



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

Unaudited Interim Condensed Consolidated Financial Statements

Three and nine months ended August 31, 2015 and 2014

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

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Financial Position

Unaudited

Canadian Dollars	Note	August 31, 2015	November 30, 2014
Assets			
Current assets:			
Cash and cash equivalents		\$ 1,019,177	\$ 1,399,332
Accounts receivable		15,086,196	11,872,154
Unbilled revenue		7,115,940	4,089,057
Income taxes receivable		-	101,964
Inventories	4	7,407,573	6,345,363
Prepaid expenses and deposits		2,488,930	1,296,998
		33,117,816	25,104,868
Property, plant and equipment	5	2,102,221	2,000,161
Investment in XPCT	6	7,140,671	6,005,724
Investment tax credits recoverable		2,611,489	2,376,489
Deferred tax assets		1,125,183	1,144,458
		\$ 46,097,380	\$ 36,631,700

Liabilities and Shareholders' Equity

Current liabilities:			
Bank indebtedness	7	\$ 8,166,364	\$ 6,713,897
Accounts payable and accrued liabilities		9,031,177	5,730,032
Income taxes payable		684,805	-
Current portion of deferred revenue		4,558,931	2,985,405
Current portion of long-term debt	8	128,572	128,572
		22,569,849	15,557,906
Deferred revenue		950,804	1,128,245
Long-term debt	8	674,999	771,428
Shareholders' equity:			
Share capital	11(b)	12,171,899	12,123,093
Contributed surplus		316,283	303,290
Retained earnings		8,311,490	6,559,048
Accumulated other comprehensive income		1,102,056	188,690
		21,901,728	19,174,121
		\$ 46,097,380	\$ 36,631,700

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Earnings

Unaudited

Canadian Dollars	Note	Three months ended		Nine months ended	
		August 31, 2015	August 31, 2014	August 31, 2015	August 31, 2014
Revenue	10	\$ 18,085,508	\$ 11,904,014	\$ 41,746,208	\$ 33,782,378
Cost of goods sold		13,115,081	8,051,182	29,118,454	23,383,735
		4,970,427	3,852,832	12,627,754	10,398,643
Administrative and marketing expenses		3,636,150	2,814,603	9,748,705	8,620,668
Research and development, net	12	298,476	249,905	1,185,709	848,386
Financing costs (income)	15	(490,973)	(198,005)	(222,509)	(322,001)
Other income		(41,139)	(33,846)	(60,495)	(82,508)
XPCT loss (earnings)	6	(399,670)	109,068	(473,198)	(164,924)
Earnings before income taxes		1,967,583	911,107	2,449,542	1,499,022
Income tax expense	9	509,268	405,534	697,100	592,165
Net earnings		\$ 1,458,315	\$ 505,573	\$ 1,752,442	\$ 906,857
Earnings per share	14				
Basic		\$ 0.10	\$ 0.03	\$ 0.12	\$ 0.06
Diluted		\$ 0.10	\$ 0.03	\$ 0.12	\$ 0.06

Interim Condensed Consolidated Statements of Comprehensive Income

Unaudited

Canadian Dollars		Three months ended		Nine months ended	
		August 31, 2015	August 31, 2014	August 31, 2015	August 31, 2014
Net earnings		\$ 1,458,315	\$ 505,573	\$ 1,752,442	\$ 906,857
Other comprehensive income (loss) which may be reclassified to net earnings:					
Unrealized foreign currency translation gains (losses)		(123,559)	(269,873)	913,366	(212,887)
Total comprehensive income		\$ 1,334,756	\$ 235,700	\$ 2,665,808	\$ 693,970

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited

Canadian Dollars	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 1, 2013		\$ 12,077,209	\$ 293,304	\$ 5,186,945	\$ 9,103	\$ 17,566,561
Issuance of capital stock		22,783	(1,909)	-	-	20,874
Net earnings		-	-	906,857	-	906,857
Other comprehensive (loss):						
Exchange differences on translation of foreign operations		-	-	-	(212,887)	(212,887)
Share-based compensation	11(c)	-	10,353	-	-	10,353
Balance at August 31, 2014		\$ 12,099,992	\$ 301,748	\$ 6,093,802	\$ (203,784)	\$ 18,291,758
Balance at December 1, 2014		\$ 12,123,093	\$ 303,290	\$ 6,559,048	\$ 188,690	\$ 19,174,121
Issuance of capital stock	11(b)	48,806	(3,264)	-	-	45,542
Net earnings		-	-	1,752,442	-	1,752,442
Other comprehensive income:						
Exchange differences on translation of foreign operations		-	-	-	913,366	913,366
Share-based compensation	11(c)	-	16,257	-	-	16,257
Balance at August 31, 2015		\$ 12,171,899	\$ 316,283	\$ 8,311,490	\$ 1,102,056	\$ 21,901,728

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

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Interim Condensed Consolidated Statements of Cash Flows

Unaudited

		Three months ended		Nine months ended	
		August 31,	August 31,	August 31,	August 31,
Canadian Dollars	Note	2015	2014	2015	2014
Cash flows from (used in):					
Operations:					
Net earnings		\$ 1,458,315	\$ 505,573	\$ 1,752,442	\$ 906,857
Adjustments for:					
Deferred revenue		(133,851)	1,297,999	1,396,085	1,280,487
Depreciation expense	13(b)	125,881	154,188	449,218	426,625
Bad debt expense	15	100,968	115,132	62,727	82,171
Share-based compensation	11(c)	3,033	3,451	16,257	10,353
XPCT loss (earnings)	6	(399,670)	109,068	(473,198)	(164,924)
Interest expense	15	94,929	91,983	306,913	285,489
Gain on disposal of property, plant and equipment		(15,889)	(13,146)	(20,650)	(19,522)
Investment tax credits earned	12	(145,000)	(45,000)	(235,000)	(135,000)
Income tax expense		509,268	405,534	697,100	592,165
Income taxes received (paid)		(28,289)	(47,949)	142,979	(504,845)
Other operating items	19	(4,130,474)	(2,967,232)	(5,083,353)	(3,204,573)
		(2,560,779)	(390,399)	(988,480)	(444,717)
Investing:					
Proceeds from sale of property, plant and equipment		40,173	39,882	81,346	52,586
Additions to property, plant and equipment	5	(301,956)	(397,271)	(597,118)	(747,034)
		(261,783)	(357,389)	(515,772)	(694,448)
Financing:					
Interest paid		(98,043)	(91,983)	(309,718)	(285,489)
Bank indebtedness net increase	7	2,304,539	1,364,264	1,452,467	1,363,045
Long-term debt decrease	8	(32,143)	-	(96,429)	-
Issuance of capital stock	11(b)	8,292	9,508	45,542	20,874
		2,182,645	1,281,789	1,091,862	1,098,430
Increase (decrease) in cash and cash equivalents		(639,917)	534,001	(412,390)	(40,735)
Exchange rate changes on foreign currency cash balances		(54,088)	(12,092)	32,235	14,050
Cash and cash equivalents, beginning of period		1,713,182	841,280	1,399,332	1,389,874
Cash and cash equivalents*, end of period		\$ 1,019,177	\$ 1,363,189	\$ 1,019,177	\$ 1,363,189
*Comprised of the following:					
Cash				\$ 917,719	\$ 1,340,649
Restricted cash (foreign deposits requiring bank approvals for repatriation)				101,458	22,540
Total cash and cash equivalents				\$ 1,019,177	\$ 1,363,189

See accompanying notes to interim condensed consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and nine months ended August 31, 2015 and 2014

Canadian dollars

1. Reporting entity

International Road Dynamics Inc. is incorporated under the *Canada Business Corporations Act*. The address of its registered office is 702 43rd Street East, Saskatoon, Saskatchewan, Canada, S7K 3T9. The interim condensed consolidated financial statements as at and for the period ended August 31, 2015 comprise International Road Dynamics Inc. and its wholly-owned subsidiaries (together the "Company") and the Company's 50% investment in Xuzhou-PAT Control Technologies Limited (XPCT). The Company is a highway traffic management technology company specializing in supplying products and integrated systems to the global Intelligent Transportation Systems (ITS) industry. The Company's common shares are traded on the Toronto Stock Exchange under the symbol IRD.

2. Basis of preparation

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and, in particular, IAS 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the most recent annual consolidated financial statements as at and for the year ended November 30, 2014.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on October 8, 2015.

(b) Basis of presentation

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

The preparation of the interim condensed consolidated financial statements in conformance with IFRS requires management to use judgement in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgements are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. There have been no changes to the Company's assessment of significant accounting judgements and estimates from those disclosed in the most recent annual consolidated financial statements as at and for the year ended November 30, 2014.

3. Significant accounting policies:

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the Company's most recent annual audited consolidated financial statements for the year ended November 30, 2014, except for new accounting standards adopted during this year, as described below.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and nine months ended August 31, 2015 and 2014

Canadian dollars

3. Significant accounting policies – continued:

Accounting standards adopted during the year:

The following standards became effective for the Company beginning December 1, 2014 and did not have any impact on the Company's financial reporting.

Annual Improvements to IFRS (2010-2012) and (2011-2013). Issued in March 2014 amendments were made to various standards including IFRS 2 *Share-based payments*, IFRS 3 *Business Combinations*, IFRS 8 *Operating Segments*, IFRS 13 *Fair Value Measurement*, IAS 16 *Property Plant and Equipment*, IAS 38 *Intangible Assets*, IAS 24 *Related Party Disclosures*, and IAS 40 *Investment Property*. These amendments were effective for annual periods beginning on or after July 1, 2014.

Amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities* clarify the requirements relating to the offset of financial assets and liabilities. The amendments were effective for annual reporting periods on or after January 1, 2014.

Amendments to IAS 36, *Impairment of Assets* address disclosure information about the recoverable amount of impaired assets if that amount is based on fair value less costs to sell. The amendments were effective for annual periods beginning on or after January 1, 2014.

Recent accounting pronouncements not yet adopted:

The following is a summary of recent accounting pronouncements which may be applicable to subsequent reporting periods. The Company is currently reviewing the standards and amendments to determine the impact on its consolidated financial statements, if any:

IFRS 9 *Financial Instruments* provides guidance on the classification, measurement and disclosure of financial instruments and general hedge accounting requirements. The standard must be applied retrospectively and is effective for annual periods beginning after January 1, 2018, with earlier application permitted. The Company intends to adopt the standard in the period beginning December 1, 2018.

IFRS 15 *Revenue from Contracts with Customers* supersedes current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard may be applied retrospectively or with a modified transition approach and is effective for reporting periods beginning on or after January 1, 2018. The Company intends to adopt the standard in the period beginning December 1, 2018.

The IASB has issued amendments to IAS 1, *Presentation of Financial Statements*, to improve the effectiveness of presentation and disclosure in financial reports. These amendments are effective for annual periods beginning on or after January 1, 2016 allowing for early adoption. The Company intends to adopt these amendments in its financial statement for the annual period beginning December 1, 2016.

IAS 34, *Interim Financial Reporting* – The IASB issued amendments to clarify the meaning of disclosure of information contained “elsewhere in the interim financial report” and are effective for annual periods beginning on or after January 1, 2016 allowing for early adoption. The Company intends to adopt these amendments for its interim periods beginning December 1, 2016.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

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Canadian dollars

4. Inventories:

	August 31, 2015	November 30, 2014
Raw materials	\$ 595,778	\$ 557,595
Original equipment manufacturer materials	3,790,835	2,896,819
Work in process	1,423,096	1,374,418
Finished goods	1,597,864	1,516,531
	\$ 7,407,573	\$ 6,345,363

During the quarter, inventories expensed within cost of goods sold were \$8,744,086 (2014 - \$5,282,294) and \$19,799,998 for the first nine months (2014 - \$14,164,342). During the quarter the Company also recorded an incremental provision for excess and obsolete inventories within cost of goods sold of \$nil (2014 - \$nil) and \$nil for the first nine months (2014 - \$57,767).

5. Property, plant and equipment:

	Land and Buildings	Office Equipment	Operations Equipment	Automotive Equipment	Computer Equipment	Computer Software	Total
Cost							
Balance at November 30, 2014	\$ 305,145	\$ 1,000,934	\$ 3,220,195	\$ 1,381,016	\$ 2,423,399	\$ 1,305,008	\$ 9,635,697
Additions	-	1,358	128,211	387,207	73,123	7,219	597,118
Disposals	-	-	-	(157,967)	(4,286)	-	(162,253)
Effect of movements in exchange rates	2,860	19,671	2,833	10,070	15,195	147	50,776
Balance at August 31, 2015	\$ 308,005	\$ 1,021,963	\$ 3,351,239	\$ 1,620,326	\$ 2,507,431	\$ 1,312,374	\$ 10,121,338
Accumulated Depreciation							
Balance at November 30, 2014	\$ 43,211	\$ 936,170	\$ 2,548,255	\$ 714,168	\$ 2,105,481	\$ 1,288,251	\$ 7,635,536
Additions	12,215	14,033	146,926	175,221	79,234	15,719	443,348
Disposals	-	-	-	(97,583)	(3,974)	-	(101,557)
Effect of movements in exchange rates	328	19,252	2,311	5,588	14,410	(99)	41,790
Balance at August 31, 2015	\$ 55,754	\$ 969,455	\$ 2,697,492	\$ 797,394	\$ 2,195,151	\$ 1,303,871	\$ 8,019,117
Carrying Amounts							
Balance at November 30, 2014	\$ 261,934	\$ 64,764	\$ 671,940	\$ 666,848	\$ 317,918	\$ 16,757	\$ 2,000,161
Balance at August 31, 2015	\$ 252,251	\$ 52,508	\$ 653,747	\$ 822,932	\$ 312,280	\$ 8,503	\$ 2,102,221

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and nine months ended August 31, 2015 and 2014

Canadian dollars

6. Investment in XPCT:

	Three months ended August 31,		Nine months ended August 31,		Year ended August 31, November 30,
	2015	2014	2015	2014	2014
Xuzhou-PAT Control Technologies Limited (XPCT)					
Balance, beginning of period	\$6,640,848	\$5,795,307	\$6,005,724	\$5,434,735	\$ 5,434,735
Currency gain on financial statement translation	100,153	41,266	661,749	127,846	427,355
Equity earnings (loss)	399,670	(109,068)	473,198	164,924	326,050
Dividend received	-	-	-	-	(182,416)
Balance, end of period	\$7,140,671	\$5,727,505	\$7,140,671	\$5,727,505	\$ 6,005,724

The Company had \$nil sales to XPCT during the quarter (2014 - \$nil) and \$282,450 in the first nine months (2014 - \$286,781). At August 31, 2015 accounts receivable from XPCT were \$6,688 (November 30, 2014 - \$16,532).

7. Bank indebtedness:

	August 31, 2015	November 30, 2014
Revolving credit facility of \$8.5 million authorized and secured by a general security agreement:		
HSBC Bank Canada - borrowing in Canadian dollars with interest at bank prime plus 1.5%	\$ 2,778,581	\$ 1,828,244
HSBC Bank Canada - borrowing in U.S. dollars with interest at U.S. bank base rate plus 1.5%	5,387,783	4,227,860
Revolving credit facility authorized and secured by a standby letter of credit of \$1.1 million U.S. issued by HSBC Bank Canada and guaranteed by Export Development Canada (EDC):		
The Hongkong and Shanghai Banking Corporation Limited - borrowing in Indian rupees with interest at 12.7%	-	657,793
	\$ 8,166,364	\$ 6,713,897

The HSBC credit facility may be borrowed by way of banker's acceptances at prevailing market rates to a maximum of \$8.5 million or by way of U.S. dollar advances to a maximum of U.S. \$6.5 million. This credit facility is further limited by margin requirements on specific assets.

The Company's demand facility and long-term debt with HSBC are secured by a general security agreement on the assets of the Company held in Canada with a carrying value at August 31, 2015 of \$38.4 million (November 30, 2014 - \$31.5 million). In addition, the Company's subsidiaries in the United States, Chile and India have provided corporate guarantees as security.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

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Canadian dollars

7. Bank indebtedness - continued:

The Company is subject to covenants on its credit facility and long-term debt with HSBC as follows: current ratio greater than 1.2 to 1 (tested quarterly), debt to tangible net worth less than 2.5 to 1 (tested quarterly) and debt service coverage ratio greater than 1.25 to 1 (tested annually). At August 31, 2015 the Company is in compliance with these covenants.

During the first quarter the Company repaid and cancelled the credit facility in India with The Hongkong and Shanghai Banking Corporation Limited.

See note 16 for a discussion of liquidity risk.

8. Long-term debt:

	August 31, 2015	November 30, 2014
HSBC Bank Canada term loan, repayable in quarterly instalments of \$32,143 with interest at bank prime plus 0.5%. Due September 30, 2021	\$ 803,571	\$ 900,000
Less current portion	128,572	128,572
	<u>\$ 674,999</u>	<u>\$ 771,428</u>

The HSBC term loan is secured by a general security agreement on the assets of the Company in Canada and is guaranteed by EDC. As described in note 7 the Company is in compliance with the covenants under the terms of its credit facilities with HSBC.

9. Income taxes:

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

No income tax recovery has been recorded in the Company's Indian subsidiary on year to date losses of \$291,732 (2014 - \$687,995) due to uncertainty that sufficient future earnings will be generated in this entity to offset current tax losses prior to expiry.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and nine months ended August 31, 2015 and 2014

Canadian dollars

10. Revenue:

	Three months ended		Nine months ended	
	August 31, 2015	August 31, 2014	August 31, 2015	August 31, 2014
Contracted projects	\$ 9,569,727	\$ 4,645,067	\$ 21,789,752	\$ 14,038,474
Service	4,445,205	4,118,315	12,185,100	11,069,150
Products	4,070,576	3,140,632	7,771,356	8,674,754
Total	\$ 18,085,508	\$ 11,904,014	\$ 41,746,208	\$ 33,782,378

11. Share capital:

(a) Authorized:

An unlimited number of common voting shares.

(b) Common shares:

	Number of shares	Amount
Balance, November 30, 2014	14,149,170	\$ 12,123,093
Shares issued on exercise of stock options	116,667	36,167
Shares issued for directors compensation	9,923	9,375
Adjustment from contributed surplus	-	3,264
Balance, August 31, 2015	14,275,760	\$ 12,171,899

(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 August 31, 2015, 130,665 (November 30, 2014 - 460,665) options remain available to be granted, subject to approval by the Board of Directors. Stock options become exercisable at dates determined by the Compensation Committee of the Board of Directors.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

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Canadian dollars

11. Share capital (continued):

At August 31, 2015, the following stock options to officers, employees and others were outstanding:

Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding at August 31, 2015	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at August 31, 2015	Weighted-Average Exercise Price
\$ 0.31	550,000	1.16	\$ 0.31	550,000	\$ 0.31
0.43	87,500	2.19	0.43	54,166	0.43
0.44	40,000	2.26	0.44	26,666	0.44
0.63	200,000	3.11	0.63	66,666	0.63
0.72	300,000	4.25	0.72	100,000	0.72
1.00	30,000	4.72	1.00	10,000	1.00
1.20	525,000	3.50	1.20	525,000	1.20
	1,732,500	2.77	\$ 0.71	1,332,498	\$ 0.72

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, 2014	1,519,167	\$ 0.67
Options granted	330,000	0.75
Options exercised	(116,667)	0.31
Outstanding, August 31, 2015	1,732,500	\$ 0.71

Outstanding options expire between October 26, 2016 and May 19, 2020.

Share-based compensation expense of \$3,033 and \$16,257 was recorded for the three and nine months ended August 31, 2015 (2014 - \$3,451 and \$10,353) along with a corresponding increase in contributed surplus in shareholders' equity for options vesting during the period.

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

	May 2015	December 2014
Number of options granted	30,000	300,000
Average strike price	\$1.00	\$0.72
Expected volatility	42%	42%
Risk-free interest rate	0.69%	1.0%
Expected life of option	5 years	5 years
Weighted average grant date fair values	\$0.37	\$0.28

INTERNATIONAL ROAD DYNAMICS INC.

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Canadian dollars

12. Research and development, net:

	Three months ended		Nine months ended	
	August 31, 2015	August 31, 2014	August 31, 2015	August 31, 2014
Research and development expenditures	\$ 477,680	\$ 294,905	\$ 1,454,913	\$ 983,386
Government grants earned	(34,204)	-	(34,204)	-
Less investment tax credits	(145,000)	(45,000)	(235,000)	(135,000)
	\$ 298,476	\$ 249,905	\$ 1,185,709	\$ 848,386

13. Expense classification:

(a) Personnel expenses:

	Three months ended		Nine months ended	
	August 31, 2015	August 31, 2014	August 31, 2015	August 31, 2014
Wages and salaries	\$ 4,293,625	\$ 3,183,273	\$ 11,490,768	\$ 9,647,386
Statutory benefits	227,913	174,948	670,287	652,687
Other employment benefits	178,809	168,584	532,608	543,184
Defined contribution plans	80,554	69,598	231,494	204,444
Share-based payment transactions	3,033	3,451	16,257	10,353
	\$ 4,783,934	\$ 3,599,854	\$ 12,941,414	\$ 11,058,054

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

(b) Depreciation expense:

	Three months ended		Nine months ended	
	August 31, 2015	August 31, 2014	August 31, 2015	August 31, 2014
Depreciation on property, plant and equipment	\$ 125,774	\$ 153,685	\$ 443,348	\$ 427,842
Add: Depreciation in opening inventory	9,169	16,598	14,932	14,878
Less: Depreciation in closing inventory	(9,062)	(16,095)	(9,062)	(16,095)
Depreciation expense	\$ 125,881	\$ 154,188	\$ 449,218	\$ 426,625

Depreciation expense is allocated as follows:

Cost of goods sold	\$ 89,539	\$ 117,352	\$ 340,664	\$ 333,183
Administration and marketing expenses	36,342	36,836	108,554	93,442
	\$ 125,881	\$ 154,188	\$ 449,218	\$ 426,625

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Interim Condensed Consolidated Financial Statements

Unaudited

For the three months and nine months ended August 31, 2015 and 2014

Canadian dollars

14. Earnings per share:

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

	Three months ended		Nine months ended	
	August 31, 2015	August 31, 2014	August 31, 2015	August 31, 2014
Net earnings	\$ 1,458,315	\$ 505,573	\$ 1,752,442	\$ 906,857
Weighted average number of common shares outstanding:				
Basic	14,263,050	14,064,333	14,229,105	14,039,863
Effect of stock options	573,435	495,310	573,435	495,310
Diluted	14,836,485	14,559,643	14,802,540	14,535,173
Earnings per share:				
Basic	\$ 0.10	\$ 0.03	\$ 0.12	\$ 0.06
Diluted	\$ 0.10	\$ 0.03	\$ 0.12	\$ 0.06

As disclosed in note 11 the Company has stock options outstanding to purchase 1,732,500 common shares at August 31, 2015 (November 30, 2014 - 1,519,167).

15. Financing costs (income):

	Three months ended		Nine months ended	
	August 31, 2015	August 31, 2014	August 31, 2015	August 31, 2014
Interest on bank indebtedness	\$ 88,281	\$ 91,983	\$ 285,399	\$ 285,489
Interest on long-term debt	6,648	-	21,514	-
Bad debt expense (note 16)	100,968	115,132	62,727	82,171
Foreign exchange gains	(686,870)	(405,120)	(592,149)	(689,661)
	\$ (490,973)	\$ (198,005)	\$ (222,509)	\$ (322,001)

16. Financial risk:

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

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

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16. Financial risk (continued):

Credit risk:

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

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

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

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. Canada and U.S. billings to non-government customers, not otherwise secured by letter of credit, are generally insured by EDC to the extent of 90% of the invoiced amount. Credit risk is more significant for certain customers in South Asia due to higher risk of financial instability.

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

	Three months ended		Nine months ended	
	August 31, 2015	August 31, 2014	August 31, 2015	August 31, 2014
Balance, beginning of period	\$ 1,830,495	\$ 1,696,750	\$ 1,759,789	\$ 1,623,348
Bad debt expense, net	100,968	115,132	62,727	82,171
Recovery of accounts previously written off	25,786	47	42,418	818
Foreign currency revaluation	41,007	(34,148)	133,322	71,444
Balance, end of period	\$ 1,998,256	\$ 1,777,781	\$ 1,998,256	\$ 1,777,781

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16. Financial risk (continued):

Foreign currency exchange risk:

The Company is exposed to foreign exchange risk primarily relating to sales revenue, operating expenses and capital expenditures denominated in foreign currencies and the embedded derivative portion of the unearned revenue of U.S. dollar denominated sales contracts in its Chilean and Mexican subsidiaries. As at August 31, 2015, the Company had accrued embedded foreign currency derivative gains of \$785,756 (November 30, 2014 - \$743,919) arising from U.S. \$2.8 million (November 30, 2014 - \$6.4 million) in unearned revenue on open contracts within these subsidiaries.

In addition, the Company is exposed to foreign exchange risk on translation of net assets in foreign operations where the functional currency differs from the parent company.

The Company has exposure to the U.S. dollar, Indian rupee, Chilean peso, Mexican peso and Chinese yuan. The majority of the Company's sales are denominated in U.S. dollars while the majority of its costs are denominated in Canadian dollars. Fluctuations in the value of the U.S. dollar compared to both the Canadian dollar and Chilean peso can significantly affect both earnings and cash flow.

During the nine months ended August 31, 2015 approximately 91% of the Company's sales were denominated in U.S. dollars. The average Canadian exchange rate against the U.S. dollar weakened during the first nine months of 2015 relative to the same period in 2014 by approximately 16%. This resulted in an increase in the Canadian dollar value of the Company's U.S. dollar denominated sales of approximately \$4.8 million during the period. This impact is partially offset by the corresponding higher value of U.S. dollar denominated expenses, the amount of which is not readily determinable.

The Company partially reduces its exposure to U.S. currency volatility by maintaining a portion of its bank indebtedness in U.S. funds. From time to time the Company enters into forward foreign exchange contracts to sell U.S. dollars to hedge its net accounts receivable denominated in this currency. These forward contracts are of a short term nature with the objective of matching the expected payments from customers. As at and for the nine months ended August 31, 2015 the Company had no foreign exchange forward contracts.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they become due. The Company facilitates this in part by maintaining a line of credit, as disclosed in note 7. At August 31, 2015 this credit facility was fully utilized.

In the prior year, the Company maintained an operating line of credit for its operations in India with The Hongkong and Shanghai Banking Corporation Limited. As described in note 7 this facility was fully repaid from funds received under the HSBC term loan in December 2014.

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16. Financial risk (continued):

In addition, EDC has provided a guarantee to May 31, 2016 of the Company's additional HSBC credit facility of \$900,000 U.S. (November 30, 2014 – \$900,000 U.S.) for the support of performance guarantees provided by the Company's subsidiaries. As at August 31, 2015, the Canadian dollar value of these outstanding performance guarantees totaled \$613,362 (November 30, 2014 - \$57,210).

The Company's Chilean subsidiary also maintains a secured line of credit to support performance guarantees required for selected projects. As at August 31, 2015, the Canadian dollar value of these performance guarantees totaled \$1,225,503 (November 30, 2014 - \$1,024,436).

Fair value:

The Company classifies its fair value measurements by reference to the following fair value measurement hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Assets and liabilities carried at fair value in the Company's financial statements are generally limited to derivative instruments used for risk management purposes and the embedded derivative portion of the unearned revenue of U.S. dollar denominated sales contracts in its Chilean and Mexican subsidiaries. Estimates of fair value for embedded derivatives are determined using Level 2 measurements. The fair value of embedded derivatives is measured using a market approach, determined by multiplying the unearned revenue balances by the change in quoted forward foreign exchange rates as of the contract date and the reporting date. The resulting amount is then discounted to present value.

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

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17. Commitments:

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

Due within 1 year	\$	579,000
Due between 1 and 2 years		579,000
Due between 2 and 3 years		579,000
Due between 3 and 4 years		579,000
Due between 4 and 5 years		579,000
Thereafter		1,517,402
	\$	4,412,402

During the quarter \$144,750 (2014 - \$144,750) and \$434,250 for the nine months ending August 31, 2015 (2014 - \$434,250) was recognized as an expense in respect of the operating lease for land and building.

The Company has provided a guarantee in the amount of 7.5 million yuan or \$1.5 million (November 30, 2014 – 7.5 million yuan or \$1.4 million) for 50% of a bank loan to XPCT. The guarantee provided by the Company is proportionate to its shareholding in XPCT.

18. Segmented information:

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

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

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

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18. Segmented information - continued:

Three Months Ended August 31, 2015	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue	\$ 15,452,755	\$ 2,782,455	\$ 226,398	\$ (376,100)	\$ 18,085,508
Cost of goods sold	11,419,489	2,015,784	75,240	(395,432)	13,115,081
	4,033,266	766,671	151,158	19,332	4,970,427
Administrative and marketing expenses	2,749,923	803,643	175,223	(92,639)	3,636,150
Research and development, net	268,550	29,926	-	-	298,476
Financing costs (income)	(191,286)	(414,430)	114,743	-	(490,973)
Other expense (income)	(96,351)	(15,805)	(21,622)	92,639	(41,139)
XPCT earnings	(399,670)	-	-	-	(399,670)
Earnings (loss) before income taxes	1,702,100	363,337	(117,186)	19,332	1,967,583
Income tax expense	418,510	86,892	-	3,866	509,268
Net earnings (loss)	\$ 1,283,590	\$ 276,445	\$ (117,186)	\$ 15,466	\$ 1,458,315

Three Months Ended August 31, 2014	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue	\$ 10,097,693	\$ 1,669,277	\$ 282,350	\$ (145,306)	\$ 11,904,014
Cost of goods sold	7,007,923	1,014,483	204,247	(175,471)	8,051,182
	3,089,770	654,794	78,103	30,165	3,852,832
Administrative and marketing expenses	2,106,090	538,938	258,646	(89,071)	2,814,603
Research and development, net	228,738	21,167	-	-	249,905
Financing costs	102,954	(384,400)	83,441	-	(198,005)
Other expense (income)	(110,930)	(14,049)	2,062	89,071	(33,846)
XPCT loss	109,068	-	-	-	109,068
Earnings (loss) before income taxes	653,850	493,138	(266,046)	30,165	911,107
Income tax expense	299,689	97,487	-	8,358	405,534
Net earnings (loss)	\$ 354,161	\$ 395,651	\$ (266,046)	\$ 21,807	\$ 505,573

18. Segmented information - continued:

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Nine Months Ended August 31, 2015	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue	\$ 34,586,817	\$ 7,151,822	\$ 746,006	\$ (738,437)	\$ 41,746,208
Cost of goods sold	23,928,920	5,522,191	397,196	(729,853)	29,118,454
	10,657,897	1,629,631	348,810	(8,584)	12,627,754
Administrative and marketing expenses	7,373,008	2,142,168	507,485	(273,956)	9,748,705
Research and development, net	1,111,391	74,318	-	-	1,185,709
Financing costs (income)	(242,439)	(135,406)	155,336	-	(222,509)
Other (income)	(279,230)	(32,942)	(22,279)	273,956	(60,495)
XPCT earnings	(473,198)	-	-	-	(473,198)
Earnings (loss) before income taxes	3,168,365	(418,507)	(291,732)	(8,584)	2,449,542
Income tax expense (recovery)	791,424	(92,607)	-	(1,717)	697,100
Net earnings (loss)	\$ 2,376,941	\$ (325,900)	\$ (291,732)	\$ (6,867)	\$ 1,752,442
Current assets	\$ 22,263,193	\$ 8,201,842	\$ 2,727,122	\$ (74,341)	\$ 33,117,816
Investment in XPCT	7,140,671	-	-	-	7,140,671
Other non-current assets	15,730,331	1,032,282	-	(10,923,720)	5,838,893
Total assets	\$ 45,134,195	\$ 9,234,124	\$ 2,727,122	\$ (10,998,061)	\$ 46,097,380
Total liabilities	\$ 20,257,262	\$ 4,403,289	\$ 8,656,782	\$ (9,121,681)	\$ 24,195,652

Nine Months Ended August 31, 2014	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue	\$ 27,407,387	\$ 5,866,319	\$ 982,782	\$ (474,110)	\$ 33,782,378
Cost of goods sold	19,357,418	3,742,156	758,347	(474,186)	23,383,735
	8,049,969	2,124,163	224,435	76	10,398,643
Administrative and marketing expenses	6,504,816	1,647,241	733,640	(265,029)	8,620,668
Research and development, net	726,830	121,556	-	-	848,386
Financing costs (income)	53,040	(557,039)	181,998	-	(322,001)
Other (income)	(289,489)	(54,840)	(3,208)	265,029	(82,508)
XPCT earnings	(164,924)	-	-	-	(164,924)
Earnings (loss) before income taxes	1,219,696	967,245	(687,995)	76	1,499,022
Income tax expense	422,028	170,269	-	(132)	592,165
Net earnings (loss)	\$ 797,668	\$ 796,976	\$ (687,995)	\$ 208	\$ 906,857
Current assets	\$ 16,362,320	\$ 5,256,567	\$ 2,713,072	\$ (179,237)	\$ 24,152,722
Investment in XPCT	5,727,505	-	-	-	5,727,505
Other non-current assets	14,000,116	917,567	-	(9,299,411)	5,618,272
Total assets	\$ 36,089,941	\$ 6,174,134	\$ 2,713,072	\$ (9,478,648)	\$ 35,498,499
Total liabilities	\$ 14,059,184	\$ 1,611,501	\$ 9,967,666	\$ (8,431,610)	\$ 17,206,741

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18. Segmented information - continued:

Revenue from external customers by geographic area is as follows:

	Three months ended		Nine months ended	
	August 31,	August 31,	August 31,	August 31,
	2015	2014	2015	2014
Canada	\$ 452,333	\$ 672,486	\$ 1,776,807	\$ 1,759,435
United States	12,783,123	7,482,396	28,624,447	20,787,545
Latin America and Mexico	2,708,822	1,667,870	7,048,932	5,810,360
India	226,398	282,350	746,006	982,782
Other offshore	1,914,832	1,798,912	3,550,016	4,442,256
Total	\$ 18,085,508	\$ 11,904,014	\$ 41,746,208	\$ 33,782,378

19. Statements of cash flows:

Other operating items

	Three months ended		Nine months ended	
	August 31,	August 31,	August 31,	August 31,
	2015	2014	2015	2014
Accounts receivable	\$ (5,307,072)	\$ (2,332,278)	\$ (3,126,885)	\$ (1,605,527)
Unbilled revenue	(1,908,899)	554,394	(2,999,948)	(182,913)
Inventories	615,488	(259,497)	(1,046,737)	(875,693)
Prepaid expenses and deposits	(299,793)	(322,769)	(1,173,887)	(631,325)
Accounts payable and accrued liabilities	2,769,802	(607,082)	3,264,104	90,885
	\$ (4,130,474)	\$ (2,967,232)	\$ (5,083,353)	\$ (3,204,573)

20. Key management personnel and directors compensation:

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

Upon resignation executive officers are subject to a notice term of six months. Executive officers are entitled to termination benefits ranging from 18 to 24 months' gross salary.

Key management and directors compensation includes:

	Three months ended		Nine months ended	
	August 31,	August 31,	August 31,	August 31,
	2015	2014	2015	2014
Salaries and short-term employee benefits	\$ 795,849	\$ 311,242	\$ 1,386,680	\$ 881,992
Share-based compensation	2,680	2,036	14,735	6,106
	\$ 798,529	\$ 313,278	\$ 1,401,415	\$ 888,098