



Third Quarter Interim Report

**For the Period Ended September 30, 2001
(unaudited)**

IROC Systems Corp.
President's Message

To Our Shareholders:

On behalf of the Board, I am pleased to present you the financial results for IROC Systems Corp. ("IROC") for the nine months ended September 30, 2001.

During the nine-month period ended September 30, 2001 the Corporation generated net income of \$115,911 and cash flow from operations of \$511,773 compared to a net loss of \$141,331 and negative cash flow from operations of \$49,177 for the nine months ended September 30, 2000.

During the third quarter of 2001, IROC generated revenues of \$611,457 compared to revenues of \$218,697 during the third quarter of 2000, representing an increase of 279.6%. IROC continues to generate increasing revenues due to the expansion of its breathing air trailer fleet, the increased visibility and utilization of its S.M.A.R.T technology, as well as supplemental revenues generated from facility shutdown and turnaround work.

The Corporation reported a net loss of \$48,629 while maintaining a positive cash flow from operations of \$176,060 in the third quarter of 2001. During the same quarter in 2000, the Corporation had a net loss of \$77,806 and negative cash flow from operations of \$16,204.

Direct expenses of \$485,073 were incurred in the third quarter ending September 30, 2001 as compared to direct expenses of \$149,908 in the same quarter ended in 2000. Aside from a direct increase in sales, increases in operating expenses have resulted from the Corporation's continued preparations to commence its operations in Northern Alberta, Northern British Columbia, and the Northwest Territories. Specifically, the Corporation opened its satellite office in Fort St. John, British Columbia during the quarter ended September 30, 2001, resulting in the mobilization of both equipment and personnel to this facility. Management continues to believe that these northern regions will see significant activity in the oil and gas industry in the foreseeable future and, accordingly, the Company continues to focus on establishing a presence in these regions.

General and administrative expenses were \$332,072 for the third quarter in 2001 as compared to \$180,794 for the three months ended September 30, 2000. In addition to the growing administrative function of the Corporation, the increase in general and administrative expenses is also a result of the increase in amortization of capital assets. This has resulted from a significant increase in the capital asset base of the Corporation over the prior year.

Capital expenditures during the nine months ended September 30, 2001 totalled \$2,178,264 representing a significant increase over the \$1,186,802 expended in the same period in 2000. This is directly related to the expansion of the Company's breathing air trailer fleet.

In closing, it is an exciting time for IROC as we have taken significant steps in establishing presence in the northern regions, we now have a strong fleet of breathing air trailers, and our S.M.A.R.T. technology is creating significant interest in the industry. IROC is now positioned to make a significant impact in its industry through the winter months of 2001 and the spring of 2002, and thereafter. I would like to thank our staff, senior officers and the Board of Directors for their dedication and commitment. Also, I would specifically like to thank our shareholders for your continued support and confidence in the future of IROC Systems Corp.

Sincerely,

Dennis Featherstone
President and CEO

IROC Systems Corp.
Consolidated Balance Sheet
(unaudited)

	<u>September 30</u>	<u>December 31</u>
	<u>2001</u>	<u>2000</u>
ASSETS		
Current		
Cash and short term investments	\$ 463,368	\$ 932,575
Accounts receivable	581,725	254,503
Inventory	3,551	3,431
Prepaid expenses and deposits	92,748	266,749
Income taxes recoverable	0	90,374
Current portion lease receivable	14,400	14,400
Future income taxes	2,700	28,600
	<u>1,158,492</u>	<u>1,590,632</u>
Lease Receivable	1,200	12,000
Capital	3,146,443	1,579,198
Goodwill	44,000	0
Future Income Taxes	83,300	94,000
Advances to IROC NWT Limited Partnership	92,483	53,000
	<u>\$ 4,525,918</u>	<u>\$ 3,328,830</u>
LIABILITIES		
Current		
Operating loan	\$ 0	\$ 230,000
Accounts payable and accrued liabilities	810,313	241,441
Corporate income taxes payable	4,489	0
Advances from shareholders	0	4,484
Current portion of long-term debt	162,846	35,545
	<u>977,648</u>	<u>511,470</u>
Long-Term Debt	724,680	119,009
Future Income Taxes	0	0
	<u>1,702,328</u>	<u>630,479</u>
SHAREHOLDERS' EQUITY		
Share Capital	2,151,367	2,142,042
Retained Earnings	672,223	556,309
	<u>2,823,590</u>	<u>2,698,351</u>
	<u>\$ 4,525,918</u>	<u>\$ 3,328,830</u>

Approved by the Board

"Dennis Featherstone"

Director

"Brian Neeland"

Director

IROC Systems Corp.

Consolidated Statement of Operations and Retained Earnings

(unaudited)

	For the Three Months Ended Sept 30,2001	For the Three Months Ended Sept 30,2000	For the Nine Months Ended Sept 30,2001	For the Nine Months Ended Sept 30,2000
REVENUE				
Consulting and equipment rental revenue	\$ 583,849	\$ 148,329	\$ 2,390,169	\$ 588,178
Trucking and hotshot delivery	27,608	70,368	142,343	70,368
	<u>611,457</u>	<u>218,697</u>	<u>2,532,512</u>	<u>658,546</u>
Direct expenses (Schedule 1)	485,073	149,908	1,700,599	375,278
Contribution margin	<u>126,384</u>	<u>68,789</u>	<u>831,913</u>	<u>283,268</u>
Equipment sales	290,936	0	378,583	40,573
Cost of equipment sales	<u>185,511</u>	<u>0</u>	<u>253,738</u>	<u>28,958</u>
Contribution margin	<u>105,425</u>	<u>0</u>	<u>124,845</u>	<u>11,615</u>
Total contribution margin	231,809	68,789	956,758	294,883
GENERAL AND ADMINISTRATIVE EXPENSES (Schedule 1)	<u>332,072</u>	<u>180,794</u>	<u>862,837</u>	<u>432,112</u>
	<u>(100,263)</u>	<u>(112,005)</u>	<u>93,921</u>	<u>(137,229)</u>
RESEARCH AND DEVELOPMENT				
Research and development expenses	2,652	1,350	4,371	120,765
Research and development tax credits recoverable	<u>0</u>	<u>0</u>	<u>0</u>	<u>31,950</u>
	<u>2,652</u>	<u>1,350</u>	<u>4,371</u>	<u>88,815</u>
INCOME (LOSS) FROM OPERATIONS	<u>(102,915)</u>	<u>(113,355)</u>	<u>89,550</u>	<u>(226,044)</u>
OTHER INCOME (EXPENSE)				
Interest income	20,499	11,549	25,521	27,613
Gain (loss) on disposal of capital asset	<u>(28,385)</u>	<u>0</u>	<u>72,640</u>	<u>22,010</u>
	<u>(7,886)</u>	<u>11,549</u>	<u>98,161</u>	<u>49,623</u>
INCOME (LOSS) BEFORE INCOME TAXES	(110,801)	(101,806)	187,711	(176,421)
INCOME TAXES (RECOVERY)	<u>(62,532)</u>	<u>(24,000)</u>	<u>71,800</u>	<u>(35,090)</u>
NET INCOME (LOSS)	(48,269)	(77,806)	115,911	(141,331)
RETAINED EARNINGS, BEGINNING OF PERIOD	<u>720,492</u>	<u>575,868</u>	<u>556,312</u>	<u>639,393</u>
RETAINED EARNINGS, END OF PERIOD	<u>\$ 672,223</u>	<u>\$ 498,062</u>	<u>\$ 672,223</u>	<u>\$ 498,062</u>
EARNINGS (LOSS) PER SHARE				
Basic	<u>(0.005)</u>	<u>(0.009)</u>	<u>0.011</u>	<u>(0.017)</u>

IROC Systems Corp.
Consolidated Schedule of Expenses
(unaudited)

	For the Three Months Ended Sept 30,2001	For the Three Months Ended Sept 30,2000	For the Nine Months Ended Sept 30,2001	For the Nine Months Ended Sept 30,2000
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**CONSOLIDATED SCHEDULE
OF DIRECT EXPENSES**

Consulting fees	\$ 166,977	\$ 14,972	\$ 710,038	\$ 70,431
Equipment rental	88,988	9,896	177,570	12,121
Interest on long term debt	14,430	250	25,722	1,211
Repairs and maintenance	6,524	6,526	22,764	21,401
Supplies	9,483	(113)	36,541	8,686
Telephone	12,065	3,205	33,754	13,480
Travel and subsistence	52,766	50,011	197,793	97,796
Vehicle operating	31,457	16,116	96,462	61,776
Wages and benefits	102,383	49,045	399,955	88,376
	<u>\$ 485,073</u>	<u>\$ 149,908</u>	<u>\$ 1,700,599</u>	<u>\$ 375,278</u>

**CONSOLIDATED SCHEDULE
OF GENERAL AND
ADMINISTRATIVE EXPENSES**

Advertising and promotion	\$ 5,797	\$ 5,466	\$ 27,713	\$ 54,031
Amortization				
- capital asset	156,344	56,602	422,902	121,164
- goodwill	3,000	3,000	9,000	6,000
Bad debts	0	0	710	0
Insurance, licenses and taxes	2,419	5,635	25,669	8,580
Interest and bank charges	4,597	276	9,011	959
Office	7,228	6,742	20,338	15,846
Professional fees	34,475	38,633	83,748	73,731
Rent	30,001	20,699	80,216	44,949
Sales and marketing	12,458	0	33,950	11,075
Subcontract	41,480	11,215	41,480	41,480
Utilities	1,469	0	6,618	3,302
Wages and benefits	32,804	32,526	101,482	50,995
	<u>\$ 332,072</u>	<u>\$ 180,794</u>	<u>\$ 862,837</u>	<u>\$ 432,112</u>

IROC Systems Corp.

Consolidated Statement of Cash Flows

(unaudited)

	For the Three Months Ended Sept 30,2001	For the Three Months Ended Sept 30,2000	For the Nine Months Ended Sept 30,2001	For the Nine Months Ended Sept 30,2000
Cash Flows from Operating Activities				
Net income (loss) for the period	\$ (48,269)	\$ (77,806)	\$ 115,911	\$ (141,331)
Amortization	159,344	59,602	431,902	127,164
Future income taxes	36,600	2,000	36,600	(13,000)
Gain on sale of capital assets	28,385	0	(72,640)	(22,010)
Cash flows from operations	176,060	(16,204)	511,773	(49,177)
Net changes in working capital balances	375,997	(164,821)	510,396	(248,450)
	<u>552,057</u>	<u>(181,025)</u>	<u>1,022,169</u>	<u>(297,627)</u>
Cash Flows Financing Activities				
Issue of long-term debt	827,842	0	827,842	0
Lease receivable receipts	3,600		10,800	0
Repayment of long term debt	(68,158)	(2,453)	(94,870)	(7,972)
Shareholders' advances	(4,484)	(52,661)	(4,484)	(8)
Net operating loan advances (repayments)	(230,000)		(230,000)	230,000
Issue of shares (net of share issue costs)	0	0	9,325	1,563,008
	<u>528,800</u>	<u>(55,114)</u>	<u>518,613</u>	<u>1,785,028</u>
Cash Flows from Investing Activities				
Purchase of capital assets	(1,186,802)	(122,413)	(2,178,264)	(691,914)
Advances to IROC NWT Limited Partnership	(46,332)	0	(92,483)	0
Purchase of goodwill	0	0	0	(60,000)
Proceeds on sale of capital assets	(4,905)	0	260,758	166,416
	<u>(1,238,039)</u>	<u>(122,413)</u>	<u>(2,009,989)</u>	<u>(585,498)</u>
Increase (decrease) in cash for the period	(157,182)	(358,552)	(469,207)	901,903
Cash, beginning of period	620,550	1,472,443	932,575	211,988
Cash, end of period	<u>463,368</u>	<u>\$ 1,113,891</u>	<u>\$ 463,368</u>	<u>\$ 1,113,891</u>
Represented by:				
Cash	353,368	\$ 36,538	\$ 353,368	\$ 36,538
Short term investments	110,000	1,077,353	110,000	1,077,353
	<u>463,368</u>	<u>\$ 1,113,891</u>	<u>\$ 463,368</u>	<u>\$ 1,113,891</u>
Funds from operations				
Basic	0.017	(0.002)	0.049	(0.006)

IROC Systems Corp.
Notes to Consolidated Financial Statements
September 30, 2001

Note 1 - Accounting Policies

December 31, 2000.

accounted for using the proportionate consolidation method.

Note 2 - Change in Accounting Policy

share for the nine months ended September 30, 2001.

Note 3 - Share Capital

	<u>Number</u>	<u>Amount</u>
Options exercised (net of costs)	<u>31,000</u>	<u>9,325</u>
Balance September 30, 2001	<u>10,377,000</u>	<u>\$ 2,151,367</u>

Note 4 - Related Party Transactions

agreed upon between the related parties.

personnel. At September 30, 2001, the partnership had not commenced operations.

Corporate Information

Head Office

8113 - 49th Avenue Close Red Deer, AB T4P 2V5

Registered Office

C/O Shea Nerland Calnan
#1900, 715 - 5 Ave SW Calgary, AB T2P 2X6

Directors and Officers

Brian Neeland	Chairman of the Board and Director
Dennis Featherstone	Director, President & Chief Executive Officer
Trevor Hillman	Director
H. John Roth	Director
Tim Sebastian	Senior Vice-President, Secretary & Corporate Counsel

Laura Featherstone Assistant Controller

Principal Bank

Community Savings Red Deer, Alberta

Legal Counsel

Shea Nerland Calnan
Barristers and Solicitors Calgary, Alberta

Gerig Hamilton Neeland
Barristers and Solicitors Red Deer, Alberta

Auditors

Meyers Norris Penny LLP Red Deer, Alberta

Transfer Agent

Computershare Investors Services Calgary, Alberta

Trading Symbol

IRC Canadian Venture Exchange

Website

www.iroccorp.com