



INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Financial Statements

Years ended November 30, 2016 and 2015

MANAGEMENT'S REPORT

To the Shareholders of International Road Dynamics Inc.

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

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

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

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

Terry Bergan
President and
Chief Executive Officer

David Cortens
Vice President Finance and
Chief Financial Officer

Saskatoon, Canada

February 24, 2017



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of International Road Dynamics Inc.

We have audited the accompanying consolidated financial statements of International Road Dynamics Inc., which comprise the consolidated statements of financial position as at November 30, 2016 and November 30, 2015, the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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



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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of International Road Dynamics Inc. as at November 30, 2016 and November 30, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
February 24, 2017
Saskatoon, Canada

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Financial Position

November 30, 2016 and 2015

\$ Canadian

	Note	2016	2015
Assets			
Current assets:			
Cash		\$ 2,721,533	\$ 1,833,703
Accounts receivable	17	13,557,337	11,207,440
Embedded derivatives	17	303,345	481,689
Unbilled revenue	11	6,438,751	6,134,832
Income taxes receivable		247,026	160,391
Inventories	4	6,937,858	7,088,400
Prepaid expenses and deposits		2,448,083	1,982,379
		32,653,933	28,888,834
Property, plant and equipment	5	2,950,693	2,395,445
Intangible assets	6	438,256	403,706
Investment in XPCT	7	6,686,620	6,879,528
Investment tax credits recoverable	10(e)	783,706	1,826,529
Deferred tax assets	10(b)	1,374,872	1,365,696
		12,234,147	12,870,904
		\$ 44,888,080	\$ 41,759,738
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	8	\$ 3,596,483	\$ 3,959,768
Accounts payable and accrued liabilities		8,606,266	8,948,729
Current portion of deferred revenue		5,684,861	4,550,550
Current portion of long-term debt	9	128,572	128,572
		18,016,182	17,587,619
Deferred revenue		798,289	824,666
Long-term debt	9	514,284	642,856
		1,312,573	1,467,522
Shareholders' equity:			
Share capital	12(b)	12,442,554	12,219,737
Contributed surplus		309,986	315,733
Retained earnings		11,846,527	9,090,633
Accumulated other comprehensive income		960,258	1,078,494
		25,559,325	22,704,597
		\$ 44,888,080	\$ 41,759,738

See accompanying notes to consolidated financial statements.

Approved by the Board:

Terry Bergan, Director (signed) Ray Kolla, Director (signed)

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Earnings

Years Ended November 30, 2016 and 2015

\$ Canadian

	Note	2016	2015
Revenue		\$ 65,384,087	\$ 57,990,057
Cost of goods sold		43,689,277	40,372,784
		21,694,810	17,617,273
Administrative and marketing expenses		13,994,680	13,618,796
Research and development, net	13	3,216,332	1,246,583
Financing costs (income), net	16	923,712	(82,518)
Other income		(55,906)	(134,735)
XPCT earnings	7	(432,836)	(444,705)
Earnings before income taxes		4,048,828	3,413,852
Income tax expense	10	1,292,934	882,267
Net earnings		\$ 2,755,894	\$ 2,531,585
Earnings per share	15		
Basic		\$ 0.19	\$ 0.18
Diluted		\$ 0.18	\$ 0.17

Consolidated Statements of Comprehensive Income

Years Ended November 30, 2016 and 2015

\$ Canadian

	2016	2015
Net earnings	\$ 2,755,894	\$ 2,531,585
Other comprehensive income (loss) which may be reclassified to net earnings:		
Exchange differences on translation of foreign operations	(118,236)	889,804
Total comprehensive income	\$ 2,637,658	\$ 3,421,389

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Changes in Shareholders' Equity

Years Ended November 30, 2016 and 2015

\$ Canadian

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 1, 2014		\$ 12,123,093	\$ 303,290	\$ 6,559,048	\$ 188,690	\$ 19,174,121
Issuance of capital stock	12(b)	96,644	(6,847)	—	—	89,797
Net earnings		—	—	2,531,585	—	2,531,585
Other comprehensive income:						
Exchange differences on translation of foreign operations		—	—	—	889,804	889,804
Share-based compensation	12(c)	—	19,290	—	—	19,290
Balance at November 30, 2015		\$ 12,219,737	\$ 315,733	\$ 9,090,633	\$ 1,078,494	\$ 22,704,597
Balance at December 1, 2015		\$ 12,219,737	\$ 315,733	\$ 9,090,633	\$ 1,078,494	\$ 22,704,597
Issuance of capital stock	12(b)	222,817	(17,842)	—	—	204,975
Net earnings		—	—	2,755,894	—	2,755,894
Other comprehensive loss:						
Exchange differences on translation of foreign operations		—	—	—	(118,236)	(118,236)
Share-based compensation	12(c)	—	12,095	—	—	12,095
Balance at November 30, 2016		\$ 12,442,554	\$ 309,986	\$ 11,846,527	\$ 960,258	\$ 25,559,325

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

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Consolidated Statements of Cash Flows

Years Ended November 30, 2016 and 2015

\$ Canadian

	Note	2016	2015
Cash flows from (used in):			
Operations:			
Net earnings		\$ 2,755,894	\$ 2,531,585
Adjustments for:			
Embedded derivatives		178,344	262,230
Depreciation and amortization expense	14(b)	577,818	589,781
Bad debt expense	17	526,538	585,467
Share-based compensation	12(c)	12,095	19,290
XPCT earnings	7	(432,836)	(444,705)
Interest expense	16	272,445	396,233
Gain on disposal of property, plant and equipment		(13,651)	(21,447)
Investment tax credits earned	13	(144,105)	(704,276)
Income tax expense	10	1,292,934	882,267
Net funds flow from operations		5,025,476	4,096,425
Changes in non-cash working capital	20	(2,287,269)	453,053
Income tax recovered (paid)		(166,092)	121,555
Interest paid		(274,027)	(388,257)
		2,298,088	4,282,776
Investing:			
Dividend received from XPCT	7	148,602	312,192
Proceeds from sale of property, plant and equipment		38,506	86,045
Additions to property, plant and equipment	5	(1,128,513)	(1,059,040)
Additions to intangibles	6	(64,621)	(390,960)
		(1,006,026)	(1,051,763)
Financing:			
Bank indebtedness decrease	8	(363,285)	(2,754,129)
Long-term debt repayment	9	(128,572)	(128,572)
Issuance of capital stock	12(b)	204,975	89,797
		(286,882)	(2,792,904)
Increase in cash		1,005,180	438,109
Exchange rate changes on foreign currency cash balances		(117,350)	(3,738)
Cash, beginning of year		1,833,703	1,399,332
Cash, end of year		\$ 2,721,533	\$ 1,833,703

See accompanying notes to consolidated financial statements.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2016 and 2015

\$ Canadian, except as noted

1. Reporting entity

International Road Dynamics Inc. is incorporated under the *Canada Business Corporations Act*. The address of its registered office is 702 43rd Street East, Saskatoon, Saskatchewan, Canada, S7K 3T9. The consolidated financial statements as at and for the years ended November 30, 2016 and November 30, 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These consolidated financial statements were authorized for issue by the Board of Directors on February 24, 2017.

(b) Basis of presentation

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

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

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

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

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

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2016 and 2015

\$ Canadian, except as noted

2. Basis of preparation – continued:

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

(i) Stage of completion of contracted projects

Contract revenue, contract costs, deferred contract revenue and costs and estimated unbilled revenue include amounts derived using the percentage of completion method applied to project contracts. Percentage of completion is calculated by comparing the actual costs incurred to the total estimated costs for the contract. In determining the estimated costs to complete the contract, assumptions and estimates are required to evaluate issues related to schedule, material and labour costs, changes in contract scope and subcontractor costs. Due to the nature of project contracts, estimates may change significantly between accounting periods.

(ii) Financial assets and equity investments

Assessments about the recoverability of financial assets, including accounts receivable and unbilled revenue as well as equity investments, require judgment as to whether a loss event has occurred and estimates of the amounts and timing of future cash flows.

(iii) Impairment of non-financial assets

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

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

The recoverable amount of an asset or CGU is estimated at the higher of its value in use and fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Assessments of recoverability involve significant estimations on future cash flows, revenue and costs, sustaining capital reinvestments and discount rates. These assessments and assumptions could affect the Company's future results if the current estimates of future performance, capital requirements, and discount rates change.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of a previously impaired asset or CGU, except for goodwill.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2016 and 2015

\$ Canadian, except as noted

2. Basis of preparation – continued:

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

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

(v) Functional currency

Functional currency is defined as the currency of the primary economic environment in which the entity operates. Management must use significant judgment when identifying the functional currency of the Company's subsidiaries taking into account various primary and secondary indicators such as the currency that influences sales prices, competitive forces that determine sales prices, and costs of inputs required to deliver goods and services. The Company also considers the currency of any financing activities and the currency in which funds are usually retained.

(vi) Joint arrangements

Management must use judgment in determining whether joint control exists in its joint arrangements which are classified as either joint operations or joint ventures. The determination as to whether a joint arrangement is a joint venture or a joint operation also requires significant judgment based on the structure of the arrangement, the legal form of any separate vehicle, the contractual terms of the arrangement and other facts and circumstances.

3. Significant accounting policies:

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

(a) Basis of consolidation

(i) Subsidiaries

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

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2016 and 2015

\$ Canadian, except as noted

3. Significant accounting policies - continued:

(ii) Joint arrangements

Joint arrangements are those arrangements over which the Company has joint control established by contractual arrangements and requiring unanimous consent of the parties to the arrangement for financial and operating decisions. The Company's joint arrangement with respect to XPCT has been determined to be a joint venture since it is structured through a separate legal entity. Joint ventures are accounted for using the equity method whereby the investments are initially recorded at cost. The investments are increased or decreased to reflect the Company's proportionate share of the earnings or losses and equity movements of the investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee. The Company has an interest in one joint venture, its 50% investment in XPCT which is located in Xuzhou, China.

(iii) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

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

(ii) Foreign operations

The functional currency of the Company's subsidiary in the United States - International Road Dynamics Corporation is the Canadian dollar, the functional currency of its subsidiary in Chile - PAT Traffic Limitada is the Chilean peso, the functional currency of its subsidiary in Mexico - PAT Traffic Mexico S.A. de C.V is the Mexican peso and the functional currency of its subsidiary in India - International Road Dynamics South Asia Pvt. Ltd. is the Indian rupee.

All assets and liabilities of the Company's foreign subsidiaries in Chile, Mexico and India are translated to Canadian dollars at exchange rates in effect at the financial reporting date and all revenue and expenses are translated into Canadian dollars using the average

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2016 and 2015

\$ Canadian, except as noted

3. Significant accounting policies - continued:

monthly rate of exchange. Exchange gains and losses arising from this translation representing the net unrealized foreign currency translation gain (loss) on the Company's investment, are recorded in accumulated other comprehensive income (loss).

The functional currency of the Company's equity investment in XPCT is the Chinese yuan. The financial statements of XPCT, including the adjustments to reflect the fair values of assets acquired and liabilities assumed, as well as goodwill arising on acquisition, are translated to Canadian dollars at exchange rates in effect at the financial reporting date and earnings (loss) recognized is translated into Canadian dollars using the average monthly rate of exchange. Exchange gains and losses arising from this translation, representing the net unrealized foreign currency translation gain (loss) on the Company's investment, are recorded in accumulated other comprehensive income (loss).

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

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

(c) Revenue recognition

(i) Contracted projects

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

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2016 and 2015

\$ Canadian, except as noted

3. Significant accounting policies - continued:

For time and materials contracts, labour and material rates are established within the contract. Revenues from time and materials contracts are recognized progressively on the basis of costs incurred during the period plus the estimated margin earned.

Contract costs include expenses that relate directly to fulfill the requirements of a specific contract including materials costs, subcontractor costs, equipment rentals, engineering and project management labour, design and technical support labour, warranty costs, insurance and bond premiums. Contract costs are recognized in the period in which they are incurred unless they result in an asset related to future contract activity.

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

(ii) Product sales

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

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

(iii) Services

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

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

(d) Financial instruments

(i) Financial assets

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2016 and 2015

\$ Canadian, except as noted

3. Significant accounting policies - continued:

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

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

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

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

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

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

(ii) Financial liabilities

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

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

(iii) Share capital

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2016 and 2015

\$ Canadian, except as noted

3. Significant accounting policies - continued:

(iv) Derivative financial instruments

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

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

Derivatives are carried at fair value and are reported as assets when they have a positive fair value and as 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. The Company's embedded derivatives are classified as fair value through profit and loss.

(e) Inventories

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

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

(f) Property, plant and equipment

(i) Recognition and measurement

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

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

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2016 and 2015

\$ Canadian, except as noted

3. Significant accounting policies - continued:

(ii) Depreciation

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

(g) Intangible assets

(i) Recognition and measurement

Intangible assets include patents and trademarks which are measured at cost less accumulated amortization. An impairment loss is recognized through profit or loss when the recoverable amount is less than the carrying amount.

(ii) Amortization

Amortization is recognized on a straight-line basis over the expected useful lives of intangible assets, which is generally 10 to 20 years.

(h) Leased assets

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

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

(i) Impairment

(i) Financial assets

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

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

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2016 and 2015

\$ Canadian, except as noted

3. Significant accounting policies - continued:

(ii) Non-financial assets

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value is determined as the amount that would be obtained from the sale of the asset or CGU in an arm's length transaction between knowledgeable and willing parties. In the absence of market related comparative information, the fair value less costs to sell is determined based on the present value of estimated future cash flows from each non-financial asset or CGU using the assumptions that market participants would use. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

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

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

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

(j) Research and development costs:

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

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3. Significant accounting policies - continued:

(k) Employee benefits

(i) Share-based compensation

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

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

(ii) Short-term employee benefits

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

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

(l) Provisions

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

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

(m) Financing costs

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

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

INTERNATIONAL ROAD DYNAMICS INC.

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3. Significant accounting policies - continued:

(n) Income tax

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

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

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

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

(o) Earnings per share

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

(p) Segment reporting

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

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

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3. Significant accounting policies - continued:

(q) Recent accounting pronouncements:

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 and has not determined the impact on its consolidated financial statements, if any:

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 the period beginning December 1, 2016.

The IASB has issued amendments to IAS 7, Statement of Cash Flows, to require disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017 allowing for early adoption. The Company intends to adopt the amendments in the annual period beginning December 1, 2017.

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 annual 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 IFRS 2, Share-based Payment, to clarify how to account for certain types of share-based payment transactions. These amendments are effective for annual periods beginning on or after January 1, 2018 allowing for early adoption. The Company intends to adopt the amendments to IFRS 2 in the annual period beginning December 1, 2018.

IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration, clarifies the date to be used for translation when a foreign currency transaction involves an advance payment or receipt. The interpretation may be applied either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after: the beginning of the reporting period in which the entity first applies the Interpretation; or the beginning of a prior reporting period presented as comparative information in the financial statements. The Company intends to adopt the Interpretation for the annual period beginning December 1, 2018.

IFRS 16, Leases introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term greater than 12 months, unless the underlying asset is of a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 will replace IAS 17, Leases and is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. The Company intends to adopt IFRS 16 in the annual period beginning December 1, 2019.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

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4. Inventories:

	2016	2015
Raw materials	\$ 410,784	\$ 538,763
Original equipment manufacturer materials	3,592,953	3,427,726
Work in process	1,397,375	1,413,583
Finished goods	1,536,746	1,708,328
	\$ 6,937,858	\$ 7,088,400

During the year, inventories expensed within cost of goods sold were \$19,808,540 (2015 - \$20,010,437). The Company also recorded an incremental provision for excess and obsolete inventories within cost of goods sold of \$179,100 (2015 - \$9,424).

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	\$ 3,187,112	\$ 1,381,016	\$ 2,423,399	\$ 1,305,008	\$ 9,602,614
Additions	—	1,551	426,199	527,819	96,252	7,219	1,059,040
Disposals/derecognition	—	—	—	(207,032)	(4,286)	—	(211,318)
Effect of movements in exchange rates	(1,159)	19,070	(595)	988	13,057	(60)	31,301
Balance at November 30, 2015	\$ 303,986	\$ 1,021,555	\$ 3,612,716	\$ 1,702,791	\$ 2,528,422	\$ 1,312,167	\$ 10,481,637
Additions	33,877	3,153	502,875	493,809	87,206	7,593	1,128,513
Disposals/derecognition	—	(22,496)	(68,758)	(123,159)	(1,795,688)	—	(2,010,101)
Effect of movements in exchange rates	11,587	(1,581)	9,086	25,265	3,448	597	48,402
Balance at November 30, 2016	\$ 349,450	\$ 1,000,631	\$ 4,055,919	\$ 2,098,706	\$ 823,388	\$ 1,320,357	\$ 9,648,451
Accumulated Depreciation							
Balance at November 30, 2014	\$ 43,211	\$ 936,170	\$ 2,530,033	\$ 714,168	\$ 2,105,481	\$ 1,288,251	\$ 7,617,314
Additions	16,250	18,614	155,245	260,413	112,580	20,568	\$ 583,670
Disposals/derecognition	—	—	—	(142,746)	(3,974)	—	\$ (146,720)
Effect of movements in exchange rates	(379)	18,830	(847)	1,561	13,025	(262)	\$ 31,928
Balance at November 30, 2015	\$ 59,082	\$ 973,614	\$ 2,684,431	\$ 833,396	\$ 2,227,112	\$ 1,308,557	\$ 8,086,192
Additions	17,639	15,158	52,739	345,259	107,509	7,406	545,710
Disposals/derecognition	—	(21,605)	(67,512)	(104,991)	(1,763,836)	—	(1,957,944)
Effect of movements in exchange rates	2,142	(1,957)	9,194	11,930	1,894	597	23,800
Balance at November 30, 2016	\$ 78,863	\$ 965,210	\$ 2,678,852	\$ 1,085,594	\$ 572,679	\$ 1,316,560	\$ 6,697,758
Carrying Amounts							
Balance at November 30, 2015	\$ 244,904	\$ 47,941	\$ 928,285	\$ 869,395	\$ 301,310	\$ 3,610	\$ 2,395,445
Balance at November 30, 2016	\$ 270,587	\$ 35,421	\$ 1,377,067	\$ 1,013,112	\$ 250,709	\$ 3,797	\$ 2,950,693

INTERNATIONAL ROAD DYNAMICS INC.

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6. Intangible Assets:

As at November 30, 2016 the Company had intangible assets with a net book value of \$438,256 (2015 - \$403,706). During the year additions to intangible assets were \$64,621 (2015 - \$390,960) and amortization expense of \$30,071 (2015 - \$2,115) was recognized.

7. Investment in XPCT:

	2016	2015
Xuzhou-PAT Control Technologies Limited (XPCT)		
Balance, beginning of year	\$ 6,879,528	\$ 6,005,724
Currency gain (loss) on financial statement translation	(477,142)	741,291
Company's share of earnings	432,836	444,705
Dividend received	(148,602)	(312,192)
Balance, end of year	\$ 6,686,620	\$ 6,879,528

XPCT is a joint venture located in China in which the Company holds a 50% interest. XPCT has two business divisions providing products and services to both the ITS industry and construction equipment manufacturers.

As a distributor for the Company's ITS manufactured goods, XPCT provides a strategic advantage to the Company to increase sales in the Chinese market.

The Company had sales to XPCT of \$290,150 during the year (2015 - \$282,450). At November 30, 2016 accounts receivable from XPCT was \$7,298 (2015 - \$15,820).

The Company's ownership interest comprises a 50% share of net assets and net earnings of XPCT as well as purchase price adjustments to allocate fair values assigned to certain assets and liabilities at the time of acquisition. Summary financial information for XPCT is as follows:

INTERNATIONAL ROAD DYNAMICS INC.

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7. Investment in XPCT - continued:

Year ended November 30, 2016	Financial summary	Purchase adjustments	Adjusted summary	Company's share
Cash	\$ 3,543,378	\$ —	\$ 3,543,378	\$ 1,771,689
Other current assets	14,742,756	—	14,742,756	7,371,378
Non-current assets	252,599	4,406,045	4,658,644	2,329,322
Current liabilities				
Trade and other	(4,670,054)	—	(4,670,054)	(2,335,027)
Short term loans	(4,901,484)	—	(4,901,484)	(2,450,742)
Net assets	\$ 8,967,195	\$ 4,406,045	\$ 13,373,240	\$ 6,686,620
Revenue	\$ 10,550,502	\$ —	\$ 10,550,502	\$ 5,275,251
Cost of sales	7,836,624	—	7,836,624	3,918,312
Depreciation and amortization	127,072	—	127,072	63,536
Finance costs	202,374	—	202,374	101,187
Administrative expenses	1,369,936	—	1,369,936	684,968
Earnings before income taxes	1,014,496	—	1,014,496	507,248
Income taxes	148,824	—	148,824	74,412
Net earnings	\$ 865,672	\$ —	\$ 865,672	\$ 432,836
Year ended November 30, 2015	Financial summary	Purchase adjustments	Adjusted summary	Company's share
Cash	\$ 5,228,588	\$ —	\$ 5,228,588	\$ 2,614,294
Other current assets	15,099,820	—	15,099,820	7,549,910
Non-current assets	345,889	4,720,455	5,066,344	2,533,172
Current liabilities				
Trade and other	(4,453,952)	—	(4,453,952)	(2,226,976)
Short term loans	(7,181,744)	—	(7,181,744)	(3,590,872)
Net assets	\$ 9,038,601	\$ 4,720,455	\$ 13,759,056	\$ 6,879,528
Revenue	\$ 11,204,026	\$ —	\$ 11,204,026	\$ 5,602,013
Cost of sales	8,291,559	190,347	8,481,906	4,240,953
Depreciation and amortization	151,368	—	151,368	75,684
Finance costs	168,172	—	168,172	84,086
Administrative expenses	1,332,532	—	1,332,532	666,266
Earnings before income taxes	1,260,395	(190,347)	1,070,048	535,024
Income taxes	209,189	(28,552)	180,637	90,319
Net earnings	\$ 1,051,206	\$ (161,795)	\$ 889,411	\$ 444,705

INTERNATIONAL ROAD DYNAMICS INC.

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8. Bank indebtedness:

	2016	2015
Revolving credit facility of \$9.5 million authorized and secured by a general security agreement:		
HSBC Bank Canada - borrowing in Canadian dollars with interest at bank prime plus 1.5%	\$ 958,621	\$ 875,034
HSBC Bank Canada - borrowing in U.S. dollars with interest at U.S. bank base rate plus 1.5%	2,637,862	3,084,734
	<u>\$ 3,596,483</u>	<u>\$ 3,959,768</u>

The HSBC credit facility may be borrowed by way of banker's acceptances at prevailing market rates to a maximum of \$9.5 million or by way of U.S. dollar advances to a maximum of U.S. \$6.3 million. Borrowings on this facility are restricted to the lesser of \$9.5 million and the margin total on the following assets in Canada and the U.S.: 90% of secured and government accounts receivable less than 120 days and 50% of inventory to a maximum of \$3 million. As at November 30, 2016 approximately \$5.5 million was available to be drawn.

The Company's demand facility and long-term debt with HSBC are secured by a general security agreement on the assets of the Company held in Canada with a carrying value at November 30, 2016 of \$37.6 million (2015 - \$34.9 million). In addition, the Company's subsidiaries in the United States, Chile and India have provided corporate guarantees as security.

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).

Current ratio is defined as total current assets divided by total current liabilities. If applicable, current assets exclude intangible assets and current liabilities exclude amounts postponed to HSBC.

Debt to tangible net worth is defined as total debt divided by tangible net worth. Debt is calculated as total liabilities excluding deferred taxes and subordinated debt, if any. Tangible net worth is the aggregate of paid in capital, contributed surplus, accumulated other comprehensive income (loss), retained earnings and if applicable, postponed loans, subordinated debt and associated accrued interest less any assets deemed intangible by HSBC.

Debt service coverage ratio is calculated as EBITDA (earnings before interest, income taxes, depreciation and amortization) less cash taxes, dividends, advances to related parties, and unfunded capital expenditures, divided by the total of principal payments on long term debt and capital leases plus interest.

At November 30, 2016 the Company is in compliance with these covenants.

See note 17 for a discussion of liquidity risk.

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

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\$ Canadian, except as noted

9. Long-term debt:

	2016	2015
HSBC Bank Canada term loan, repayable in quarterly installments of \$32,143 with interest at bank prime plus 0.5%.		
Due September 30, 2021	\$ 642,856	\$ 771,428
Less current portion	128,572	128,572
	\$ 514,284	\$ 642,856

The HSBC term loan is secured by a general security agreement on the assets of the Company in Canada and is guaranteed by Export Development Canada (EDC). As described in note 8 the Company is in compliance with the covenants under the terms of its credit facilities with HSBC.

In addition the Company has a credit facility of U.S. \$500,000 to finance construction of certain operating assets. As at November 30, 2016 no amount was drawn on this facility.

INTERNATIONAL ROAD DYNAMICS INC.

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10. Income taxes:

(a) Reconciliation of income tax expense:

Income tax expense attributable to earnings differs from the amounts computed by applying the Canadian statutory income tax rate of 27.0% (2015 – 27.0%) to earnings before income tax expense as a result of the following:

	2016	2015
Earnings before income taxes	\$ 4,048,828	\$ 3,413,852
Computed expected tax expense	1,093,000	922,000
Increase (decrease) in income tax expense resulting from:		
Non-deductible expenses	31,000	13,000
Manufacturing and processing deduction	(47,000)	(56,000)
XPCT earnings	(117,000)	(120,000)
Rate difference in foreign jurisdictions	87,000	(16,000)
Change in expected future tax rates	14,000	45,000
Change in unrecognized deferred tax assets	107,000	112,000
Other	124,934	(17,733)
	\$ 1,292,934	\$ 882,267
	2016	2015
Income tax expense is comprised of:		
Current taxes:		
Related to current period	1,030,415	1,105,044
Changes in estimates from prior periods	233,711	—
	1,264,126	1,105,044
Deferred taxes:		
Related to origination and reversal of temporary differences	209,687	(222,777)
Changes in estimates from prior periods	(180,879)	—
	28,808	(222,777)
	\$ 1,292,934	\$ 882,267

INTERNATIONAL ROAD DYNAMICS INC.

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10. Income taxes - continued:

(b) Recognized deferred income tax assets (liabilities):

	November 30, 2014	Recognized 2015	Effect of movement in exchange rates	November 30, 2015	Recognized 2016	Effect of movement in exchange rates	November 30, 2016
Non-capital losses	\$ 304,354	\$ (75)	\$ —	\$ 304,279	\$ 2,656	\$ —	\$ 306,935
Unclaimed research and development expenses	433,385	211,514	—	644,899	(50,438)	—	594,461
Other	(36,683)	(125,263)	182	(161,764)	221,695	26,485	86,416
Deferred revenue	375,053	104,338	(1,570)	477,821	(335,133)	8,286	150,974
Investment tax credits	(312,987)	(124,304)	—	(437,291)	158,040	—	(279,251)
Property, plant and equipment	381,336	156,567	(151)	537,752	(25,628)	3,213	515,337
Net deferred income tax assets	\$ 1,144,458	\$ 222,777	\$ (1,539)	\$ 1,365,696	\$ (28,808)	\$ 37,984	\$ 1,374,872

Based on projections of future earnings, realization of these net deferred tax assets is probable and consequently a deferred tax asset has been recorded.

(c) Unrecognized deferred income tax assets:

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

	November 30, 2014	Change in 2015	Adjustment to prior year	November 30, 2015	Change in 2016	Adjustment to prior year	November 30, 2016
Unrecognized timing differences	\$ 120,000	\$ (120,000)	\$ —	\$ —	\$ —	\$ —	\$ —
Non-capital losses	1,201,000	232,000	263,000	1,696,000	107,000	(335,000)	1,468,000
	\$ 1,321,000	\$ 112,000	\$ 263,000	\$ 1,696,000	\$ 107,000	\$ (335,000)	\$ 1,468,000

The Company has temporary differences related to unremitted earnings of its foreign subsidiaries and 50% interest in XPCT, a joint venture. At November 30, 2016, the Company has recognized a deferred tax liability of \$154,248 (2015 - \$125,824) with respect to XPCT. However, the Company has not recognized a deferred tax liability with respect to its foreign subsidiaries as the Company controls the timing of the reversal of these temporary differences and it is probable that such temporary differences will not reverse in the foreseeable future.

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10. Income taxes - continued:

(d) Non-capital loss carry forward:

Non-capital loss carry forward at November 30, 2016 expire as follows:

Year	Canada	India	Total
2019	\$ —	\$ 83,785	\$ 83,785
2020	—	3,285,224	3,285,224
2021	—	353,419	353,419
2022	—	411,612	411,612
2023	—	39,660	39,660
2024	—	321,611	321,611
2025	—	256,435	256,435
2028	1,178,982	—	1,178,982
	\$ 1,178,982	\$ 4,751,746	\$ 5,930,728

(e) Investment tax credits:

At November 30, 2016, the Company has recognized investment tax credits of \$783,706 (2015 - \$1,826,529) as a result of its research and development activities. Investment tax credits can be carried forward and used to reduce Canadian federal and provincial taxes of future years. Federal investment tax credits earned in 1998 and later years may be carried forward for 20 years. Saskatchewan investment tax credits earned after March 31, 2012 can be carried forward for 10 years.

Investment tax credits available for carry forward at November 30, 2016 expire as follows:

Year(s)	Federal	Saskatchewan	Total
2023	\$ —	\$ 81,261	\$ 81,261
2024	—	139,494	139,494
2025	—	110,435	110,435
2026	—	68,600	68,600
After 2033	383,916	—	383,916
	\$ 383,916	\$ 399,790	\$ 783,706

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11. Contracted projects:

Revenue recognized from contracted projects during the year ended November 30, 2016 was \$33,554,304 (2015 - \$30,876,516).

Project and service contracts in progress as at the balance sheet date:

	2016	2015
Contract costs incurred plus recognized profits less recognized losses to date	\$ 77,116,226	\$ 64,156,169
Less progress billings	(79,211,369)	(65,079,236)
	\$ (2,095,143)	\$ (923,067)

Recognized and included in the financial statements:

	2016	2015
Unbilled revenue on contracted projects	\$ 6,438,751	\$ 6,134,832
Unearned revenue on contracted projects	(8,533,894)	(7,057,899)
	\$ (2,095,143)	\$ (923,067)

12. Share capital:

(a) Authorized:

An unlimited number of common voting shares, with no par value.

(b) Common shares:

	Number of shares	Amount
Balance, November 30, 2014	14,149,170	\$ 12,123,093
Shares issued	249,292	96,644
Balance, November 30, 2015	14,398,462	12,219,737
Shares issued	547,143	222,817
Balance, November 30, 2016	14,945,605	\$ 12,442,554

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

Years ended November 30, 2016 and 2015

\$ Canadian, except as noted

12. Share capital - continued:

	Number of shares	Amount
Shares issued, year ended November 30, 2015		
Exercise of stock options	235,167	\$ 75,422
Directors compensation	14,125	14,375
Adjustment from contributed surplus	—	6,847
	249,292	\$ 96,644
Shares issued, year ended November 30, 2016		
Exercise of stock options	542,500	\$ 197,475
Directors compensation	4,643	7,500
Adjustment from contributed surplus	—	17,842
	547,143	\$ 222,817

(c) Options:

Under the terms of a stock option plan approved by the shareholders and as amended in May 2016, the Company is authorized to grant officers, employees and others options to purchase common shares at prices based on the market price of shares as determined on the date of the grant. At November 30, 2016, 423,060 (2015 - 130,665) options remain available to be granted, subject to approval by the Board of Directors. Stock options generally vest equally over three years subject to the discretion of the Compensation Committee of the Board of Directors and have a maximum term of five years.

At November 30, 2016, the following stock options to officers, employees and others were outstanding:

Options Outstanding				Options Exercisable	
Exercise Prices (\$)	Number Outstanding at November 30, 2016	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price (\$)	Number Exercisable at November 30, 2016	Weighted-Average Exercise Price (\$)
0.43	36,500	0.94	0.43	36,500	0.43
0.63	200,000	1.86	0.63	200,000	0.63
0.72	250,000	3.00	0.72	150,000	0.72
1.00	30,000	3.47	1.00	20,000	1.00
1.20	525,000	2.25	1.20	525,000	1.20
1.89	30,000	4.67	1.89	—	1.89
	1,071,500	2.41	0.97	931,500	0.97

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

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12. Share capital - continued:

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

	Number of Common Shares Issuable	Weighted Average Exercise Price
Outstanding, November 30, 2014	1,519,167	\$ 0.67
Options exercised	(235,167)	0.32
Options granted	330,000	0.75
Outstanding, November 30, 2015	1,614,000	\$ 0.74
Options exercised	(542,500)	0.36
Options expired	(30,000)	0.31
Options granted	30,000	1.89
Outstanding, November 30, 2016	1,071,500	\$ 0.97

The weighted average market price of common shares issued during the year on exercise of stock options was \$1.75 (2015 - \$0.95). Outstanding options expire between November 9, 2017 and July 31, 2021.

For the year ended November 30, 2016 share-based compensation expense was \$12,095 (2015 - \$19,290) along with a corresponding increase in contributed surplus in shareholders' equity.

The inputs used in the measurement of the fair values at grant date of the stock options granted during the year ended November 30, 2016 were as follows:

	Issued in August 2016
Number of options granted	30,000
Average strike price	\$ 1.89
Expected volatility	75%
Risk-free interest rate	0.6%
Expected life of option	3 years
Weighted average grant date fair values	\$ 0.91

(d) Shareholders' rights plan:

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

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

INTERNATIONAL ROAD DYNAMICS INC.

Notes to Consolidated Financial Statements

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13. Research and development, net:

	2016	2015
Research and development expenditures	\$ 3,822,841	\$ 2,078,439
Less:		
Government grants earned	(462,404)	(127,580)
Investment tax credits	(144,105)	(704,276)
	\$ 3,216,332	\$ 1,246,583

14. Expense classification:

(a) Personnel expenses:

	2016	2015
Wages and salaries	\$ 17,755,228	\$ 15,837,628
Statutory benefits	851,281	825,071
Other employment benefits	904,729	719,363
Defined contribution plan	342,497	312,714
Share-based compensation	12,095	19,290
	\$ 19,865,830	\$ 17,714,066

(b) Depreciation and amortization expense:

	2016	2015
Depreciation on property, plant and equipment (note 5)	\$ 545,710	\$ 583,670
Add: Depreciation in opening inventory	10,936	14,932
Less: Depreciation in closing inventory	(8,899)	(10,936)
Depreciation expense	\$ 547,747	\$ 587,666
Depreciation expense is allocated as follows:		
Cost of goods sold	\$ 409,750	\$ 433,843
Administration and marketing expenses	137,997	153,823
	547,747	587,666
Amortization on intangibles in cost of goods sold (note 6)	30,071	2,115
Depreciation and amortization expense	\$ 577,818	\$ 589,781

INTERNATIONAL ROAD DYNAMICS INC.

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\$ Canadian, except as noted

15. Earnings per share:

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

	2016	2015
Net earnings	\$ 2,755,894	\$ 2,531,585
Weighted average number of common shares outstanding:		
Basic	14,680,527	14,254,262
Effect of stock options	477,796	518,190
Diluted	15,158,323	14,772,452
Earnings per share:		
Basic	\$ 0.19	\$ 0.18
Diluted	\$ 0.18	\$ 0.17

As disclosed in note 12(c) the Company has stock options outstanding to purchase 1,071,500 common shares at November 30, 2016 (2015 - 1,614,000).

16. Financing costs (income), net:

	2016	2015
Interest on bank indebtedness	\$ 249,932	\$ 368,479
Interest on long-term debt	22,513	27,754
Foreign exchange losses (gains)	651,267	(478,751)
	\$ 923,712	\$ (82,518)

17. Financial instruments and related risk:

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

Recognition

As at November 30, 2016, the Company values and records its financial instruments as follows:

- Cash is classified as loans and receivables and are initially recognized at fair value.
- Accounts receivable are classified as loans and receivables and are initially accounted for at fair value and subsequently adjusted for any allowance for impairment loss, with allowances reported in administrative and marketing expenses.
- Accounts payable and accrued liabilities are classified as other financial liabilities and initially recorded at fair value; subsequently they are recorded at amortized cost using the effective interest rate (EIR) method, with realized gains and losses reported in income.

INTERNATIONAL ROAD DYNAMICS INC.

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17. Financial instruments and related risk - continued:

- Bank indebtedness and long-term debt are classified as loans and receivables and are initially recorded at fair value and subsequently recorded at amortized cost using the EIR method, with realized gains and losses reported in finance costs.
- Embedded derivatives are recognized at fair value with changes in fair value reported as foreign exchange gains or losses.
- Derivative contracts are marked to market with resulting net gains or losses reported in income.

Fair value:

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

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

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

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

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

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

Financial instrument risk

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

Credit risk:

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

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

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17. Financial instruments and related risk - continued:

Accounts receivable is comprised of both trade and non-trade accounts. An allowance for impairment loss is established when there is a reasonable expectation that the Company will not be able to collect all amounts due according to the original terms of the receivables. Accounts ultimately determined to be uncollectible are written off against the allowance. The following table provides an aging analysis of trade accounts receivable. The age of an invoice does not necessarily indicate an account is past due as many contracts require the successful completion of system testing and acceptance.

	2016	2015
Current (less than 60 days)	\$ 7,948,340	\$ 5,476,298
61 to 120 days	1,317,389	2,232,465
121 to 365 days	2,240,322	1,636,295
Greater than one year	3,398,561	3,546,447
Trade accounts receivable	14,904,612	12,891,505
Allowance for impairment loss	(2,533,614)	(2,519,978)
Non-trade accounts receivable	1,186,339	835,913
	\$ 13,557,337	\$ 11,207,440

Accounts receivable include amounts due from customers in both the government and private industry sectors which exposes the Company to risk of nonpayment. Government accounts are considered secure and are normally not subjected to extensive credit reviews. Industry accounts are subject to internal credit review in order to minimize risk of non-payment. 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 India due to higher risk of financial instability. The Company pursues collection of overdue accounts by various means including direct negotiation, withdrawal of service support, third party collection, legal claims, and recovery from EDC on insured accounts. The following table provides a breakdown of accounts receivable as described above:

	2016	2015
Trade accounts receivable		
Government	\$ 4,541,344	\$ 3,912,510
Non-government		
Secured		
Letter of credit	419,797	602,981
Export Development Canada insured	4,241,181	2,604,400
Unsecured	5,702,290	5,771,614
	14,904,612	12,891,505
Allowance for impairment loss	(2,533,614)	(2,519,978)
Trade accounts receivable, net	\$ 12,370,998	\$ 10,371,527
Non-trade accounts receivable	1,186,339	835,913
Total accounts receivable, net	\$ 13,557,337	\$ 11,207,440

INTERNATIONAL ROAD DYNAMICS INC.

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17. Financial instruments and related risk - continued:

The movement in the allowance for impairment loss is as follows:

	2016	2015
Balance, beginning of year	\$ 2,519,978	\$ 1,759,789
Bad debt expense	526,538	585,467
Recovery of write offs (write offs)	(460,893)	40,973
Foreign currency revaluation	(52,009)	133,749
Balance, end of year	\$ 2,533,614	\$ 2,519,978

Currency fluctuation risk:

The Company is exposed to foreign exchange risk primarily relating to sales revenue, operating expenses and capital expenditures denominated in foreign currencies and the embedded derivative portion of the unearned revenue of U.S. dollar denominated sales contracts in its Chilean and Mexican subsidiaries.

In addition the Company is exposed to foreign exchange risk on translation of net assets held in foreign currencies and translation of foreign currency subsidiary and joint venture operations from their functional currency to that of the Company.

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

During the year ended November 30, 2016 approximately 90% of the Company's sales were denominated in U.S. dollars. The average Canadian exchange rate against the U.S. dollar weakened during 2016 relative to 2015 by approximately 5.5%. This resulted in an increase in the Canadian dollar value of the Company's U.S. dollar denominated sales of approximately \$2.7 million during the 2016 fiscal year. This impact is partially offset by the corresponding higher value of U.S. dollar denominated expenses.

The Company has reduced 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. 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, 2016 the Company had five forward exchange contracts of \$500,000 each to sell U.S. dollars. These contracts mature over a five month period from December 15, 2016 to April 17, 2017 at an average exchange rate of 1.314. Based on U.S. dollar forward exchange rates at November 30, 2016 these contracts have a negative fair value of \$71,000 which is recorded in accounts payable and accrued liabilities. An increase in the forward sell rates of the U.S dollar by 5% would further decrease the fair value of these forward exchange contracts by \$168,000.

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17. Financial instruments and related risk - continued:

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

	Foreign currency exposure at November 30, 2016	Foreign exchange risk 5% decrease in Cdn \$ Income	OCI
Net asset:			
U.S. dollar	7,780,000	389,000	
Indian rupee	979,000		48,950
Mexican peso	510,000		25,500
Chilean peso	(275,000)		(13,750)
Chinese yuan	6,686,620		334,331
U.S. dollar forward contracts	(71,000)	(168,000)	
U.S. dollar sales contract embedded derivatives	1,004,000	50,200	

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

Interest rate risk:

Interest rate risk arises because of the fluctuation in interest rates. Fluctuations in interest rates impact the future cash flows and fair values of various financial instruments. The Company is exposed to fluctuations in interest rates on bank indebtedness and long-term debt. The Company does not use derivative financial instruments to mitigate interest rate risk.

At November 30, 2016, the effect of a 1% increase or decrease in the Canadian and U.S. bank prime rates, with all other variables held constant would have resulted in an increase or decrease of \$31,000 to the Company's net earnings for the year.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they become due. The Company facilitates this in part by maintaining a line of credit in the amount of \$9.5 million with HSBC, as disclosed in note 8. Letters of credit issued against this facility at November 30, 2016 were \$60,000 (2015 - \$nil) for performance guarantees on certain contracts. At November 30, 2016 the remaining amount available to be drawn under this credit facility based on margin capacity is approximately \$5.5 million.

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17. Financial instruments and related risk - continued:

In addition, EDC has provided a guarantee to May 31, 2017 of the Company's additional credit facility of U.S. \$2,000,000 (2015 - U.S. \$900,000) for the support of performance guarantees provided by the Company's subsidiaries. At November 30, 2016 performance guarantees totaling \$85,394 (2015 - \$101,762) were outstanding under this credit facility.

The Company's Chilean subsidiary also maintains a secured line of credit to support performance guarantees required for selected projects. As at November 30, 2016 the Canadian dollar value of these performance guarantees totaled \$873,013 (2015 - \$1,192,395). The Company has also provided a guarantee, proportionate to its shareholding in XPCT, in the amount of 10.0 million yuan or \$1.9 million (2015 - 10.0 million yuan or \$2.1 million) for 50% of a bank loan to XPCT.

The table below presents a maturity analysis of the Company's financial liabilities based on the expected cash flows from November 30, 2016 to the contractual maturity date. The amounts represent the contractual undiscounted cash flows (thousands of dollars).

	Carrying Amount of Liability at November 30, 2016	Contractual Cash Flows Including Interest	Less than 1 year	1 to 6 years
Bank indebtedness*	\$ 3,596	\$ 3,748	\$ 3,748	\$ -
Accounts payable and accrued liabilities	8,606	8,606	8,606	-
Long-term debt	643	693	147	546
	<u>\$ 12,845</u>	<u>\$ 13,047</u>	<u>\$ 12,501</u>	<u>\$ 546</u>

* Assumes balance is outstanding for 365 days.

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.

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

The Company monitors its capital to ensure compliance with its debt covenants as disclosed in note 8. These covenants have been established by HSBC and have not changed from the prior year. At November 30, 2016 and through out the year the Company was in compliance with these covenants.

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17. Financial instruments and related risk - continued:

The capital structure of the Company is as follows:

	2016	2015
Bank indebtedness	\$ 3,596,483	\$ 3,959,768
Long-term debt	642,856	771,428
Shareholders' equity	25,559,325	22,704,597
Total capital	\$ 29,798,664	\$ 27,435,793

18. Commitments:

The Company leases land and building under an operating lease expiring on April 14, 2023. The lease includes options to renew for up to an additional 10 years. Contractual lease obligations comprised of base rent and operating costs for the next five years and thereafter are as follows:

Due within 1 year	\$ 579,000
Due between 1 and 2 years	579,000
Due between 2 and 3 years	579,000
Due between 3 and 4 years	579,000
Due between 4 and 5 years	579,000
Thereafter	793,792
	\$ 3,688,792

During the year ended November 30, 2016 an amount of \$579,000 was recognized as an expense in the statement of earnings in respect of operating leases (2015 - \$579,000).

The Company has provided a guarantee in the amount of 10.0 million yuan or \$1.9 million (2015 - 10.0 million yuan or \$2.1 million) for 50% of a bank loan to XPCT. The guarantee provided by the Company is proportionate to its shareholding in XPCT.

The Board of Directors of XPCT has amended the Articles of Association to increase XPCT's total registered capital by 45.0 million yuan or \$8.8 million. Unless otherwise amended, the term for contributing this increased capital of 22.5 million yuan or \$4.4 million per shareholder is by December 31, 2046. The Board of Directors may increase, decrease, or transfer the Company's registered capital at any time.

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19. Segmented information:

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

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

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

Year Ended November 30, 2016	Canada and United States	Latin America and Mexico	India	Inter-segment Adjustments	Total
Revenue					
Contracted projects	\$ 30,529,807	\$ 2,932,212	\$ 92,285	\$ —	\$ 33,554,304
Service	17,882,653	1,984,359	320,894	—	20,187,906
Product sales	9,866,257	2,487,617	90,895	(802,892)	11,641,877
	\$ 58,278,717	\$ 7,404,188	\$ 504,074	\$ (802,892)	\$ 65,384,087
Cost of goods sold					
	39,846,362	4,294,820	385,470	(837,375)	43,689,277
	18,432,355	3,109,368	118,604	34,483	21,694,810
Administrative and marketing expenses	10,868,723	2,783,472	717,333	(374,848)	13,994,680
Research and development, net	3,099,899	116,433	—	—	3,216,332
Financing costs, net	447,978	471,487	4,247	—	923,712
Other income	(356,295)	(56,307)	(18,152)	374,848	(55,906)
XPCT earnings	(432,836)	—	—	—	(432,836)
Earnings (loss) before income taxes	4,804,886	(205,717)	(584,824)	34,483	4,048,828
Income tax expense	1,156,044	128,718	—	8,172	1,292,934
Net earnings (loss)	\$ 3,648,842	\$ (334,435)	\$ (584,824)	\$ 26,311	\$ 2,755,894
Current assets	22,903,292	8,199,610	1,612,864	(61,833)	32,653,933
Investment in XPCT	6,686,620	—	—	—	6,686,620
Other non-current assets	15,949,025	874,431	—	(11,275,929)	5,547,527
Total assets	\$ 45,538,937	\$ 9,074,041	\$ 1,612,864	\$ (11,337,762)	\$ 44,888,080
Total liabilities	\$ 16,125,516	\$ 4,199,595	\$ 8,497,357	\$ (9,493,713)	\$ 19,328,755
Additions to property, plant and equipment	\$ 1,095,123	\$ 33,390	\$ —	\$ —	\$ 1,128,513
Additions to intangible assets	\$ 64,621	\$ —	\$ —	\$ —	\$ 64,621

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19. Segmented information - continued:

Year Ended November 30, 2015	Canada and United States	Latin America and Mexico	India	Intersegment Adjustments	Total
Revenue					
Contracted projects	\$ 23,979,232	\$ 6,543,074	\$ 354,210	\$ —	\$ 30,876,516
Service	14,456,078	1,835,148	501,598	—	16,792,824
Product sales	10,275,669	1,083,170	50,164	(1,088,286)	10,320,717
	\$ 48,710,979	\$ 9,461,392	\$ 905,972	\$ (1,088,286)	\$ 57,990,057
Cost of goods sold					
	33,893,269	7,022,886	492,403	(1,035,774)	40,372,784
	14,817,710	2,438,506	413,569	(52,512)	17,617,273
Administrative and marketing expenses					
	9,805,821	2,796,722	1,384,398	(368,145)	13,618,796
Research and development, net					
	1,154,767	91,816	—	—	1,246,583
Financing costs (income), net					
	(78,300)	(20,264)	16,046	—	(82,518)
Other income					
	(393,345)	(70,517)	(39,018)	368,145	(134,735)
XPCT earnings					
	(444,705)	—	—	—	(444,705)
Earnings (loss) before income taxes					
	4,773,472	(359,251)	(947,857)	(52,512)	3,413,852
Income tax expense (recovery)					
	1,034,480	(141,711)	—	(10,502)	882,267
Net earnings (loss)					
	\$ 3,738,992	\$ (217,540)	\$ (947,857)	\$ (42,010)	\$ 2,531,585
Current assets					
	\$ 19,221,326	\$ 7,596,710	\$ 2,167,114	\$ (96,316)	\$ 28,888,834
Investment in XPCT					
	6,879,528	—	—	—	6,879,528
Other non-current assets					
	16,277,724	984,125	—	(11,270,473)	5,991,376
Total assets					
	\$ 42,378,578	\$ 8,580,835	\$ 2,167,114	\$ (11,366,789)	\$ 41,759,738
Total liabilities					
	\$ 16,075,079	\$ 3,751,779	\$ 8,685,864	\$ (9,457,581)	\$ 19,055,141
Additions to property, plant and equipment					
	\$ 929,395	\$ 129,645	\$ —	\$ —	\$ 1,059,040
Additions to Intangibles					
	\$ 390,960	\$ —	\$ —	\$ —	\$ 390,960

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19. Segmented information - continued:

Revenue from external customers by geographic area is as follows:

	2016	2015
United States	\$ 49,458,791	\$ 40,248,305
Chile	4,054,800	2,979,106
Canada	2,334,534	2,301,088
Paraguay	2,043,214	2,776,312
Thailand	1,752,253	1,603,709
Republic of Korea	1,646,525	871,177
Mexico	1,350,117	3,109,123
India	504,074	912,376
Other	2,239,779	3,188,861
	<u>\$ 65,384,087</u>	<u>\$ 57,990,057</u>

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

	2016	2015
Canada	\$ 938,839	\$ 931,077
United States	2,052,094	1,419,328
Chile	398,016	448,746
	<u>\$ 3,388,949</u>	<u>\$ 2,799,151</u>

20. Statements of cash flows:

Changes in non-cash working capital

	2016	2015
Accounts receivable	\$ (2,574,206)	\$ (542,072)
Unbilled revenue	(245,614)	(2,033,068)
Inventories	196,197	(739,788)
Prepaid expenses and deposits	(393,857)	(681,415)
Accounts payable and accrued liabilities	(418,767)	3,187,181
Deferred revenue	1,148,978	1,262,215
	<u>\$ (2,287,269)</u>	<u>\$ 453,053</u>

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21. Related party transactions:

These consolidated financial statements include the accounts of International Road Dynamics Inc. and its wholly-owned subsidiaries. Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions and balances with the Company's joint venture XPCT, which is also a related party, are disclosed in note 7.

Key management personnel and directors' compensation:

In addition to salaries and benefits, executive officers participate in the share option program (see note 12(c)). The Company compensates external directors through fees payable in cash or shares of the Company at the directors' discretion.

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

Key management and directors' compensation includes:

	2016	2015
Executive officers' compensation		
Wages and salaries	\$ 1,775,564	\$ 1,829,873
Statutory and other benefits	12,206	11,313
Contributions to defined contribution plans	41,629	54,750
Share-based compensation	9,564	17,415
	1,838,963	1,913,351
Directors' compensation	139,250	120,250
	\$ 1,978,213	\$ 2,033,601

22. Comparative figures:

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