87,828	\$ 491	\$ —	\$ —	\$ 88,319
Additions to intangible assets	\$ 5,758	\$ —	\$ —	\$ —	\$ 5,758

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

Three months ended February 28, 2017 and February 29, 2016

\$ Canadian, except as noted

18. Segmented information - continued:

Three Months Ended February 29, 2016	Canada and United States	Latin America and Mexico	India	Inter- segment Adjustments	Total
Revenue					
Contracted projects	\$ 7,278,459	\$ 1,185,025	\$ 30,897	\$ —	\$ 8,494,381
Service	4,174,106	414,490	77,010	—	4,665,606
Product sales	1,538,382	384,887	49,303	(234,172)	1,738,400
	12,990,947	1,984,402	157,210	(234,172)	14,898,387
Cost of goods sold	9,104,527	1,385,560	102,795	(243,762)	10,349,120
	3,886,420	598,842	54,415	9,590	4,549,267
Administrative and marketing expenses	2,419,625	741,128	178,361	(97,259)	3,241,855
Research and development, net	449,488	45,750	—	—	495,238
Financing costs, net	102,497	188,705	4,792	—	295,994
Other income	(92,912)	(8,947)	—	97,259	(4,600)
XPCT earnings	(119,232)	—	—	—	(119,232)
Earnings (loss) before income taxes	1,126,954	(367,794)	(128,738)	9,590	640,012
Income tax expense (recovery)	269,273	(87,979)	—	1,918	183,212
Net earnings (loss)	\$ 857,681	\$ (279,815)	\$ (128,738)	\$ 7,672	\$ 456,800
Current assets	\$ 19,428,812	\$ 7,875,053	\$ 2,008,529	\$ (219,455)	\$ 29,092,939
Investment in XPCT	6,925,424	—	—	—	6,925,424
Other non-current assets	16,554,410	1,026,435	—	(11,457,552)	6,123,293
Total assets	\$ 42,908,646	\$ 8,901,488	\$ 2,008,529	\$ (11,677,007)	\$ 42,141,656
Total liabilities	\$ 15,824,016	\$ 4,105,227	\$ 8,614,682	\$ (9,815,008)	\$ 18,728,917
Additions to property, plant and equipment	\$ 138,674	\$ 31,716	\$ —	\$ —	\$ 170,389
Additions to Intangibles	\$ 21,835	\$ —	\$ —	\$ —	\$ 21,835

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements
Unaudited

Three months ended February 28, 2017 and February 29, 2016

\$ Canadian, except as noted

18. Segmented information - continued:

Revenue from external customers by geographic area is as follows:

	Three Months Ended	
	February 28, 2017	February 29, 2016
United States	\$ 9,263,802	\$ 11,500,657
Chile	685,478	1,467,789
Canada	371,878	485,870
Thailand	368,330	422,751
Mexico	362,042	439,630
Republic of Korea	224,232	146,123
Paraguay	152,022	82,816
India	104,401	157,210
Other	594,440	195,541
	<u>\$ 12,126,625</u>	<u>\$ 14,898,387</u>

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

	Three months ended	
	February 28, 2017	February 29, 2016
Canada	\$ 928,004	\$ 941,318
United States	2,013,516	1,470,150
Chile	376,599	473,020
	<u>\$ 3,318,119</u>	<u>\$ 2,884,488</u>

19. Statements of cash flows:

Changes in non-cash working capital

	Three Months Ended	
	February 28, 2017	February 29, 2016
Accounts receivable	\$ 3,705,851	\$ 509,770
Unbilled revenue	(1,051,679)	530,017
Inventories	43,390	(1,133,378)
Prepaid expenses and deposits	(179,744)	(72,772)
Accounts payable and accrued liabilities	(2,363,954)	(1,091,907)
Deferred revenue	640,493	(76,839)
	<u>\$ 794,357</u>	<u>\$ (1,335,109)</u>

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

Three months ended February 28, 2017 and February 29, 2016

\$ Canadian, except as noted

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	
	February 28, 2017	February 29, 2016
Executive officers' compensation		
Wages and salaries	\$ 223,709	\$ 253,815
Statutory and other benefits	3,351	2,894
Contributions to defined contribution plans	13,447	13,825
Share-based compensation	—	2,391
	240,507	272,925
Directors' compensation	59,250	37,750
	\$ 299,757	\$ 310,675