A CHANGING WORLD

INTERNATIONAL ROAD DYNAMICS INC.

ANNUAL REPORT 2008

International Road Dynamics Inc. (IRD) is a highway traffic management technology company specializing in supplying systems and products to the global (ITS) Intelligent Transportation Systems industry.

What is ITS? Intelligent Transportation Systems refers to the integration of information and communications technology within transportation infrastructures and vehicles for the purpose of "enhanced safety", "reduced vehicle wear" and "sustaining the environment".

IRD's ITS technologies include automated truck weigh station systems, automated toll road systems, Weigh-in-Motion systems, advanced traffic control, management and data collection systems, in-vehicle driver monitoring systems and complementary products. The Company provides support with long-term service and maintenance contracts.

ANNUAL MEETING

The Annual Shareholders' Meeting will be held at IRD Corporate Office, 702 43rd Street East, Saskatoon, SK Wednesday, June 17 at 3:00. (Saskatoon time).

www.irdinc.com

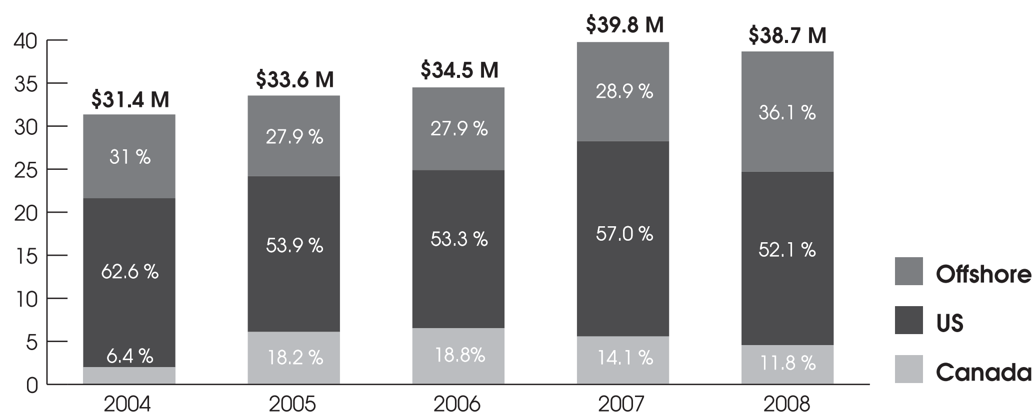
Financial Highlights:

Period Ended November 30 (in $000 except per share amounts)	2008	2007
Sales		
Canada	4,567	5,590
United States	20,143	22,673
Offshore	13,964	11,499
	38,674	39,762
Net Earnings	(541)	1,365
EPS - Basic	($ 0.04)	$ 0.10
Working Capital	4,150	9,581
Shareholders' Equity per Share	$ 1.26	$ 1.20

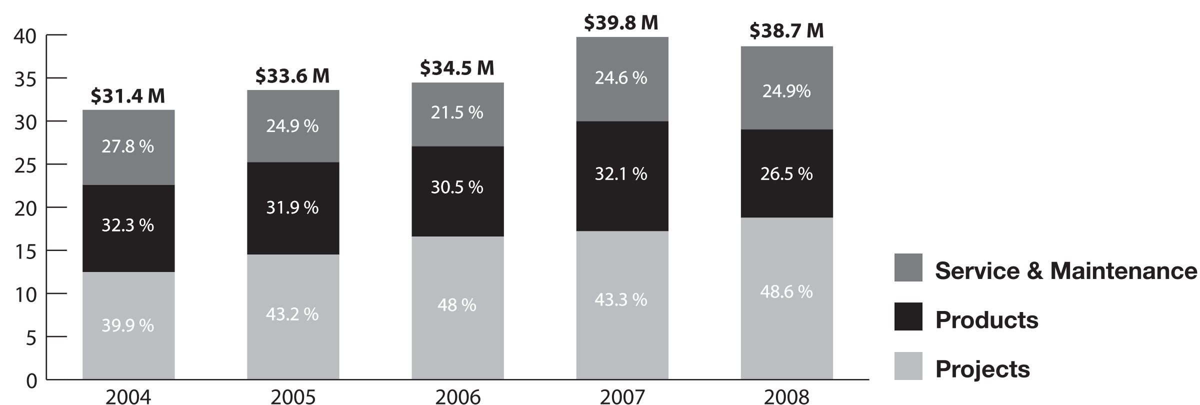
Operating Highlights:

- Solid 21% increase in international sales
- Chile and India subsidiaries performing well
- Acquired Xuzhou-Pat Control Technologies Limited in China
- Fourth quarter 24% sales increase bodes well for improved 2009

Revenues by Geographic Market for last five years ($ millions)



Revenues by Market for last five years ($ millions)



Report to Shareholders

Solid Progress in a Challenging Environment

Our performance in fiscal 2008 was impacted primarily by delays in the awarding of contracts in North America due to the slowing economy. We entered the year with a reduced order backlog, and new order levels were lower than anticipated through the first ten months of the year. However, we did experience a considerable pick-up in the fourth quarter across all of our geographic segments and most of our product lines, resulting in consolidated sales increasing almost 24% compared to the prior year's fourth quarter. This positive momentum bodes well for an improved fiscal 2009.

In addition, our initiatives over the last few years to leverage our strong North American presence and build our business in overseas markets, including India, China and Chile, resulted in a 21.4% increase in international sales in fiscal 2008, helping to mitigate the slowdown in North America. Going forward, we are confident our overseas business will continue to grow. In fiscal 2004 we generated sales of only $4 million in our overseas markets. In fiscal 2008, this segment of our business generated sales of just under $14 million or approximately 36% of total revenues, a considerable achievement. We believe our expanding overseas presence will contribute to improved stability as well as a significant long-term growth opportunity.

We also increased our efforts in fiscal 2008 to expand revenues from our service and maintenance business as well as our presence in the city, municipal and private sectors, and generated solid progress in these newer markets during the year.

A Better 2009

Looking ahead, we expect we will generate improved performance in fiscal 2009. We entered the new year with a solid almost 50% increase in our backlog of confirmed orders, with a majority scheduled for delivery during the 2009 fiscal year. To augment these confirmed orders, we expect we will see solid growth in new business across most of our geographic markets:

- In the United States and Canada, we believe government-sponsored economic stimulus programs will accelerate a number of the "shovel-ready" infrastructure projects requiring IRD solutions that had previously been delayed.

- Our South Asia subsidiary should experience further growth as it builds on the strong presence it has achieved, particularly in India.

- Our South American operations in Chile will see stable performance as their multi-year service and maintenance contracts continue.
- Our new subsidiary in China, Xuzhou-PAT Control Technologies Limited (XPCT), which experienced a number of contract award delays in fiscal 2008, is now seeing increased momentum as orders for new toll systems and other ITS technologies are increasing.

With this expected growth in revenues in fiscal 2009, we have also taken steps to enhance our profitability with the implementation of a number of programs to reduce costs and enhance efficiency. General compensation adjustments and certain benefits programs have been reduced or postponed, travel and trade-show attendance budgets have been significantly reduced, overhead costs have been cut, and non-essential capital projects have been delayed. All of these initiatives will also increase our cash flow and reduce debt.

A Positive Outlook

As a result of the expected growth in sales and reductions in our overhead and operating costs, we anticipate an improved year in fiscal 2009. More importantly, it is over the longer term that we believe we will see more significant growth as the investments we have made in solidifying our presence in our traditional North American markets and successfully entering new overseas regions will generate solid returns.

Despite the near-term economic pressures, our North American business will remain steady with increasing recurring revenue returns as a result of continued growth in maintenance and service contracts and continued deployment of our systems in Canada and the United States. Looking outside North America, we are most excited about our potential for growth in India, China, and South America. For the foreseeable future, we believe both governments and the private sector in these regions will continue to invest heavily in infrastructure development, including highway construction and toll road concessions. Previous investments in our overseas operations are just now starting to show returns, and we expect our international business will continue to grow and make a solid contribution to our profits and cash flow in the years ahead.

Well Positioned

Since inception, IRD's strategic plan has been built around the evolution of highway transportation infrastructure and advances in "in vehicle" systems. Ultimately, these technological solutions will combine and lead to a single vertical market referred to as the "Automated Highway System" or AHS. This infrastructure evolution will see vehicles communicating with sensors, road side controllers and other vehicles, while providing access to enforcement and other agencies for remote and local validation of drivers, compliance with vehicle licensing and insurance requirements, and verification of conformance to other regulatory requirements including hours of service, taxes, etc.

Over the last few years our product development investments and improvements have ensured IRD will remain an active and growing participant as the AHS becomes a reality over the next decade. Our proprietary Weigh-in-Motion technologies that detect and weigh vehicles at highway speeds have been integrated into a number of products and system solutions that will meet the needs of this evolving market. Our Traffic Data Collection and Commercial Vehicle Operations were custom solutions that built on this Intellectual Property. Our core expertise and associated technologies have also resulted in the development of additional solutions for these markets, including Highway Toll Systems, Security and Safety Solutions, In-Vehicle-Systems (IVS) and Automated Vehicle Location (AVL) systems. To augment our systems sales and to capitalize on our expanding base of installed equipment, a growing share of our business has come through system upgrades and the provision of maintenance and service support. Recurring revenues will continue to provide a solid foundation for our business going forward.

In order to ensure that IRD continues to be a major supplier of technology supporting the AHS, we are integrating our traditional sensors with state-of-the-art electronics and controllers to provide increasingly more accurate vehicle, road and traffic information. The development of our iSINC electronics provides us with a roadside conduit, while our IVS technologies provide the ability to support communications between a vehicle and both fixed and portable roadside equipment, as well as central control systems or data servers using various wireless communication technologies. These servers will provide valuable information to vehicle toll and traffic management systems, roadway and maintenance operations and other services. Access to this data may be provided through an Application Service Provider (ASP) service by IRD and over the long term we intend to work in partnership with roadway operators,

government highway agencies and concessionaires to provide products and services incorporating our enabling technologies to support them with long term contracts that grow our business through increased recurring revenue streams.

Our success in providing systems for Intelligent Transportation Systems (ITS) programs in North America has allowed us to demonstrate our technology, knowledge and capabilities to deploy a number of our products and systems worldwide. The global ITS industry is a high growth market, and IRD remains well positioned to capitalize on this opportunity. Our international business has not only helped us through North American funding cycle delays, it provides IRD with a longer term and more stable recurring revenue stream while mitigating the risk of underperformance in any one market or region. We also recognize that international markets require certain modifications to our products and systems to suit local conditions and requirements and, as a result, our strategy has been to provide our base product offering and to complete customer specific requirements and interfaces in-country, thereby reducing our costs and risk. In support of this objective, our iSINC electronics platform has been designed with an open architecture while supporting local requirements and standards in our markets. Going forward, we will continue to identify international business opportunities where we can enter long term partnerships with a qualified local presence to deliver, maintain and service our systems.

In closing, while we recognize that we did not meet expectations in fiscal 2008, we believe 2009 will be a much better year. More importantly, over the longer term we remain confident that the investments made in our technologies, our solutions, our markets and our people will lead to steadily improving performance and enhanced value for our shareholders.

Terry Bergan
President and CEO

Management's Discussion & Analysis of Operating Results

For the Three and Twelve months ended, November 30, 2008

The following discussion and analysis of International Road Dynamics Inc. ("IRD" or the "Company") operating results, financial position and cash flows has been prepared by management as of April 27, 2009. The discussion and analysis is based on the Company's consolidated financial statements for the year ended November 30, 2008 and 2007 and should be read with reference to those financial statements and the accompanying notes.

Overview

International Road Dynamics Inc. is a supplier of integrated systems, products and services to the worldwide Intelligent Transportation Systems (ITS) Industry. The core strength of the Company is its ability to utilize a variety of technologies, including the Company's patented Weigh-In-Motion technology, to detect, classify and weigh vehicles at highway speeds. This allows the Company to deliver computer automated systems for commercial vehicle operations, management and safety at truck weigh stations, border crossings, bus depots and elsewhere, highway traffic data collection, traffic safety, open and closed highway toll collection, driver and vehicle management services.

The following is a breakdown of the Company's revenues for the fourth quarter and year ended November 30:

	Three Months Ended November 30		Twelve Months Ended November 30	
	2008	2007	**2008**	2007
Commercial vehicle systems	$ 4,383,247	$ 2,534,318	$ 10,323,279	$ 9,115,021
Data collection systems	567,889	697,557	2,219,617	3,880,370
Toll systems	939,918	584,313	3,789,795	1,117,523
Maintenance contracts	3,074,260	2,245,736	9,633,528	9,777,566
Product sales	2,571,984	3,131,592	10,261,735	12,777,426
In-vehicle systems	771,120	749,243	2,446,598	3,093,880
	12,308,418	9,942,759	**38,674,552**	39,761,786

The Company's revenues are derived from selling integrated systems, products, and maintenance. Integrated systems are made up of a combination of the Company's proprietary hardware and software technology, custom engineering, installation and setup services, OEM equipment such as variable message signs, cameras and automatic vehicle identification readers, transponders, and construction and electrical services, which are subcontracted.

Revenues in the year ended November 30, 2008 were slightly lower than the prior year due primarily to certain delays in the award of commercial vehicle system and data collection contracts in North America during the latter half of fiscal 2007 and the first nine months of 2008, partially offset by increased revenues from projects in Mexico, South America and Africa. Through the last quarter of 2008, despite the slowdown in the U.S. economy and expected changes in U.S. transportation funding, contract awards have met forecasts and on average, this aspect of the Company's business is expected to continue at the same level for the next 1 – 2 years. Although early indications are that the stimulus package in the U.S. will have a positive impact on the Company's business, it is still too early to be certain.

Revenue from toll systems has increased from the previous year as a result of the award of new toll projects in India during the latter part of fiscal 2007 and fiscal 2008. These revenues are expected to continue to grow given orders that are in house and planned for delivery during 2009.

Although maintenance contract revenues are slightly lower than in fiscal 2007, the Company continues to expect recurring maintenance contract revenues to increase over the long term. These contracts include an increasing portion of additional value added data services which is consistent with the Company's strategy to become an Application Services Provider (ASP) for data collection, in-vehicle and maintenance contracts.

Product sales during the year have declined from those levels attained in 2007 during which time orders from international markets, especially Asia, were very strong. The Company expects product sales to continue to comprise a significant portion of its future revenues.

As part of its effort to diversify its revenue base, the Company has developed specialized in-vehicle driver management - GPS systems by integrating hardware from various suppliers. Although sales of these systems in 2008 were lower than in 2007, this is primarily due to the timing of new projects. Management believes that significant interest in the oil and gas sector and a number of global opportunities with existing oil and gas customers in conjunction with continued orders from both existing and new private sector fleet operators in certain niche markets and government agencies are expected to result in continued growth on an ongoing basis.

Since its acquisition in 2003 the Company's subsidiary in Chile continues to experience strong growth in its domestic market and is expected to see increasing revenues through expansion into Mexico in addition to supporting the activities of the Company's distributors throughout Latin America. The acquisition in December 2007 of a 50% interest in Xuzhou-PAT Control Technologies Limited continues the Company's strategic plan of geographic diversification by expanding its presence in the growing Chinese market. During the fourth quarter of fiscal 2008 the Company also announced the establishment of its new subsidiary International Road Dynamics Africa Limited to expand its presence in the African region.

Operating Results

The following selected financial information (in $000's except earnings (loss) per share) is derived from the Company's annual consolidated financial statements:

	2008	2007	2006	2005	2004
Sales	$ 38,675	$ 39,762	$ 34,481	$ 33,550	$ 31,356
EBITDA*	1,220	3,753	3,078	2,409	(12)
Net earnings (loss)	(541)	1,365	1,456	962	(917)
Earnings (loss) per share - basic & diluted	(0.04)	0.10	0.11	0.07	(0.07)
Total assets	43,007	33,297	31,759	25,353	26,162
Total long-term financial liabilities	8,686	4,709	3,773	1,534	2,109

* See Non-GAAP Measure

The following selected financial information (in $000's except earnings (loss) per share) is derived from the Company's consolidated financial statements for the fourth quarter and year to date:

	Three Months Ended November 30		**12 Months Ended November 30**	
	2008	2007	**2008**	2007
Sales	$ 12,308	$ 9,943	$ 38,675	$ 39,762
EBITDA	610	634	1,220	3,753
Net earnings (loss)	1	(34)	(541)	1,365
Earnings (loss) per share - basic & diluted	0.00	0.00	(0.04)	0.10
Total assets	43,007	33,297	43,007	33,297
Total long-term financial liabilities	8,686	4,709	8,686	4,709

Quarterly operating results may fluctuate throughout the year with the first quarter traditionally being the weakest due to the project schedules, primarily in North America.

Amendment and Restatement of Prior Periods

In the course of the audit of its consolidated financial statements for the year ended November 30, 2008 the Company discovered that it had erred in its reporting of equity earnings and currency gains on translation of its investment in Xuzhou-PAT Control Technologies Limited (XPCT) in the first three quarters of 2008. In the interim financial statements for the first three quarters of 2008 these gains were included in equity earnings reported for XPCT whereas the correct treatment is to report these translation gains as other comprehensive income in shareholders' equity. In addition, in the course of preparing its consolidated financial statements for the fourth quarter of 2008 the Company discovered an error in its project accounting whereby certain expenses in the second quarter of 2008 were understated. The correction of these errors has the effect of reducing net earnings reported previously for the first three quarters of 2008.

All following information including comparative information for the first three quarters of 2008 has been restated to reflect proper accounting treatment for equity investments in these periods and project accounting for expenses during the second quarter of 2008.

Following is a table of operating results (in $000's) for the eight most recently completed quarters.

	2008				2007			
	4th Qtr	3rd Qtr*	2nd Qtr*	1st Qtr*	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
Sales	$ 12,308	$ 10,209	$ 9,226	$ 6,932	$ 9,943	$ 10,399	$ 11,124	$ 8,296
EBITDA	610	742	(203)	71	634	962	1,292	865
Net earnings (loss)	1	188	(499)	(231)	(34)	298	714	387
Earnings (loss) per share - basic & diluted	0.00	0.01	(0.03)	(0.02)	0.00	0.02	0.05	0.03

* As restated.

The Company recorded revenues of $12,308,418 in the fourth quarter of 2008, compared to $9,942,759 in the fourth quarter of 2007. Revenues in the fourth quarter of 2008 were higher as a result of the timing for delivery and installation of certain projects for commercial vehicle systems in Canada and the U.S. Revenues for the year ended November 30, 2008 were $38,674,552 compared to $39,761,786 for the year ended November 30, 2007.

Approximately 70% of the Company's sales are denominated in U.S. dollars. During the fiscal year 2008 the Canadian dollar had strengthened against the U.S. dollar by approximately 4%. This resulted in a decrease in the Canadian dollar value of the Company's U.S. dollar denominated sales of approximately $1.1 million during the 2008 fiscal year. This impact is partially offset by the corresponding lower value of U.S. dollar denominated expenses.

Gross margin for the fourth quarter of 2008 was 27.4% of sales compared to 32.6% in the fourth quarter of 2007. For the year ended November 30, 2008 gross margin as a percentage of revenues was 28.8% compared to 31.9% for the same period in 2007. The decline in gross margin was due primarily to a provision for inventory obsolescence amounting to approximately $0.2 million recorded in the fourth quarter of 2008 and decreased offshore sales of IRD product in 2008 compared with 2007.

Earnings before interest, taxes, depreciation and amortization (EBITDA) were $610,107 in the fourth quarter of fiscal 2008 compared to $634,260 in the same prior year period. For the year ended November 30, 2008 EBITDA was $1,219,714 compared to $3,752,900 in the previous year. EBITDA declined in fiscal 2008 as a result of lower revenues, lower gross margin, higher administrative and marketing expenses and loss from equity investments.

Results for the fourth quarter of 2008 include loss from equity investments of $346,713 compared with a loss from equity investments of $217,000 for the fourth quarter of 2007. Loss from equity investments was $529,286 for the year ended November 30, 2008 compared with earnings of $203,000 for the year

ended November 30, 2007. Loss from equity investments in 2008 includes results from the Company's investment in Xuzhou-PAT Control Technologies Limited (XPCT) acquired in December 2007. The decline in equity earnings during the fourth quarter of 2008 and the twelve months ended November 30, 2008 results from delays in the award of projects in China and losses from Pat Traffic Brazil – see Equity Investments.

Net earnings for the fourth quarter of 2008 were $993 or $0.00 per share, basic and diluted, compared to a net loss of $(34,260) or $0.00 per share, basic and diluted, for the fourth quarter of 2007. For the year ended November 30, 2008 the Company reported net loss of $(540,723) or $(0.04) per share, basic and diluted, compared to net earnings of $1,364,944 or $0.10 per share, basic and diluted, for the year ended November 30, 2007.

Following is a breakdown of the Company's sales for the fourth quarter and fiscal year by geographic area:

	Three Months Ended November 30		Twelve Months Ended November 30	
	2008	2007	**2008**	2007
Canada	$ 1,595,295	$ 1,112,107	$ 4,567,135	$ 5,590,213
United States	6,585,844	5,399,464	20,143,392	22,673,272
Offshore	4,127,279	3,431,188	13,964,025	11,498,301
	$ 12,308,418	$ 9,942,759	**$ 38,674,552**	$ 39,761,786

The higher revenues in Canada during the year ended November 30, 2007 were primarily attributable to two significant contracts for the delivery and installation of data collection and truck pre-clearance sites; these contracts were completed during the 2007 fiscal year.

Revenues from the United States for the fiscal year 2008 were lower than in 2007 primarily as a result of decreased revenues from maintenance contracts, commercial vehicle systems, data collection systems and in-vehicle driver management-GPS systems.

Offshore sales revenues during the year ended November 30, 2008 are higher than those in the previous year due to increased revenues from toll systems in India and a significant weigh station delivery to the Middle East. Revenues from the Company's subsidiary in Chile were $1.1 million higher in fiscal year 2008 as compared to 2007. The Company expects that revenues in both Chile and India will continue to improve in 2009.

Administrative, Marketing and Research and Development Expenses

Administrative and marketing expenses increased by 6.4% in the fourth quarter of 2008 to $2,230,171 or 18.1% of sales from $2,096,915 or 21.1% of sales in the fourth quarter of 2007. For the year ended November 30, 2008 administrative and marketing expenses were $8,726,522 or 22.6% of sales compared to $8,354,837 or 21% of sales for the year ended November 30, 2007, an increase of 4.4%. The increase in administrative and marketing expenses is primarily due to increased costs of travel, training, recruitment and professional services.

Net expenditures on research and development were $272,147 or 2.2% of sales in the fourth quarter of 2008 and $862,916 or 2.2% of sales for the year ended November 30, 2008 compared to $154,979 or 1.6% of sales in the fourth quarter of 2007 and $649,513 or 1.6% of sales for the year ended November 30, 2007. The Company is continuing an active program of technology development aimed primarily at adding to the functionality of products developed over the past few years.

Foreign Exchange

The Company reported a foreign exchange gain of $89,367 in the fourth quarter of 2008 compared to a loss of $139,212 in the fourth quarter of 2007. The foreign exchange gain is due primarily to the appreciation of the U.S. Dollar compared to the Canadian Dollar during the quarter. For the year ended November 30, 2008 a foreign exchange gain of $195,183 was recorded compared to a foreign exchange loss of $110,677 for the year ended

November 30, 2007. The Company's investments in its offshore subsidiaries are not hedged as those currency positions are considered to be long-term in nature.

Many of the Company's assets, liabilities, revenues and expenses are denominated in foreign currencies, including U.S. Dollars, Euros and Indian Rupees. Gains and losses on foreign exchange are immediately recognized in net earnings.

Foreign exchange gains or losses arising on consolidation of the Company's self sustaining subsidiary in Chile and its equity investment in XPCT in China are recorded as accumulated other comprehensive income, which is a component of shareholders' equity, rather than earnings. At November 30, 2008 net foreign exchange gains on the consolidation of these investments totaled $1,249,871.

Amortization

Amortization expense in the fourth quarter of 2008 was $236,415 compared to $329,612 in the fourth quarter of 2007. For the year ended November 30, 2008 amortization expense was $1,057,629 compared to $1,068,902 for the year ended November 30, 2007. The decreased amortization expense results from lower amounts amortized for vehicles and computer software.

Interest Expense

Interest expense for the fourth quarter of 2008 was $232,452 compared to $180,782 in the fourth quarter of 2007. For the year ended November 30, 2008 interest expense was $973,791 compared to $675,166 in fiscal 2007. The increase in interest expense in 2008 is a result of additional debt to finance construction of the new production building completed during 2007, additional debt financing for the acquisition of Xuzhou-PAT Control Technologies Limited in the first quarter of 2008 and a higher average balance of short term loans.

Equity Investments

The investment in PAT Traffic Brazil, in which the Company owns a 40% equity interest, decreased by $204,662 during the fourth quarter of 2008 compared to a decrease of $217,000 in the fourth quarter of 2007. For the year ended November 30, 2008 the investment in PAT Traffic Brazil decreased by $608,688 compared to an increase of $203,000 for the year ended November 30, 2007. The investment in PAT Traffic Brazil was decreased by $439,026 as a result of the distribution received in the first quarter of 2008. In addition, as a result of a sales tax reassessment received by Pat Traffic Brazil from the State of Sao Paulo subsequent to November 30, 2008, the Company has recorded a loss of $309,662 in the fourth quarter of 2008 thereby reducing the carrying value of its investment in Pat Traffic Brazil to nil at November 30, 2008. The Company has received a legal opinion confirming that its liability with respect to unpaid sales taxes is limited to its investment in the capital of Pat Traffic Brazil.

The investment in Xuzhou-PAT Control Technologies Limited (XPCT), in which the Company acquired a 50% equity interest in the first quarter of 2008, increased by $742,282 during the fourth quarter of 2008.
The financial impact of the acquisition is described in note 6 of the annual consolidated financial statements. For the year ended November 30, 2008 the Company recorded an equity loss of $359,624 from the investment in XPCT. Earnings for the 2008 year were lower than expected due to delays in the award of some contracts. The investment in XPCT increased by $1,565,669 during 2008 as a result of the currency gain recorded on financial statement translation. This gain is recorded as accumulated other comprehensive income which is a component of shareholders' equity.

The Company's investment in XPCT is comprised of the following at November 30, 2008:

Current assets	$ 4,106,011
Property, plant and equipment	461,681
Intangibles and goodwill	2,434,776
Current liabilities	(1,248,047)
	$ 5,754,421

Income Taxes

The Company recorded a provision for income taxes of $98,108 in the fourth quarter of 2008 and a recovery of $(136,965) for the year ended November 30, 2008 compared to provisions for income taxes of $148,583 and $708,828 for the corresponding periods of the previous year.

As disclosed in note 9 to the annual financial statements, the effective income tax rate declined from 34.2% to 20.2%. The effective income tax rate can vary from period to period because of changes to income tax rates, the contribution to pre-tax earnings from different taxing jurisdictions, the effect of non-deductible expenses and non-taxable equity earnings.

To November 30, 2008 the Company has recognized total investment tax credits of $4,633,001 as a result of its research and development activities. These investment tax credits are available to reduce Canadian income taxes in future years.

Liquidity and Capital Resources

Cash Flow and Capital Expenditures

The operations of the Company utilized cash in the amount of $112,034 during the fourth quarter of 2008 and $2,239,796 during the year ended November 30, 2008 compared to the fourth quarter of 2007 when the operations generated cash in the amount of $521,295 and $4,685,397 during the year ended November 30, 2007.

The use of cash during the fourth quarter was primarily due to an increase in unbilled revenues of $1,980,264 and a decrease of $1,076,571 in accounts payable and accrued liabilities. Cash utilized during the year ended November 30, 2008 was due primarily to an increase in accounts receivable of $2,366,897 and an increase in unbilled revenue of $2,071,303 which was offset by an increase in accounts payable and accrued liabilities of $2,173,748.

In the first quarter of 2008 the Company refinanced its previous mortgage in the amount of $978,071 and the interim financing of the production building of $1,850,000 from proceeds of a new mortgage in the amount of $2,902,500. In addition, the Company financed its acquisition of Xuzhou-PAT Control Technologies Limited with a $4 million non-revolving demand facility with Royal Bank of Canada, of which $3.5 million has been drawn, and a $1 million vendor loan. As a result, cash generated from financing activities was $5,132,574 for the year ended November 30, 2008 compared to cash used in financing activities of $60,501 during the year ended November 30, 2007.

The Company made net capital expenditures of $362,030 during the year ended November 30, 2008 compared to $4,096,549 during the year ended November 30, 2007. Significant capital additions during the 2008 fiscal year include approximately $57,000 for equipment acquired for use in the transponder administrator project in North Carolina, $50,000 for buildings, $65,000 for office equipment, $107,000 for computer hardware and software, $138,000 for automotive equipment and $50,000 for other manufacturing and test equipment.
During the year ended November 30, 2008 the Company received manufacturing investment tax credits of $111,664 which were applied to the carrying cost of buildings and manufacturing equipment.

During the first quarter of 2008, the Company received a distribution from PAT Traffic Brazil in the amount of $439,026. The Company's equity investment in PAT Traffic Brazil was reduced by the amount of this distribution.

The cash utilized in operations, repayments of debt principal and additions to capital assets resulted in a decrease of cash in the amount of $278,826 in the fourth quarter of 2008, and $578,602 for the twelve months ended November 30, 2008.

Working Capital

The working capital of the Company at November 30, 2008 was $4,150,434 compared to $9,580,970 at November 30, 2007. The decrease in working capital is primarily a result of the increase in the current portion of long-term debt from $802,000 at November 30, 2007 to $5,189,000 at November 30, 2008. This increase in the current portion of long-term debt is due to the inclusion of the $3.5 million non-revolving term facility with Royal Bank of Canada which is effectively a demand loan until such time as the Company converts this loan to a fixed interest rate term. The Company can convert this loan to a fixed term loan after August 31, 2009.

Financing

On December 27, 2007 the Company closed a mortgage loan with Royal Bank of Canada in the amount of $2,902,500. The proceeds of this mortgage loan were used to pay out the interim credit facility of $1,850,000 for the construction of the manufacturing facility which was completed in October 2007 as well as to pay out the previous mortgage loan of $978,071 with Royal Bank of Canada which originally came due on August 1, 2007 and was extended to December 2007. The mortgage loan is amortized over 20 years with interest at a fixed rate of 6.144% for a 5 year term and payments of principal and interest of $20,906 monthly. The mortgage is secured by a first charge on the Company's building and land and a general security agreement on all the assets of the Company.

In December 2007 the Company acquired a 50% interest in Xuzhou-PAT Control Technologies Limited (XPCT) located in Xuzhou, Jiangsu, China. XPCT has been the Company's distributor in China since 2003 and is a design, manufacturing and service company focused on providing high technology ITS solutions to the growing highway and roadway infrastructure business throughout China. Of the purchase price of $4.5 million, $3.5 million was paid on closing of the transaction December 12, 2007, and $1 million is financed by a vendor loan with $750,000 payable one year and $250,000 payable two years after closing. In addition to the purchase price of $4.5 million, an additional $250,000 is payable in each of 2009 and 2010 provided XPCT achieves certain net profit targets. Payment of the amount of $750,000 which was due in December 2008 is currently in dispute and the outcome is not determinable at this time.

The payment of $3.5 million on closing date was financed under a $4 million non-revolving term facility with Royal Bank of Canada. As a result of the dispute with respect to payment of the vendor loan, the Company has not drawn down the remaining amount under this facility; subsequent to November 30, 2008 the amount of this facility has been reduced to $3.5 million. Under the terms of this loan facility, principal payments are not required until September 30, 2009, however, interest is payable monthly at Royal Bank of Canada prime rate plus 2%. The Company can convert this loan to a fixed interest rate term loan after August 31, 2009; the maximum repayment term of this loan is to December 2013.

Under the terms and conditions of its credit facilities with Royal Bank of Canada the Company is subject to certain covenants. These covenants require that the Company not exceed a certain maximum ratio of total liabilities to tangible net worth and that it maintain a certain minimum level of fixed charge coverage. At November 30, 2008 the Company is in breach of these covenants. Subsequent to November 30, 2008 Royal Bank of Canada agreed to tolerate the breach of these covenants as of the fiscal year ending November 30, 2008 and the first quarter ending February 28, 2009. In addition, Royal Bank of Canada and the Company agreed to amend the existing covenants beginning the first quarter of 2009 and add a third covenant requiring the Company to maintain a minimum amount of earnings before interest, taxes, depreciation and amortization (EBITDA) at the end of each fiscal quarter. The Company expects to be in compliance with these new covenants during fiscal 2009.

Financial Obligations

The following table illustrates the Company's contractual obligations at November 30, 2008.

Contractual Obligations

		Payment due by Period			
	Total	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Long-term debt	8,686,000	5,189,000	916,000	200,000	2,381,000
Operating leases & other	40,000	40,000	–	–	–
	8,726,000	**5,229,000**	**916,000**	**200,000**	**2,381,000**

Outstanding Share and Option Data

As of November 30, 2008 the Company has 13,977,388 common shares outstanding compared to 13,930,427 common shares outstanding as of November 30, 2007. During the fourth quarter of 2008 there were 14,118 shares issued to Directors in partial payment of Directors fees compared to 6,287 shares issued to Directors in the fourth quarter of the previous year.

At November 30, 2008 the Company has 1,312,000 share purchase options outstanding entitling the holders to purchase one common share for each option held at $1.20 to $1.32 per share expiring on various dates up to May 1, 2013.

Significant Accounting Policies

The Company prepares its financial statements in Canadian dollars in accordance with Canadian generally accepted accounting principles (GAAP). The Company's significant accounting policies, including its critical accounting estimates, are detailed in note 1 to its annual audited consolidated financial statements.

As detailed in note 2 to the annual consolidated financial statements, on December 1, 2007 the Company adopted accounting policies required under newly issued accounting standards by the Canadian Institute of Chartered Accountants. On transition there was no impact to the Company, except for additional disclosure for capital and financial instruments. Management has disclosed in note 3 to the annual consolidated financial statements recently issued accounting standards that become effective on or after December 1, 2008 and is currently assessing the impact these standards will have on its consolidated financial statements.

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, unbilled revenue, short-term loans, accounts payable and accrued liabilities, long-term debt and foreign exchange hedging contracts. The financial instruments are exposed primarily to three types of risk: credit risk; fair value risk; and interest rate risk – see disclosure in note 13 of the annual audited financial statements. The Company's financial assets that are exposed to credit risk consist primarily of accounts receivable. Government accounts are considered secure and normally not subjected to extensive credit reviews. Industry accounts are subjected to internal credit reviews to minimize risk of non-payment. Canadian export sales to non-government customers are generally insured to the extent of 90 per cent of the invoiced amount. The carrying value of cash and cash equivalents, accounts receivable, unbilled revenue, short term loans, accounts payable and accrued liabilities, approximates fair value due to their short-term maturities. The fair value of long-term debt as at November 30, 2008 was $8.948 million compared to its carrying value of $8.686 million. The Company is exposed to interest rate cash flow risk on its credit facilities.

The Company hedges a portion of its future U.S. dollar cash flow.

At November 30, 2008 the Company had in place $1.8 million USD in forward currency contracts at an average exchange rate of $1.2300 Canadian per U.S. dollar with a nominal loss on these contracts based on the actual exchange rate at November 30, 2008 of $1.2402 Canadian per U.S. dollar. Gains and losses on all foreign exchange contracts are recognized in earnings at the end of each reporting period.

Business Risks

In addition to the risks relating to financial instruments identified in note 13 of the annual audited financial statements, the Company is subject to the following primary business risks.

The Company operates in the rapidly changing environment of high technology. It faces competition from some companies with greater financial resources and larger marketing organizations. All companies in this industry are subject to competition and technological advances which can render existing products obsolete or unmarketable.

IRD mitigates this risk through an active program of research and development that helps to ensure that its products and systems are technologically current. Future operating results will depend upon IRD's ability to research, develop and market its current products and those under development.

The majority of IRD's revenues are generated as a result of the desire of transportation agencies around the world to monitor traffic, manage traffic, and enforce weight regulations on their roads. While the relative importance of this need makes IRD's market secure in the long run, periodic softness in this market occurs during economic recessions or as governments adjust their spending priorities for political reasons. In the current economic climate the impact of the U.S. Government stimulus package on the Company's business is not yet determinable. The U.S. Transportation Bill operates on a 6 year authorization cycle and is due for renewal in the fall of 2009. Delays in reauthorization may have impacts on the Company's business in this market. IRD continues to address this risk by diversifying its customer base thereby becoming less dependant on any single government or region and by continuing to diversify its markets and products so that it relies less on government funded projects.

IRD has taken steps to increase this diversification with the acquisition of PAT Traffic in 2003 which increased its presence in Eurasia and Latin America, and the establishment of IRD South Asia Pvt. Ltd. in India in 2005 which expanded its markets in South Asia. In December 2007 the Company acquired a 50% interest in Xuzhou-PAT Control Technologies Limited in order to expand its presence in the growing Chinese market. IRD has also diversified its product offering to include more technologies, such as in-vehicle management – GPS systems for use in commercial, municipal and city markets.

Outlook

The global Intelligent Transportation Systems (ITS) business continues to present significant opportunity over the long-term as governments around the world invest in their highway and roadway infrastructure to enhance transportation efficiency and safety. As the world's leading provider of weigh-in-motion technologies and related products and systems, IRD is strongly positioned to take advantage of these opportunities. Over the past four years the Company has achieved significant gains in revenues from offshore markets, including Asia and Latin America. Part of these gains are from sales of products acquired with the purchase of the business of PAT Traffic in 2003, and part is from the development of new markets for IRD's systems and products, particularly for toll road and weigh station systems in offshore markets. However, the implementation and installation of ITS technologies is largely dependant on government funding and highway programs. Given the current slowdown in the U.S. economy and delays in U.S. transportation funding, the Company expects that revenues from the U.S. market will continue at 2008 levels for the next 1 – 2 years. However, the Company expects increasing returns as a result of its continued diversification into the offshore market with the exception of its investment in PAT Traffic Brazil which is not expected to generate profits in fiscal 2009.

Changes in Disclosure Controls and Internal Control over Financial Reporting

Management has designed disclosure controls and procedures, or has caused them to be designed under its supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to management by others within those entities, particularly during the period in which the annual filings are being prepared. Management has evaluated the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings. Management has also designed such internal control over financial reporting, or caused it to be designed under management's supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for the year ended November 30, 2008 in accordance with Canadian generally accepted accounting principles for financial reporting.

During the preparation of the annual financial statements for the 2008 fiscal year the Company detected errors in the recording and reconciliation of costs for project accounting purposes. Management has determined that certain internal controls over project accounting did not operate effectively due to personnel and other changes during the year. These control deficiencies were rectified subsequent to year end.

During the course of the preparation of the annual consolidated financial statements and the year end audit, it was discovered that subsequent to acquisition date the financial statements of XPCT,

which is accounted for by the equity method, were not prepared in accordance with Canadian generally accepted accounting principles. In addition, external auditors detected a misapplication of generally accepted accounting principles related to equity earnings and in particular the currency translation of the equity investment in XPCT in China. Management is in the process of assessing solutions to mitigate the risk of similar occurrences in future.

Non-GAAP Measure

As used herein, "EBITDA" means earnings before interest, income taxes, depreciation, and amortization, and includes gains or losses from foreign exchange and earnings or losses from the Company's equity investments. EBITDA is not a recognized measure under Canadian generally accepted accounting principles (GAAP). Management believes that EBITDA is a useful supplemental measure to net earnings (loss), as it provides investors with an indication of operating performance prior to debt service, capital expenditures and income taxes. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net earnings (loss) determined in accordance with GAAP, as an indicator of the Company's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. The Company's method of calculating EBITDA may differ from the methods by which other companies calculate EBITDA and, accordingly, EBITDA may not be comparable to measures used by other companies.

The following is a reconciliation of EBITDA to net earnings (loss):

	Three Months Ended November 30		Twelve Months Ended November 30	
	2008	2007	**2008**	2007
EBITDA	$ 610,107	$ 634,260	$ 1,219,714	$ 3,752,900
Amortization expense	(236,415)	(329,612)	(1,057,629)	(1,068,902)
Interest expense	(274,591)	(190,325)	(839,773)	(610,226)
Income tax expense	(98,108)	(148,583)	136,965	(708,828)
Net earnings (loss)	993	(34,260)	(540,723)	1,364,944

Forward-Looking Statements

Certain statements in this discussion may include "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of International Road Dynamics Inc. to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this discussion, such statements use such words as "may", "will", "expect", "anticipate", "project", "believe", "plan", and other similar terminology. The risks and uncertainties are detailed from time to time in reports filed by the Corporation with the securities regulatory authorities in applicable provinces and territories of Canada. New risk factors may arise from time to time and it is not possible for management to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance and achievements of the Corporation to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Additional Information

SEDAR

Additional information relating to International Road Dynamics Inc., including its Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com.

Management's Report

To the Shareholders of International Road Dynamics Inc.

The information in this report, including the financial statements, are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information elsewhere in the annual report has been reviewed to ensure consistency in all material respects with that contained in the financial statements.

International Road Dynamics Inc. maintains appropriate systems of internal control 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 financial statements before they are presented to the Directors for approval. These 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 financial statements and provide their auditors' report thereon. Their report is presented below.

Terry Bergan
President and
Chief Executive Officer

Mel Karakochuk
Vice President Finance and
Chief Financial Officer

Saskatoon, Canada
April 27, 2009

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of International Road Dynamics Inc. as at November 30, 2008 and 2007 and the consolidated statements of earnings (loss), comprehensive income, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Saskatoon, Canada
April 27, 2009

INTERNATIONAL ROAD DYNAMICS INC.
Consolidated Balance Sheets

November 30, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash	$ 449,863	$ 1,028,465
Accounts receivable	10,892,544	8,736,822
Unbilled revenue	6,430,933	4,359,630
Income taxes receivable	134,320	–
Investment tax credits recoverable (note 9)	–	328,000
Inventory	6,920,145	6,581,626
Prepaid expenses and deposits	709,385	426,206
	25,537,190	21,460,749
Investment tax credits recoverable (note 9)	4,633,001	3,449,000
Property, plant and equipment (note 4)	6,919,540	7,548,315
Intangible assets (note 5)	163,252	230,076
Equity investments (note 6)	5,754,421	608,688
	$ 43,007,404	$ 33,296,828
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term loans (note 7)	$ 7,327,708	$ 5,172,258
Accounts payable and accrued liabilities	5,291,353	3,117,605
Income taxes payable	–	71,260
Deferred revenue	2,695,695	2,178,656
Current portion of long-term debt (note 8)	5,189,000	802,000
Future income taxes (note 9)	883,000	538,000
	21,386,756	11,879,779
Deferred revenue	386,236	432,007
Long-term debt (note 8)	3,496,739	3,906,615
Future income taxes (note 9)	76,000	324,000
Shareholders' equity:		
Share capital (note 10)	12,060,115	12,004,179
Contributed surplus	186,707	149,168
Retained earnings	4,164,980	4,705,703
Accumulated other comprehensive income (loss)	1,249,871	(104,623)
	17,661,673	16,754,427
	$ 43,007,404	$ 33,296,828

Subsequent event (note 8)
See accompanying notes to consolidated financial statements.

On behalf of the Board:

Terry Bergan, Director

Ray Harris, Director

INTERNATIONAL ROAD DYNAMICS INC.
Consolidated Statements of Earnings (Loss)

Years ended November 30, 2008 and 2007

	2008	2007
Sales	$ 38,674,552	$ 39,761,786
Cost of sales	27,531,297	27,096,859
	11,143,255	12,664,927
Administrative and marketing expenses	8,726,522	8,354,837
	2,416,733	4,310,090
Research and development (note 11)	862,916	649,513
Earnings before other expenses (income)	1,553,817	3,660,577
Other expenses (income):		
Foreign exchange (gain) loss	(195,183)	110,677
Amortization	1,057,629	1,068,902
Interest on short-term debt	398,191	458,532
Interest on long-term debt	575,600	216,634
Interest and other income	(134,018)	(64,940)
Equity loss (earnings) (note 6)	529,286	(203,000)
	2,231,505	1,586,805
Earnings (loss) before income taxes	(677,688)	2,073,772
Provision (recovery) for income taxes (note 9)	(136,965)	708,828
Net earnings (loss)	$ (540,723)	$ 1,364,944
Earnings (loss) per share (note 12)		
Basic	$ (0.04)	$ 0.10
Diluted	$ (0.04)	$ 0.10

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.
Consolidated Statements of Comprehensive Income

Years ended November 30, 2008 and 2007

	2008	2007
Net earnings (loss)	$ (540,723)	$ 1,364,944
Other comprehensive income (loss)		
Unrealized foreign currency translation gains (losses)	1,354,494	(32,198)
Total comprehensive income	$ 813,771	$ 1,332,746

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Shareholders' Equity

Years ended November 30, 2008 and 2007

	2008	2007
Share capital (note 10):		
Balance, beginning of year	**$ 12,004,179**	$ 11,916,682
Shares issued for expenses	**55,936**	51,722
Exercise of stock options	**–**	35,775
Balance, end of year	**$ 12,060,115**	$ 12,004,179
Contributed surplus:		
Balance, beginning of year	**$ 149,168**	$ 140,843
Fair value of stock options granted (note 10)	**37,539**	15,300
Transferred to share capital	**–**	(6,975)
Balance, end of year	**$ 186,707**	$ 149,168
Retained earnings:		
Balance, beginning of year	**$ 4,705,703**	$ 3,340,759
Net earnings (loss)	**(540,723)**	1,364,944
Balance, end of year	**$ 4,164,980**	$ 4,705,703
Accumulated other comprehensive income (loss):		
Balance, beginning of year	**$ (104,623)**	$ (72,425)
Other comprehensive income (loss)	**1,354,494**	(32,198)
Balance, end of year	**$ 1,249,871**	$ (104,623)
Total retained earnings and accumulated other comprehensive income (loss)	**$ 5,414,851**	$ 4,601,080
Total shareholders' equity	**$ 17,661,673**	$ 16,754,427

Accumulated other comprehensive income (loss) is comprised solely of unrealized foreign currency translation gains and losses.

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Cash Flows

Years ended November 30, 2008 and 2007

	2008	2007
Cash flows from (used in):		
Operations:		
Net earnings (loss):	$ (540,723)	$ 1,364,944
Items not involving cash:		
Amortization	1,057,629	1,068,902
Common shares issued for expenses (note 10)	55,936	51,722
Loss (earnings) from equity investments	529,286	(203,000)
Provision (recovery) for future income taxes	97,000	(512,000)
Deferred revenue	471,268	2,160,752
Investment tax credits recoverable	(856,001)	476,000
Stock-based compensation	37,539	15,300
Other operating items (note 15)	(3,091,730)	262,777
	(2,239,796)	4,685,397
Financing:		
Short-term loans	2,155,450	(1,025,171)
Proceeds on long-term debt	6,402,500	1,701,560
Repayment of long-term debt	(3,425,376)	(765,690)
Common shares issued for cash	–	28,800
	5,132,574	(60,501)
Investing:		
Investment in Xuzhou-PAT Control Technologies Limited	(3,548,376)	–
Capital distribution from PAT Traffic Brazil	439,026	–
Additions to property, plant and equipment	(356,073)	(3,852,601)
Additions to intangible assets	(5,957)	(243,948)
	(3,471,380)	(4,096,549)
Increase (decrease) in cash	(578,602)	528,347
Cash, beginning of year	1,028,465	500,118
Cash, end of year	$ 449,863	$ 1,028,465
Supplemental cash flow disclosure:		
Interest paid	$ 906,141	$ 675,166
Income taxes paid	$ 100,240	$ 407,723

See accompanying notes to consolidated financial statements.

Nature of business:

International Road Dynamics Inc. is a highway traffic management technology company specializing in supplying products and integrated systems to the global Intelligent Transportation Systems (ITS) industry.

1. Significant accounting policies:

The consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and revenues and expenses for each year presented. The most significant estimates are related to the percentage completion of contract projects, the estimated lives of plant and equipment, determination of future income taxes and utilization of investment tax credits and the net realizable value of assets including receivables and inventory and the recoverability of plant and equipment and investments. Changes in estimates and assumptions will occur based on the passage of time and the occurrence of certain future events.

(a) Principles of consolidation:

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, PAT Compania Limitada (PAT Chile), International Road Dynamics Corporation (IRD Corp.) and IRD South Asia Pvt. Ltd. (IRDSA). All significant inter-company accounts and transactions have been eliminated.

(b) Cash:

Cash consists of balances with financial institutions which have an original term to maturity of three months or less.

(c) Revenue recognition:

Revenue from contract projects is recorded on the percentage of completion basis.

The Company makes estimates of the percentage of completion of each project by comparing the actual costs incurred to the total estimated costs for the project. These estimates of total cost are subject to change, which would have an impact on the timing of revenue recognized.

Revenue which relates to service obligations originally extending beyond one year is recognized in the period in which the service is provided.

Revenue from product sales is recognized when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

Unbilled revenue represents the excess of contract costs incurred and estimated gross profits recognized over billings to date.

(d) Inventory:

Inventory is comprised primarily of materials and is valued at the lower of average cost and net realizable value.

(e) Equity investments:

Equity 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 and the investments are increased or decreased to reflect the Company's proportionate share of the earnings or losses of the investees.

The Company regularly reviews the carrying value of its investments. Should there be a decline in value that is other than a temporary decline, the Company measures the amount of a write-down to the estimated fair value determined based on discounted future cash flows from the investment. The loss is recognized as an expense.

(f) Property, plant and equipment:

Additions to property, plant and equipment are recorded at cost.

Amortization 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. Work zone rental equipment is amortized on a straight-line basis over the number of deployed months to a maximum of 60 months.

(g) Intangible assets:

Intangible assets include amounts related to patents and acquired technologies and are amortized on a straight-line basis over a period of four to fifteen years based on the expected future lives of the intangible assets.

(h) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

1. **Significant accounting policies - continued:**

(i) Translation of foreign currencies:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Revenue and expenses are translated into Canadian dollars using the approximate rate of exchange on the date of the transactions. The resulting gains or losses are included in the statement of earnings.

The Canadian dollar is considered the functional currency of the Company's subsidiaries International Road Dynamics Corp. (US) and International Road Dynamics South Asia Pvt. Ltd. (India). Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet 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 approximate rate of exchange on the date of the transactions. The resulting gains or losses are included in the statement of earnings.

The functional currency of the Company's subsidiary in Chile - PAT Compania Limitada is the Chilean Peso. The financial statements of PAT Chile are translated into Canadian dollars using the current rate method. Under this method, all assets and liabilities are translated to Canadian dollars at exchange rates in effect at the balance sheet 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). These adjustments are not recorded in earnings until realized through a reduction in the Company's investment in this operation.

The functional currency of the Company's equity investment in Xuzhou-PAT Control Technologies Limited (XPCT) is the Chinese Renminbi. 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 balance sheet 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). These adjustments are not recorded in earnings until realized through a reduction in the Company's investment in this operation.

(j) Financial instruments:

All financial assets are to be classified as one of the following: held-to-maturity, loans and receivables, held for trading or available-for-sale. All financial liabilities are to be classified as held for trading or other liabilities. Financial assets and liabilities held for trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to maturity, loans and receivables and financial liabilities other than those held-for trading, are measured at amortized cost based on the effective interest method. Available-for-sale instruments are measured at fair value with gains and losses, net of tax, recognized in other comprehensive income.

Financial assets of the Company consist of cash, accounts receivable and unbilled revenue. Cash is classified as "held for trading" and measured at fair value and accounts receivable and unbilled revenue are classified as "loans and receivables" and measured at amortized cost. Financial liabilities of the Company consist of accounts payable and accrued liabilities, short-term loans, current portion of long-term debt and long-term debt; these are classified as "other liabilities" and are measured at amortized cost.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Transaction costs on financial assets and liabilities held for trading are expensed as incurred. Transaction costs related to available-for-sale, held to maturity securities and loans are capitalized and amortized over the expected life of the instrument using the effective interest method.

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 net earnings.

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.

(k) Research and development costs:

The Company expenses research and development costs during the year in which they are incurred. Research and development tax credits are recognized in earnings when the Company has reasonable assurance that they will be utilized.

(l) Future income taxes:

Future income taxes are recognized for the future income tax consequences attributable to losses available for carryforward and differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences and losses available for carryforward are expected to be recovered or settled. The effect on

1. Significant accounting policies - continued:

future income tax assets and liabilities of a change in rates is included in operations in the period which includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

(m) Stock based compensation:

The Company has a stock based compensation plan, which is described in note 10. The Company accounts for stock based compensation using the fair value based method of accounting for awards of stock options. Under this method, the cost of options granted is measured at the estimated fair value using the Black-Scholes option pricing model with an estimate of forfeitures based on historic results. Compensation expense is recognized over the shorter of the vesting period of the options or the period to eligible retirement with a corresponding increase to contributed surplus. Consideration paid on the exercise of stock options is credited to share capital with a corresponding transfer from contributed surplus to share capital for amounts previously credited to contributed surplus on the initial expensing of the related stock option.

(n) Earnings per share:

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed using the treasury stock method, which is similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised at the beginning of the year and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

2. New accounting pronouncements adopted:

On December 1, 2007, the Company adopted accounting policies required under newly issued accounting standards by the Canadian Institute of Chartered Accountants. The following provides a summary of the new standards applicable to the Company. On transition there was no impact to the Company, except for additional disclosure for capital and financial instruments, as described below.

Accounting changes - CICA 1506

This standard prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Changes in accounting policies are only permitted if they result from the initial application of a primary source of generally accepted accounting principles or if they result in the financial statements providing reliable and more relevant information.

Capital disclosures - CICA 1535

This standard establishes guidelines for the disclosure of information regarding an entity's capital and how it is managed including enhanced disclosure requirements with respect to the objectives, policies and processes for managing capital and whether it has complied with any externally imposed capital requirements to which it is subject. The new disclosure requirements are presented in note 16.

Financial instruments - CICA 3862 and 3863

These standards increase the disclosure required with respect to the significance of financial instruments and the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. This includes disclosure about credit risk, liquidity risk and market risk. The new disclosure requirements are presented in note 13.

3. Recently issued standards:

The Company has not yet adopted the following accounting standards issued by the CICA and is currently reviewing these standards to determine the potential impact on its consolidated financial statements.

Inventories - CICA 3031

In May 2007, the CICA issued Handbook Section 3031, Inventories, which supersedes Handbook Section 3030 and converges with the International Accounting Standard Board (IASB)'s recently amended standard IAS 2, Inventories.

The standard introduces significant changes to the measurement and disclosure of inventory. The measurement changes include; the elimination of LIFO, the requirement to measure inventories at the lower of cost and net realizable value, the allocation of overhead based on normal capacity, the use of the specific cost method for inventories that are not ordinarily interchangeable or goods and services produced for specific purposes, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Disclosures of inventories have also been enhanced. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed. This new standard will apply to the Company effective December 1, 2008.

Goodwill and Intangible Assets – CICA 3064

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The standard introduces guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The Section harmonizes Canadian standards with International Financial Reporting Standards (IFRS) and applies to annual and interim financial statements beginning on or after October 1, 2008.

IFRS

In February 2008, the CICA Accounting Standards Board announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, differences in accounting policies will have to be addressed.

4. Property, plant and equipment:

	2008			2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 275,000	$ –	$ 275,000	$ 275,000
Buildings	4,834,533	1,052,574	3,781,959	4,039,722
Office equipment	856,739	656,998	199,741	185,143
Automotive	1,149,161	520,087	629,074	720,012
Computer equipment	1,721,862	1,373,604	348,258	392,289
Computer software	1,073,215	1,059,257	13,958	11,582
Manufacturing equipment	2,549,028	1,048,899	1,500,129	1,629,752
Work zone rental equipment	578,497	407,076	171,421	294,815
	$ 13,038,035	$ 6,118,495	$ 6,919,540	$ 7,548,315

Amortization of property, plant and equipment was $984,848 for 2008 (2007 - $996,409).

5. Intangible assets:

	2008			2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Acquired technology	$ 248,596	$ 121,943	$ 126,653	$ 187,627
Patent costs	207,750	171,151	36,599	42,449
	$ 456,346	$ 293,094	$ 163,252	$ 230,076

Amortization of intangible assets was $72,781 (2007 - $72,493).

6. Equity investments:

	2008	2007
PAT Traffic Brazil		
Balance – beginning of year	$ 608,688	$ 405,688
Equity earnings (loss)	(169,662)	203,000
Distributions	(439,026)	–
Balance – end of year	$ –	$ 608,688
Xuzhou-PAT Control Technologies Limited		
Net assets acquired including acquisition costs	$ 4,548,376	$ –
Currency gain on financial statement translation	1,565,669	–
Equity loss	(359,624)	–
Balance – end of year	5,754,421	–
Total equity investments	$ 5,754,421	$ 608,688

As a result of a sales tax reassessment received by Pat Traffic Brazil from the State of Sao Paulo subsequent to November 30, 2008, the Company has recorded a loss reducing the carrying value of its investment in Pat Traffic Brazil to nil at November 30, 2008. The Company has received a legal opinion confirming that its liability with respect to unpaid sales taxes is limited to its investment in the capital of Pat Traffic Brazil.

Business acquisition

On December 12, 2007 the Company acquired 50% of the common shares of Xuzhou-PAT Control Technologies Limited (XPCT) located in Xuzhou, Jiangsu, China. XPCT has been the Company's distributor in China since 2003 and is a design, manufacturing and service company focused on providing high technology ITS solutions to the growing highway and **6.** roadway infrastructure business throughout China. Of the purchase price of $4.5 million, $3.5 million was paid on closing of the transaction December 12, 2007 and $1 million is financed by a vendor loan with $750,000 payable December 12, 2008 and $250,000 payable December 12, 2009 as described in note 8. In addition to the purchase price of $4.5 million, an additional $250,000 is payable in each of 2009 and 2010 provided XPCT achieves certain net profit targets.

The results of XPCT's operations have been included in the Company's consolidated financial statements from the date of acquisition using the equity method of accounting. The estimated fair value of the assets acquired and the liabilities assumed are summarized in the table below:

6. Equity investments – continued:

Cash	$ 361,307
Other current assets	3,920,818
Buildings and equipment	254,578
Land use rights	109,556
Intangible assets	347,000
Goodwill	1,517,653
Current liabilities	(1,838,846)
Future income tax liability	(123,690)
Net assets acquired including costs of acquisition	**$ 4,548,376**

The difference between the fair value of assets and liabilities acquired and their carrying value as reported by XPCT relates primarily to amounts reflected above for intangible assets and goodwill. Intangible assets will be amortized over their estimated economic lives of 12 years.

7. Short-term loans:

	2008	2007
Royal Bank of Canada credit facility. Authorized to a maximum of $8.5 million with interest at bank prime plus 0.55% and secured by a general security agreement (note 8)	**$ 7,327,708**	$ 5,172,258

The Company has issued letters of credit in the amount of $381,936 (2007 - $136,951) as bid and performance guarantees on certain contracts. In addition the Company has a credit facility in the amount of $200,000 US with Royal Bank of Canada that is guaranteed by Export Development Canada for the support of a performance guarantee provided by its subsidiary PAT Chile.

Subsequent to November 30, 2008 the Company has arranged an additional facility in the amount of $750,000 US with Royal Bank of Canada that is guaranteed by Export Development Canada for performance guarantees provided by its subsidiary IRDSA.

8. Long-term debt:

	2008	2007
Royal Bank of Canada non-revolving demand facility for an amount up to $4,000,000 to finance the acquisition of XPCT with interest payable monthly at Royal Bank of Canada prime rate plus 2%. Monthly principal repayments begin September 30, 2009 and continue for a maximum term to December 2013. This loan can be converted to a fixed interest rate term loan after August 31, 2009.	**$ 3,500,000**	$ –
Royal Bank of Canada mortgage repayable in monthly instalments of $20,906 including interest at a fixed rate of 6.144%. Due December 1, 2013	**2,838,739**	981,332
Royal Bank of Canada term loan repayable in monthly instalments of $71,181 including interest at a fixed rate of 6.53%. Due June 30, 2010	**1,347,000**	2,025,723
Vendor loan to finance the acquisition of XPCT, with interest payable at 7% per annum. Due December 12, 2008 - $750,000 and December 12, 2009 - $250,000	**1,000,000**	–
Royal Bank of Canada interim credit facility for an amount up to $1,850,000 to finance the construction of a new manufacturing facility. Interest at Royal Bank of Canada prime plus 1% and secured by the manufacturing facility land and building as well as a second charge on the existing land and building of the Company.	**–**	1,701,560
	8,685,739	4,708,615
Less current portion	**5,189,000**	802,000
	$ 3,496,739	$ 3,906,615

8. Long-term debt - continued:

The Company's mortgage of $2.839 million due December 2013 is secured by a first charge on the Company's land and building in Canada and a general security agreement on all the assets of the Company in Canada and the United States. The carrying amounts of the land and building are $3.896 million and $40.222 million for all the assets of the Company. The Company's short term loans, demand facility and term loan with the Royal Bank of Canada are also 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 its credit facilities with Royal Bank of Canada the Company is subject to certain covenants. These covenants require that the Company not exceed a certain maximum ratio of total liabilities to tangible net worth and that it maintain a certain minimum level of fixed charge coverage. At November 30, 2008 the Company was in breach of these covenants. Subsequent to November 30, 2008 Royal Bank of Canada agreed to tolerate the breach of these covenants as of the fiscal year ending November 30, 2008 and the first quarter ending February 28, 2009.
In addition, Royal Bank of Canada and the Company agreed to amend the existing covenants beginning the first quarter of 2009 and add a third covenant requiring the Company to maintain a minimum amount of earnings before interest, taxes, depreciation and amortization (EBITDA) at the end of each fiscal quarter. The Company expects to be in compliance with these new covenants during fiscal 2009.

The payment due December 12, 2008 with respect to the Vendor loan is currently in dispute and the outcome is not determinable at this time.

The following represents the aggregate principal payments over the next five years based on the current debt arrangements:

Fiscal year ended November 30:	
2009	$ 5,189,000
2010	825,000
2011	91,000
2012	97,000
2013	103,000
Thereafter	2,380,739
	$ 8,685,739

9. Income taxes:

Income tax expense attributable to earnings (loss) differs from the amounts computed by applying the combined federal and provincial income tax rate of 32.3% (2007 – 35.7%) to pretax earnings (loss) as a result of the following:

	2008	2007
Earnings (loss) before income taxes	**$ (677,688)**	$ 2,073,772
Computed "expected" tax expense (recovery)	**(219,000)**	740,000
Increase (reduction) in income taxes resulting from:		
Non-deductible expenses	**122,000**	69,000
Manufacturing and processing profits deduction	**10,000**	(35,000)
Equity loss (earnings)	**171,000**	(72,000)
Lower rate of tax on foreign income	**60,000**	(52,000)
Change in income tax rates	**(280,965)**	58,828
	$ (136,965)	$ 708,828

	2008	2007
The provision (recovery) for income taxes is comprised of:		
Provision (recovery) for current income taxes	**$ (233,965)**	$ 1,220,828
Provision (recovery) for future income taxes	**97,000**	(512,000)
	$ (136,965)	$ 708,828
Effective income tax rate	**20.2%**	34.2%

9. Income taxes – continued:

The tax effects of temporary differences and non-capital losses carried forward that give rise to significant portions of the future tax assets and future tax liabilities are presented below.

	2008	2007
Current future tax liabilities:		
Unbilled revenue	$ (883,000)	$ (434,000)
Investment tax credits	–	(104,000)
Net current future income tax liability	$ (883,000)	$ (538,000)
Future non-current tax assets (liabilities):		
Capital loss carryforwards	$ 61,000	$ 70,000
Less valuation allowance	(61,000)	(70,000)
Investment tax credits	(627,000)	(457,000)
Non-capital losses available for carryforward	488,000	–
Property and equipment and intangible assets	63,000	133,000
Net non-current future tax liabilities	$ (76,000)	$ (324,000)

At November 30, 2008 the Company has $1,876,686 of non-capital losses which can be carried forward for 20 years and $471,000 (2007 - $471,000) of allowable capital losses available to reduce taxes on future capital gains. In addition, at November 30, 2008, the Company has recognized investment tax credits of $4,633,001 (2007 - $3,777,000) as a result of its research and development activities.

Investment tax credits can be carried forward and used to reduce federal and provincial taxes of future years. Federal investment tax credits earned prior to 2006 can be carried forward for 10 years while those earned in 2006 and later years may be carried forward for 20 years. Saskatchewan investment tax credits can be carried forward for 10 years.

Investment tax credits available for carry forward at November 30, 2008 expire as follows:

Years	Federal	Saskatchewan	Total
2010 – 2015	$ 1,771,072	$ 1,422,073	$ 3,193,145
2016 – 2020	–	711,993	711,993
After 2020	727,863	–	727,863
Total	$ 2,498,935	$ 2,134,066	$ 4,633,001

10. Share capital:

(a) Authorized:

An unlimited number of common voting shares.

(b) Share transactions:

	Number of shares	Amount
Balance, November 30, 2006	13,876,385	$ 11,916,682
Shares issued in exchange for expenses	31,542	51,722
Shares issued for employee stock options exercised	22,500	35,775
Balance, November 30, 2007	13,930,427	$ 12,004,179
Shares issued in exchange for expenses	46,961	55,936
Balance, November 30, 2008	13,977,388	$ 12,060,115

10. Share capital – continued:

(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, 2008, 818,665 (2007 – 838,165) options remain available to be granted. Stock options become exercisable at dates determined by the Compensation Committee of the Board of Directors.

At November 30, 2008, the following stock options to officers, employees and others were outstanding:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding at November 30, 2008	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at November 30, 2008	Weighted-Average Exercise Price
$ 1.20	75,000	2.00	$ 1.20	75,000	$ 1.20
1.23	100,000	2.00	1.23	100,000	1.23
1.26	75,000	3.00	1.26	50,000	1.26
1.28	647,000	0.25	1.28	643,250	1.28
1.29	185,000	4.42	1.29	–	–
1.32	230,000	3.17	1.32	76,667	1.32
	1,312,000	1.74	$ 1.28	944,917	$ 1.27

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, 2006	1,092,500	$ 1.27
Options granted	292,500	1.32
Options exercised	(22,500)	1.28
Options forfeited	(70,000)	1.28
Outstanding, November 30, 2007	1,292,500	$ 1.28
Options granted	185,000	1.29
Options forfeited	(165,500)	1.29
Outstanding, November 30, 2008	1,312,000	$ 1.28

Outstanding options expire between February 28, 2009 and May 1, 2013.

The fair value of stock options granted during 2008 was estimated using the Black-Scholes option pricing model and estimated forfeiture rates with assumptions of five year weighted average expected option life, expected forfeiture rate of 60%, 30% volatility and risk-free rate of return of 3.0%. During the year the Company recorded stock based compensation expense of $37,539 (2007 – $15,300) along with a corresponding increase in contributed surplus in shareholders' equity.

(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.

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% 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% 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.

10. Share capital – continued:

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 16, 2007, 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:

	2008	2007
Research and development expenditures	$ 1,347,916	$ 1,097,513
Less grants and investment tax credits	(485,000)	(448,000)
	$ 862,916	$ 649,513

12. Earnings (loss) per share:

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

	2008	2007
Net earnings (loss)	$ (540,723)	$ 1,364,944
Weighted average number of common shares outstanding:		
Basic	13,952,622	13,906,276
Effect of stock options	–	363,058
Diluted	13,952,622	14,269,334
Earnings (loss) per share:		
Basic	$ (0.04)	$ 0.10
Diluted	$ (0.04)	$ 0.10

The Company has stock options outstanding to purchase 1,312,000 common shares at November 30, 2008 (2007 – 1,292,500). At November 30, 2008, none (2007 - 1,292,500) of the options available to purchase common shares were included in the computation of diluted loss per share.

13. Financial assets and liabilities:

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:

Credit risk arises from the potential that a customer or counterparty will fail to meet its contractual obligations. The Company is exposed to credit risk from its customers on its trade receivables. The Company is also exposed to credit risk relating to forward currency exchange contracts which it manages by dealing with Royal Bank of Canada, the largest Canadian bank. The maximum exposure to credit risk is represented by the carrying amount of its receivables and the balance of foreign exchange contracts.

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. The carrying amount of the accounts receivable is reduced through the use of an allowance account, and the amount of any change in the allowance is recognized in the statement of earnings.

13. Financial assets and liabilities – continued:

Accounts receivable are net of an allowance for doubtful accounts of $372,100 (2007 - $425,700). In the past 5 years, bad debts have not been significant.

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 Export Development Canada to the extent of 90% of the invoiced amount. The following table provides a breakdown of accounts receivable as described above:

	2008	2007
Government	$ 3,952,290	$ 2,286,267
Non-Government		
Secured		
Letter of credit	186,707	59,429
Export Development Canada insured	2,511,191	2,968,477
Other	4,242,356	3,422,649
	$ 10,892,544	$ 8,736,822

Currency fluctuation risk:

Foreign currency risk arises as a result of fluctuations in exchange rates. 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 the Canadian dollar can affect earnings and cash flow.

Approximately 70% of the Company's sales are denominated in U.S. dollars. During the fiscal year 2008 the Canadian dollar strengthened against the U.S. dollar by approximately 4% compared to fiscal year 2007. This resulted in a decrease in the Canadian dollar value of the Company's U.S. dollar denominated sales of approximately $1.1 million during the 2008 fiscal year. This impact is partially offset by the corresponding lower value of U.S. dollar denominated expenses.

From time to time the Company enters into forward foreign exchange contracts to sell U.S. dollars or Euros to hedge its net accounts receivable denominated in these foreign currencies. The term of these forward contracts is of a short term nature with the objective of matching the expected payments from customers.

At November 30, 2008 the Company has foreign currency exchange contracts to sell $1.8 million U.S. dollars. These contracts mature within the next 31 days and have a nominal value at November 30, 2008.

The Company also has exposure to other currencies including the Indian Rupee, Chilean Peso, Brazilian Real and Chinese Renminbi primarily as a result of its subsidiary operations in those countries. The Company's investments in these subsidiaries are not hedged as those currency positions are considered to be long-term in nature.

The following table illustrates the Company's exposure to exchange risk and the pre-tax effects on earnings and other comprehensive income (OCI) of reasonably possible changes in the relevant foreign currency. This analysis assumes all other variables remain constant.

	Carrying Amount of Asset (Liability) at November 30, 2008	Foreign Exchange Risk 5% increase in Canadian $	
		Income	OCI
Net US dollar foreign currency exposure	$ 5,220,000	$ (261,000)	$ –
US dollar foreign currency forward contracts	(18,000)	112,000	–
Net Indian Rupee foreign currency exposure	416,000	(20,800)	–
Net Chilean Peso foreign currency exposure	255,000	–	(12,750)
Net Euro foreign currency exposure	458,000	(22,900)	–
Net Chinese Renminbi foreign currency exposure	5,754,000	–	(287,700)

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 manages this risk by ensuring that a portion of its borrowings are on a fixed rate basis. At November 30, 2008 approximately 32% of borrowings are on a fixed rate basis. The Company's cash flow is exposed to interest fluctuations due to its variable interest rate instruments. As at November 30, 2008, a 1% increase or decrease in interest rates, with all other variables held constant, would have resulted in an increase or decrease of $67,181 to the Company's net earnings for the year. The Company does not use derivative financial instruments to mitigate interest rate risk.

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 Royal Bank of Canada. At November 30, 2008 the remaining amount available to be drawn under this credit facility is approximately $0.8 million.

13. Financial assets and liabilities – continued:

Under the terms of its credit facilities with Royal Bank of Canada, the Company is required to meet certain covenants as disclosed in note 8.

The table below presents a maturity analysis of the Company's financial liabilities based on the expected cash flows from the date of the balance sheet to the contractual maturity date. The amounts represent the contractual undiscounted cash flows.

	Carrying Amount of Liability at November 30, 2008	Contractual Cash Flows Including Interest	< 1 year	1 to 3 years	3 to 5 years	Over 5 years
Sort-term loans	$ 7,328	$ 7,661	$ 7,661	$ –	$ –	$ –
Accoounts payable and accrued liabilities	5,291	5,291	5,291	–	–	–
Long-term debt	8,686	9,848	9,563	285	–	–

* Assumes balances are 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.

Fair value:

The carrying amounts of the Company's financial assets and liabilities including cash, accounts receivable, unbilled revenue and accounts payable and accrued liabilities approximate fair value due to the short-term maturity of these items. The fair value of the short-term loans approximates the carrying amounts since the debt bears interest at current market rates. The fair value of long-term debt as at November 30, 2008 was $8.948 million as compared to $8.686 million in carrying value. The fair value of the Company's fixed long-term debt was estimated based on discounted future cash flows using current rates for similar debt subject to similar rates and maturities.

14. 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 highway departments and industry to improve the efficiency of traffic flows.

The Company had sales in the following geographic areas:

	2008	2007
Canada	**$ 4,567,135**	$ 5,590,213
United States	**20,143,393**	22,673,272
Overseas	**13,964,025**	11,498,301
	$ 38,674,553	$ 39,761,786

15. Statements of cash flows:

Other operating items

	2008	2007
Accounts receivable	**$ (2,366,897)**	$ 1,542,789
Unbilled revenue	**(2,071,303)**	1,170,241
Income taxes receivable	**(134,320)**	–
Inventory	**(338,519)**	(1,275,772)
Prepaid expense and deposits	**(283,179)**	(177,300)
Accounts payable and accrued liabilities	**2,173,748**	(759,286)
Income taxes payable	**(71,260)**	(237,895)
	$ (3,091,730)	$ 262,777

16. 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 by pricing products and services commensurately with the level of risk.

The Company manages the capital structure and makes adjustments to it in the 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 issue new shares, purchase and cancel shares previously issued, return capital to shareholders or sell assets to reduce debt. The Company considers the items included in the consolidated statement of shareholders' equity as capital.

Under the terms of its credit facilities with Royal Bank of Canada, the Company is required to meet certain covenants as disclosed in note 8.

17. Comparative figures:

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

IRD Board of Directors

Corporate Governance

At International Road Dynamics, we take governance and the interests of our shareholders very seriously. As a result, we are committed to open, timely and transparent shareholder communication. In addition, IRD's Board of Directors has implemented a comprehensive set of governance practices and procedures consistent with the Toronto Stock Exchange (TSX) Corporate Governance Guidelines.

Full details can be found in the Company's Information Circular.

Dr. Arthur Bergan

Chairman of Board, Professor Emeritus of Civil Engineering at the University of Saskatchewan.

Terry Bergan

Director, President and Chief Executive Officer, President since 1986 and CEO since 1994.

Sharon Parker

Secretary, with the Company since 1980 and currently VP, Corporate Resources.

Harvey Alton

Director, former Deputy Minister of Transportation and Utilities for the Province of Alberta and currently a consultant with Alton Management Services Inc.

Ray Harris

Director and consultant, from 1996 to present. Prior thereto, he was an advisor to the Ministry of Finance of the Peoples Republic of China and prior thereto he was chairman of Deloitte and Touche (Canada).

Janice MacKinnon

Director, Educator and former Minister of Saskatchewan Crown Investments Corporation and former Minister of Finance for the Province of Saskatchewan.

Dr. C. Michael Walton

Director, Professor of Civil Engineering and Ernest H. Cockrell Centennial Chair in Engineering at The University of Texas at Austin.

Corporate Office

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Officers

Dr. Arthur Bergan
Chairman of the Board
Terry Bergan
President and Chief Executive Officer
Randy Hanson
Executive Vice President and
Chief Operating Officer
Mel Karakochuk
Vice President Finance and
Chief Financial Officer
Sharon Parker
Vice President, Corporate Resources

Legal Counsel

McKercher McKercher & Whitmore
374 3rd Avenue South
Saskatoon, Saskatchewan
Canada S7K 1M5

Auditors

KPMG LLP
600 - 128 4th Avenue South
Saskatoon, Saskatchewan
Canada S7K 1M8

Financial Services

Royal Bank of Canada
154 1st Avenue South
Saskatoon, Saskatchewan
Canada S7K 1K2

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Stock Exchange Listings
Toronto Stock Exchange

Stock Symbol
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