INTERNATIONAL ROAD DYNAMICS INC.

Unaudited Interim Condensed Consolidated Financial Statements

Three and nine months ended August 31, 2014 and 2013

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

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Financial Position

Unaudited

Canadian Dollars	Note		August 31, 2014		November 30, 2013
Assets					
Current assets:					
Cash and cash equivalents	4	$	1,363,189	$	1,389,874
Accounts receivable			11,310,068		9,940,910
Unbilled revenue			3,323,860		3,192,468
Inventories	5		6,607,737		5,822,522
Prepaid expenses and deposits			1,547,868		958,776
			24,152,722		21,304,550
Property, plant and equipment	6		2,085,945		1,836,403
Investment in XPCT	7		5,727,505		5,434,735
Investment tax credits recoverable			2,585,023		2,450,023
Deferred taxes			947,304		1,072,344
		$	35,498,499	$	32,098,055
Liabilities and Shareholders' Equity					
Current liabilities:					
Bank indebtedness	8	$	7,026,664	$	5,663,619
Accounts payable and accrued liabilities			5,312,849		5,267,320
Income taxes payable			327,687		341,501
Current portion of deferred revenue			3,646,334		2,382,839
			16,313,534		13,655,279
Deferred revenue			893,207		876,215
Shareholders' equity:					
Share capital	11		12,099,992		12,077,209
Contributed surplus			301,748		293,304
Retained earnings			6,093,802		5,186,945
Accumulated other comprehensive income			(203,784)		9,103
			18,291,758		17,566,561
		$	35,498,499	$	32,098,055

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interrim Condensed Consolidated Statements of Earnings
Unaudited

Canadian Dollars	Note	Three months ended August 31, 2014	Three months ended August 31, 2013	Nine months ended August 31, 2014	Nine months ended August 31, 2013
Revenue	10	$ 11,904,014	$ 12,014,765	$ 33,782,378	$ 31,068,632
Cost of goods sold		8,051,182	8,178,556	23,383,735	20,923,456
		3,852,832	3,836,209	10,398,643	10,145,176
Administrative and marketing expenses		2,814,603	2,688,819	8,620,668	8,172,872
Research and development, net	12	249,905	232,913	848,386	931,868
Financing costs (income)	15	(198,005)	355,738	(322,001)	439,009
Other (income)		(33,846)	(32,510)	(82,508)	(74,319)
XPCT loss (earnings)	7	109,068	(293,953)	(164,924)	(503,662)
Earnings before income taxes		911,107	885,202	1,499,022	1,179,408
Income tax expense	9	405,534	351,177	592,165	408,801
Net earnings		$ 505,573	$ 534,025	$ 906,857	$ 770,607
Earnings per share	14				
Basic		$ 0.03	$ 0.04	$ 0.06	$ 0.05
Diluted		$ 0.03	$ 0.04	$ 0.06	$ 0.05

Interim Condensed Consolidated Statements of Comprehensive Income
Unaudited

Canadian Dollars	Three months ended August 31, 2014	Three months ended August 31, 2013	Nine months ended August 31, 2014	Nine months ended August 31, 2013
Net earnings	$ 505,573	$ 534,025	$ 906,857	$ 770,607
Other comprehensive income (loss):				
Unrealized foreign currency translation gains (losses)	(269,873)	(159,595)	(212,887)	157,388
Total comprehensive income	$ 235,700	$ 374,430	$ 693,970	$ 927,995

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited

Canadian Dollars	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 1, 2012		$ 12,071,009	$ 281,581	$ 4,274,898	$ (77,907)	$ 16,549,581
Net earnings		-	-	770,607	-	770,607
Other comprehensive income:						
Exchange differences on translation of foreign operations		-	-	-	157,388	157,388
Share-based compensation	11(c)	-	8,443	-	-	8,443
Balance at August 31, 2013		$ 12,071,009	$ 290,024	$ 5,045,505	$ 79,481	$ 17,486,019
Balance at December 1, 2013		$ 12,077,209	$ 293,304	$ 5,186,945	$ 9,103	$ 17,566,561
Issuance of capital stock	11(b)	22,783	(1,909)	-	-	20,874
Net earnings		-	-	906,857	-	906,857
Other comprehensive loss:						
Exchange differences on translation of foreign operations		-	-	-	(212,887)	(212,887)
Share-based compensation	11(c)	-	10,353	-	-	10,353
Balance at August 31, 2014		$ 12,099,992	$ 301,748	$ 6,093,802	$ (203,784)	$ 18,291,758

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 Dollars	Note	Three months ended August 31, 2014	Three months ended August 31, 2013	Nine months ended August 31, 2014	Nine months ended August 31, 2013
Cash flows from (used in):					
Operations:					
Net earnings		$ 505,573	$ 534,025	$ 906,857	$ 770,607
Adjustments for:					
Deferred revenue		1,297,999	(245,536)	1,280,487	361,221
Depreciation	13(b)	154,188	139,575	426,625	396,505
Bad debt expense	16	115,132	304,684	82,171	430,519
Share-based compensation	11(c)	3,451	2,815	10,353	8,443
XPCT loss (earnings)	7	109,068	(293,953)	(164,924)	(503,662)
Interest expense	15	91,983	127,039	285,489	360,770
Loss (gain) on disposal of property, plant and equipment		(13,146)	1,840	(19,522)	1,840
Investment tax credits earned	12	(45,000)	(45,000)	(135,000)	(135,000)
Income tax expense		405,534	351,177	592,165	408,801
Income taxes recovered (paid)		(47,949)	36,794	(504,845)	(83,735)
Other operating items	19	(2,967,232)	(1,837,222)	(3,204,573)	(1,782,470)
		(390,399)	(923,762)	(444,717)	233,839
Investing:					
Dividend received from XPCT	7	-	-	-	491,601
Proceeds from sale of property, plant and equipment		39,882	1,700	52,586	1,700
Additions to property, plant and equipment	6	(397,271)	(247,746)	(747,034)	(511,593)
		(357,389)	(246,046)	(694,448)	(18,292)
Financing:					
Interest paid		(91,983)	(127,039)	(285,489)	(360,770)
Bank indebtedness increase		1,364,264	1,164,586	1,363,045	856,670
Issuance of capital stock	11(b)	9,508	-	20,874	-
		1,281,789	1,037,547	1,098,430	495,900
Increase (decrease) in cash and cash equivalents		534,001	(132,261)	(40,735)	711,447
Exchange rate changes on foreign currency cash balances		(12,092)	(69,573)	14,050	(67,094)
Cash and cash equivalents, beginning of period		841,280	2,003,685	1,389,874	1,157,498
Cash and cash equivalents, end of period		$ 1,363,189	$ 1,801,851	$ 1,363,189	$ 1,801,851

See accompanying notes to interim condensed consolidated financial statements.

1. Reporting entity

International Road Dynamics Inc. is incorporated under the *Canada Business Corporations Act*. The address of its registered office is 702 43rd Street East, Saskatoon, Saskatchewan, Canada, S7K 3T9. The interim condensed consolidated financial statements as at and for the period ended August 31, 2014 comprise International Road Dynamics Inc. and its wholly-owned subsidiaries (together the "Company") and the Company's 50% investment in Xuzhou-PAT Control Technologies Limited (XPCT). The Company is a highway traffic management technology company specializing in supplying products and integrated systems to the global Intelligent Transportation Systems (ITS) industry. The Company's common shares are traded on the Toronto Stock Exchange under the symbol IRD.

2. Basis of preparation

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and, in particular, IAS 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the most recent annual consolidated financial statements as at and for the year ended November 30, 2013.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on October 10, 2014.

(b) Basis of presentation

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

The preparation of the interim condensed consolidated financial statements in 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 condensed consolidated financial statements. Actual results may vary from these estimates. In preparing these interim condensed consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the year ended November 30, 2013.

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.

2. Basis of preparation – continued:

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:

(i) Stage of completion of contracted projects

Contract revenue, contract costs, deferred contract revenue and costs and unbilled revenue 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.

2. Basis of preparation – continued:

(iv) Income taxes, deferred taxes and investment tax credits

The Company operates in a number of tax jurisdictions and is, therefore, required to estimate its income taxes in each of these tax jurisdictions in preparing its financial statements. The Company is also engaged in scientific research and development giving rise to investment tax credits that may be available to reduce future taxes payable in certain jurisdictions. In calculating income taxes and investment tax credits consideration is given to factors such as current and future tax rates in the different jurisdictions, non-deductible expenses, qualifying expenditures and changes in tax law. In addition management makes judgments on the ability of the Company to realize deferred taxes and investment tax credits reported as assets based on their estimations of amounts and timing of future taxable income and future cash flows in the related jurisdiction.

(v) Functional currency

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

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, 2013, except for new accounting standards adopted during this period, as described below.

Accounting standards adopted

Consolidated Financial Statements, Joint Arrangements, and *Disclosure of Interests in Other Entities*

Effective December 1, 2013 the Company adopted IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*. The adoption of these new standards had no impact on the recognition or measurement of any items in the Company's interim condensed consolidated financial statements. Disclosure requirements relating to IFRS 12 are annual disclosures only.

Fair Value Measurement

Effective December 1, 2013 the Company adopted IFRS 13 *Fair Value Measurement* on a prospective basis. The adoption of IFRS 13, which is limited to the Company's embedded derivatives, had no material impact on the Company's disclosure.

3. Significant accounting policies – continued:

Recent accounting pronouncements not yet adopted

Annual Improvement to IFRS

Annual Improvements to IFRS (2010-2012) and (2011-2013). Issued in March 2014 amendments were made to various standards including IFRS 2 *Share–based payments*, IFRS 3 *Business Combinations*, IFRS 8 *Operating Segments*, IFRS 13 *Fair Value Measurement*, IAS 16 *Property Plant and Equipment*, IAS 38 *Intangible Assets*, IAS 24 *Related Party Disclosures*, and IAS 40 *Investment Property*. These amendments are effective for annual periods beginning on or after July 1, 2014. Management is assessing the potential impact of these amendments and does not expect a significant impact.

Financial Instruments

IFRS 9 – *Financial Instruments* provides a single financial instrument accounting standard addressing classification and measurement, impairment, and hedge accounting. The tentative effective date is for annual periods beginning on or after January 1, 2018. Management is currently assessing the potential impact of this standard and does not expect a significant impact.

4. Cash and cash equivalents:

	August 31, 2014	November 30, 2013
Cash	$ 1,340,649	$ 802,903
Short-term investments	-	241,295
Restricted cash	22,540	345,676
	$ 1,363,189	$ 1,389,874

Cash and cash equivalents consist of cash and short-term investments that are highly liquid in nature and have a maturity date of less than 90 days. The Company's cash and cash equivalents are held and transacted with banks and financial counterparties that are considered credit worthy with high credit ratings. However, certain cash held in South Asia is subject to restrictions that require bank approvals to allow repatriation of funds out of the local jurisdiction.

5. Inventories:

	August 31, 2014	November 30, 2013
Raw materials	$ 549,002	$ 547,492
Original equipment manufacturer materials	3,212,832	2,601,904
Work in process	1,652,986	1,783,518
Finished goods	1,192,917	889,608
	$ 6,607,737	$ 5,822,522

During the quarter, inventories expensed within cost of goods sold were $5,282,294 (2013 - $5,369,465) and $14,164,342 for the first nine months (2013 - $13,535,233). During the quarter the Company also recorded a provision for excess and obsolete inventories within cost of goods sold of $nil (2013 - $98,400) and $57,767 for the first nine months (2013 - $123,400).

6. Property, plant and equipment:

	Land and Buildings	Office Equipment	Manufacturing Equipment	Automotive Equipment	Computer Equipment	Computer Software	Total
Cost							
Balance at November 30, 2013	$ 292,149	$ 975,927	$ 2,948,303	$ 1,485,342	$ 2,231,966	$ 1,273,005	$ 9,206,692
Additions	19,678	12,639	241,906	291,748	171,514	9,549	747,034
Disposals	-	-	-	(183,971)	-	-	(183,971)
Effect on movements in exchange rates	(14,647)	7,089	(11,652)	(28,167)	(363)	(557)	(48,297)
Balance at August 31, 2014	$ 297,180	$ 995,655	$ 3,178,557	$ 1,564,952	$ 2,403,117	$ 1,281,997	$ 9,721,458
Accumulated Depreciation							
Balance at November 30, 2013	$ 29,206	$ 901,320	$ 2,336,246	$ 836,269	$ 2,002,110	$ 1,265,138	$ 7,370,289
Additions	11,736	15,867	175,432	157,889	59,396	7,522	427,842
Disposals	-	-	-	(150,906)	-	-	(150,906)
Effect on movements in exchange rates	(2,087)	8,502	(9,888)	(11,267)	3,170	(142)	(11,712)
Balance at August 31, 2014	$ 38,855	$ 925,689	$ 2,501,790	$ 831,985	$ 2,064,676	$ 1,272,518	$ 7,635,513
Carrying Amounts							
Balance at November 30, 2013	$ 262,943	$ 74,607	$ 612,057	$ 649,073	$ 229,856	$ 7,867	$ 1,836,403
Balance at August 31, 2014	$ 258,325	$ 69,966	$ 676,767	$ 732,967	$ 338,441	$ 9,479	$ 2,085,945

7. Investment in XPCT:

	Three months ended		Nine months ended		Year ended
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013	November 30, 2013
Xuzhou-PAT Control Technologies Limited (XPCT)					
Balance, beginning of period	$ 5,795,307	$ 4,886,644	$ 5,434,735	$ 4,875,618	$ 4,875,618
Currency gain on financial statement translation	41,266	124,812	127,846	417,730	423,494
Equity earnings (loss)	(109,068)	293,953	164,924	503,662	885,399
Dividend received	-	-	-	(491,601)	(749,776)
Balance, end of period	$ 5,727,505	$ 5,305,409	$ 5,727,505	$ 5,305,409	$ 5,434,735

The Company had $nil sales to XPCT during the quarter (2013 - $361,367) and $286,781 (2013 - $361,367) in the first nine months under normal trade terms. At August 31, 2014 accounts receivable from XPCT were $18,925 (November 30, 2013 - $120,550).

8. Bank indebtedness:

	August 31, 2014	November 30, 2013
Revolving credit facility of $8.5 million authorized and secured by a general security agreement:		
HSBC Bank Canada - borrowing in Canadian dollars with interest at bank prime plus 1.5%	$ 3,026,096	$ -
HSBC Bank Canada - borrowing in U.S. dollars with interest at US bank base rate plus 1.5%	3,389,060	
Royal Bank of Canada with interest at bank prime plus 3.5%	-	4,850,041
Revolving credit facility authorized and secured by a standby letter of credit of $1.1 million U.S. issued by HSBC Bank Canada and guaranteed by Export Development Canada (EDC):		
The Hongkong and Shanghai Banking Corporation Limited with interest at 13.0%	611,508	813,578
	$ 7,026,664	$ 5,663,619

The Company has no issued letters of credit against the HSBC Bank Canada (HSBC) or the Royal Bank of Canada (RBC) credit facilities as of August 31, 2014 and November 30, 2013 for bid and performance guarantees.

8. Bank indebtedness - continued:

During the first quarter the Company entered into new banking arrangements with HSBC replacing the RBC revolving credit facility. All or a portion of the HSBC 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.

The HSBC demand revolving loan is subject to margins on specific assets 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.

See note 16 for a discussion of liquidity risk.

9. Income taxes:

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

No income tax recovery has been recorded in the Company's Indian subsidiary on year to date losses of $687,995 (2013 - $664,342) due to uncertainty that sufficient future earnings will be generated in this entity to offset current tax losses prior to expiry.

10. Revenue:

	Three months ended		Nine months ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Contracted projects	$ 4,645,067	$ 5,727,308	$ 14,038,474	$ 12,719,507
Service	4,118,315	3,560,759	11,069,150	11,300,621
Products	3,140,632	2,726,698	8,674,754	7,048,504
Total	$ 11,904,014	$ 12,014,765	$ 33,782,378	$ 31,068,632

11. Share capital:

(a) Authorized:

An unlimited number of common voting shares, without par value.

(b) Share transactions:

	Number of shares	Amount
Balance, November 30, 2013	14,018,337	$ 12,077,209
Shares issued on exercise of stock options	62,499	22,783
Balance, August 31, 2014	14,080,836	$ 12,099,992

(c) Options:

Under the terms of the Company's stock option plan, the Company is authorized to grant officers, employees and others options to purchase common shares at prices based on the market price of shares as determined on the date of the grant. At August 31, 2014 460,665 (November 30, 2013 – 455,665) 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 August 31, 2014, the following stock options to officers, employees and others were outstanding:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding at August 31, 2014	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at August 31, 2014	Weighted-Average Exercise Price
$ 0.31	735,001	2.16	$ 0.31	466,651	$ 0.31
0.43	87,500	3.19	0.43	20,833	0.43
0.44	40,000	3.26	0.44	13,333	0.44
0.63	200,000	4.11	0.63	-	-
1.20	525,000	4.50	1.20	525,000	1.20
	1,587,501	3.26	$ 0.65	1,025,817	$ 0.77

11. Share capital (continued):

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

	Number of Common Shares Issuable	Weighted Average Exercise Price
Outstanding, November 30, 2013	1,655,000	$ 0.64
Options exercised	(62,499)	0.33
Options forfeited	(5,000)	0.31
Outstanding, August 31, 2014	1,587,501	$ 0.65

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

Share-based compensation expense of $3,451 and $10,353 was recorded for the three and nine months ended August 31, 2014 (2013 - $2,815 and $8,443) along with a corresponding increase in contributed surplus in shareholders' equity for options vesting during the period.

12. Research and development, net:

	Three months ended		Nine months ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Research and development expenditures	$ 294,905	$ 277,913	$ 983,386	$ 1,066,868
Less investment tax credits	(45,000)	(45,000)	(135,000)	(135,000)
	$ 249,905	$ 232,913	$ 848,386	$ 931,868

13. Expense classification:

(a) Personnel expenses:

	Three months ended		Nine months ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Wages and salaries	$ 3,183,273	$ 3,048,984	$ 9,647,386	$ 8,952,541
Statutory benefits	174,948	191,343	652,687	561,927
Other employment benefits	168,584	174,331	543,184	514,922
Defined contribution plans	69,598	65,670	204,444	190,810
Share-based payment transactions	3,451	2,815	10,353	8,443
	$ 3,599,854	$ 3,483,143	$11,058,054	$10,228,643

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

13. Expense classification - continued:

(b) Depreciation expense:

	Three months ended August 31, 2014	Three months ended August 31, 2013	Nine months ended August 31, 2014	Nine months ended August 31, 2013
Depreciation on property, plant and equipment	$ 153,685	$ 138,235	$ 427,842	$ 395,299
Add: Depreciation in opening inventory	16,598	16,329	14,878	16,195
Less: Depreciation in closing inventory	(16,095)	(14,989)	(16,095)	(14,989)
Depreciation expense	$ 154,188	$ 139,575	$ 426,625	$ 396,505
Depreciation expense is allocated as follows:				
Cost of goods sold	$ 117,352	$ 104,287	$ 333,183	$ 306,317
Administration and marketing expenses	36,836	35,288	93,442	90,188
	$ 154,188	$ 139,575	$ 426,625	$ 396,505

14. Earnings per share:

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

	Three months ended August 31, 2014	Three months ended August 31, 2013	Nine months ended August 31, 2014	Nine months ended August 31, 2013
Net earnings	$ 505,573	$ 534,025	$ 906,857	$ 770,607
Weighted average number of common shares outstanding:				
Basic	14,064,333	13,998,337	14,039,863	13,998,337
Effect of stock options	495,310	269,702	495,310	269,702
Diluted	14,559,643	14,268,039	14,535,173	14,268,039
Earnings per share:				
Basic	$ 0.03	$ 0.04	$ 0.06	$ 0.05
Diluted	$ 0.03	$ 0.04	$ 0.06	$ 0.05

The Company has stock options outstanding to purchase 1,587,501 common shares at August 31, 2014 (August 31, 2013 – 1,475,000).

15. Financing costs (income):

	Three months ended		Nine months ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Interest on bank indebtedness	$ 91,983	$ 127,039	$ 285,489	$ 360,770
Bad debt expense (note 16)	115,132	304,684	82,171	430,519
Foreign exchange (gains)	(405,120)	(75,985)	(689,661)	(352,280)
	$ (198,005)	$ 355,738	$ (322,001)	$ 439,009

16. Financial risk:

The Board of Directors is responsible to ensure that management identifies the principal risks of the Company's business and for the implementation of appropriate measures for dealing with and managing these risks.

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

Credit risk:

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

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

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

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

	Three months ended		Nine months ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Balance, beginning of period	$ 1,696,750	$ 1,151,324	$ 1,623,348	$ 1,006,851
Bad debt expense	115,132	304,684	82,171	430,519
Recovery (write offs)	47	(67,125)	818	(67,417)
Foreign currency revaluation	(34,148)	(128,830)	71,444	(109,900)
Balance, end of period	$ 1,777,781	$ 1,260,053	$ 1,777,781	$ 1,260,053

16. Financial risk (continued):

Accounts receivable include amounts due from customers in both the government and private industry sectors which exposes the Company to risk of nonpayment. Government accounts are considered secure and are normally not subjected to extensive credit reviews. Industry accounts are subject to internal credit review in order to minimize risk of non-payment. 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.

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 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 nine months ended August 31, 2014 approximately 82% (2013 – 79%) of the Company's sales were denominated in U.S. dollars. The average Canadian exchange rate against the U.S. dollar weakened during the first nine months of 2014 relative to the first nine months of 2013 by approximately 7.0%. This resulted in an increase in the Canadian dollar value of the Company's U.S. dollar denominated sales of approximately $1.8 million during the first nine months of 2014.

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 period ended August 31, 2014 the Company had no foreign exchange forward contracts.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they become due. The Company facilitates this in part by maintaining a line of credit in the amount of $8.5 million with HSBC, as disclosed in note 8. At August 31, 2014 the remaining amount available to be drawn under this credit facility based on margin capacity is approximately $2.1 million.

16. Financial risk (continued):

The Company maintains an operating line of credit 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 August 31, 2014 an amount of 34.0 million Indian rupees ($0.6 million) was drawn upon this facility. EDC has guaranteed this facility up to November 30, 2014 at which time it is up for renewal.

In addition, EDC has provided a guarantee to May 31, 2015 of the Company's additional HSBC credit facility of $900,000 U.S. (November 30, 2013 – HSBC $900,000 U.S. and RBC $350,000 U.S.) for the support of performance guarantees provided by the Company's Indian subsidiary. As at August 31, 2014, the Canadian dollar value of outstanding performance guarantees totaled $55,710 (November 30, 2013 - $234,162). The Company's Chilean subsidiary also maintains a secured line of credit to support performance guarantees required for selected projects. As at August 31, 2014, the Canadian dollar value of these performance guarantees totaled $877,421 (November 30, 2013 - $546,325).

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 subsidiary. Estimates of fair value for embedded derivatives are determined using Level 2 measurements. At August 31, 2014 and November 30, 2013, no other 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.

17. Commitments

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

Due within 1 year	$	579,000
Due between 1 and 2 years		579,000
Due between 2 and 3 years		579,000
Due between 3 and 4 years		579,000
Due between 4 and 5 years		579,000
Thereafter		2,096,290
	$	4,991,290

During the three and nine months ended August 31, 2014 and in the prior year's comparative periods $144,750 and $434,250 were recognized as an expense in respect of the operating lease for land and building.

The Company has provided a guarantee in the amount of 7.5 million yuan or $1.3 million (November 30, 2013 – 7.5 million yuan or $1.3 million) for 50% of a bank loan to XPCT. The guarantee provided by the Company is proportionate to its shareholding in XPCT.

18. Segmented information:

The Company operates in one industry segment, the ITS industry, which involves the engineering, software development, manufacturing and integration of products and systems to improve the efficiency of traffic flows.

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

Revenue as disclosed in the following tables is from internal and external customers with intersegment revenue and expenditures eliminated on consolidation.

18. Segmented information - continued:

Three Months Ended August 31, 2014	Canada and United States	Latin America	South Asia	Intersegment Adjustments	Total
Revenue	$ 10,097,693	$ 1,669,277	$ 282,350	$ (145,306)	$ 11,904,014
Cost of goods sold	7,007,923	1,014,483	204,247	(175,471)	8,051,182
	3,089,770	654,794	78,103	30,165	3,852,832
Administrative and marketing expenses	2,017,019	538,938	258,646	-	2,814,603
Research and development, net	228,738	21,167	-	-	249,905
Financing costs (income)	102,954	(384,400)	83,441	-	(198,005)
Other expense (income)	(21,859)	(14,049)	2,062	-	(33,846)
XPCT loss	109,068	-	-	-	109,068
Earnings (loss) before income taxes	653,850	493,138	(266,046)	30,165	911,107
Income tax expense	299,689	97,487	-	8,358	405,534
Net earnings (loss)	$ 354,161	$ 395,651	$ (266,046)	$ 21,807	$ 505,573

Three Months Ended August 31, 2013	Canada and United States	Latin America	South Asia	Intersegment Adjustments	Total
Revenue	$ 10,138,077	$ 1,635,936	$ 376,004	$ (135,252)	$ 12,014,765
Cost of goods sold	6,872,556	1,052,727	414,271	(160,998)	8,178,556
	3,265,521	583,209	(38,267)	25,746	3,836,209
Administrative and marketing expenses	1,878,541	520,435	289,843	-	2,688,819
Research and development, net	253,236	(20,859)	536	-	232,913
Financing costs	91,208	111,279	153,251	-	355,738
Other expense (income)	2,359	(16,053)	(18,816)	-	(32,510)
XPCT (earnings)	(293,953)	-	-	-	(293,953)
Earnings (loss) before income taxes	1,334,130	(11,593)	(463,081)	25,746	885,202
Income tax expense	281,393	59,109	-	10,675	351,177
Net earnings (loss)	$ 1,052,737	$ (70,702)	$ (463,081)	$ 15,071	$ 534,025

18. Segmented information - continued:

Nine Months Ended August 31, 2014	Canada and United States	Latin America	South Asia	Intersegment Adjustments	Total
Revenue	$ 27,407,387	$ 5,866,319	$ 982,782	$ (474,110)	$ 33,782,378
Cost of goods sold	19,357,418	3,742,156	758,347	(474,186)	23,383,735
	8,049,969	2,124,163	224,435	76	10,398,643
Administrative and marketing expenses	6,239,787	1,647,241	733,640	-	8,620,668
Research and development, net	726,830	121,556	-	-	848,386
Financing costs (income)	53,040	(557,039)	181,998	-	(322,001)
Other (income)	(24,460)	(54,840)	(3,208)	-	(82,508)
XPCT (earnings)	(164,924)	-	-	-	(164,924)
Earnings (loss) before income taxes	1,219,696	967,245	(687,995)	76	1,499,022
Income tax expense (recovery)	422,028	170,269	-	(132)	592,165
Net earnings (loss)	$ 797,668	$ 796,976	$ (687,995)	$ 208	$ 906,857
Current assets	$ 16,362,320	$ 5,256,567	$ 2,713,072	$ (179,237)	$ 24,152,722
Investment in XPCT	5,727,505	-	-	-	5,727,505
Other non-current assets	14,000,116	917,567	-	(9,299,411)	5,618,272
Total assets	$ 36,089,941	$ 6,174,134	$ 2,713,072	$ (9,478,648)	$ 35,498,499
Total liabilities	$ 14,059,184	$ 1,611,501	$ 9,967,666	$ (8,431,610)	$ 17,206,741

Nine Months Ended August 31, 2013	Canada and United States	Latin America	South Asia	Intersegment Adjustments	Total
Revenue	$ 24,211,477	$ 5,065,252	$ 2,469,755	$ (677,852)	$ 31,068,632
Cost of goods sold	16,488,112	3,151,149	2,090,871	(806,676)	20,923,456
	7,723,365	1,914,103	378,884	128,824	10,145,176
Administrative and marketing expenses	5,906,238	1,531,356	735,278	-	8,172,872
Research and development, net	782,830	148,416	622	-	931,868
Financing costs (income)	151,632	(38,765)	326,142	-	439,009
Other (income)	(24,807)	(30,696)	(18,816)	-	(74,319)
XPCT (earnings)	(503,662)	-	-	-	(503,662)
Earnings (loss) before income taxes	1,411,134	303,792	(664,342)	128,824	1,179,408
Income tax expense	307,984	67,861	-	32,956	408,801
Net earnings (loss)	$ 1,103,150	$ 235,931	$ (664,342)	$ 95,868	$ 770,607
Current assets	$ 15,578,340	$ 5,106,084	$ 3,355,525	$ (359,385)	$ 23,680,564
Investment in XPCT	5,305,409	-	-	-	5,305,409
Other non-current assets	12,733,376	665,254	-	(8,202,855)	5,195,775
Total assets	$ 33,617,125	$ 5,771,338	$ 3,355,525	$ (8,562,240)	$ 34,181,748
Total liabilities	$ 13,252,427	$ 1,555,605	$ 9,440,737	$ (7,553,040)	$ 16,695,729

18. Segmented information - continued:

Revenue from external customers by geographic area is as follows:

	Three months ended		Nine months ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Canada	$ 672,486	$ 886,861	$ 1,759,435	$ 2,247,210
United States	7,482,396	8,087,139	20,787,545	18,925,240
Latin America	1,667,870	1,635,936	5,810,360	5,065,252
South Asia	282,350	376,004	982,782	2,469,755
Other offshore	1,798,912	1,028,825	4,442,256	2,361,175
Total	$ 11,904,014	$ 12,014,765	$ 33,782,378	$ 31,068,632

19. Statements of cash flows:

Other operating items

	Three months ended		Nine months ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Accounts receivable	$ (2,332,278)	$ 229,975	$ (1,605,527)	$ 294,208
Unbilled revenue	554,394	(1,545,786)	(182,913)	(167,465)
Inventories	(259,497)	(689,287)	(875,693)	(1,062,782)
Prepaid expenses and deposits	(322,769)	(36,638)	(631,325)	(259,571)
Accounts payable and accrued liabilities	(607,082)	204,514	90,885	(586,860)
	$ (2,967,232)	$ (1,837,222)	$ (3,204,573)	$ (1,782,470)

20. Key management personnel and directors compensation:

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

Upon resignation executive officers are subject to a notice term of two or four months. Executive officers are entitled to termination benefits ranging from 12 to 18 months' gross salary.

Key management and directors compensation includes:

	Three months ended		Nine months ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Salaries and short-term employee benefits	$ 311,242	$ 272,667	$ 881,992	$ 823,746
Share-based compensation	2,036	1,281	6,106	3,843
	$ 313,278	$ 273,948	$ 888,098	$ 827,589

21. Comparative figures:

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