

**IROC Systems Corp.**

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Trading Symbol  
"IRC"  
TSX Venture Exchange  
Calgary, Alberta



**Directors and Senior Officers**

Thomas M. Alford  
Director, President and Chief Executive Officer

Brian Neeland  
Director and Chairman of the Board

Trevor Hillman  
Director

H. John Roth  
Director

Susan McArthur  
Director (Nominee)

Stuart Watson  
Director (Nominee)

Tim Sebastian  
Corporate Secretary

Gayle Morrical  
Controller

**Principal Bank**  
Community Savings

**Auditors**  
Meyers Norris Penny LLP  
Chartered Accountants  
Red Deer, Alberta

**Legal Counsel**  
Miller Thomson  
Barristers & Solicitors  
Edmonton, Alberta

**Transfer Agent**  
Computershare Investor Services  
Calgary, Alberta

**2002 First Quarter Report**  
(unaudited)



**IROC Systems Corp.**

**TSX: IRC**

**March 31, 2002**

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## Profile

IROC Systems Corp. ("IROC") is a Canadian oilfield services company supplying safety and environmental equipment and personnel to the oil and gas industry. Since its inception, IROC has consistently addressed the safety needs of gas plants, pipelines, and drilling or servicing operations by designing unique, proactive industry leading safety solutions.

Our breathing air trailers have long been regarded as "best of class" while our monitoring systems have been considered unique and state of the art not only in Western Canada but around the world.

Our S.M.A.R.T. (Satellite Monitored Automated Reporting Terminal) system is a compact solar powered satellite linked gas detection unit, which is unmanned and utilizes cutting edge information analysis equipment to provide a service without parallel in the industry.

***IROC Systems Corp.***  
**Notes to the Consolidated Financial Statements**  
***(Unaudited)***  
***Three Months Ended March 31, 2002***

### Note 1 - Accounting Policies

The interim financial statements of IROC Systems Corp. have been prepared by management in accordance with the accounting principles generally accepted in Canada. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the fiscal year ended December 31, 2001. The disclosures included below are incremental to those included with the annual financial statements. The interim financial statements should be read in conjunction with the financial statements and notes thereto in the Corporation's annual report for the year ended December 31, 2001.

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## Highlights

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Revenue	1,527,119	822,289
Net Earnings	255,802	78,854
Net Income/share	.024	.008
EBITDA	537,896	287,117
EBITDA/share	.051	.028
Weighted average shares outstanding	10,547,649	10,356,814

## President's Message

**IROC Systems Corp.**  
**Consolidated Statement of Cash Flows**  
**(Unaudited)**  
**Three Months Ended March 31**

<i>Cash flows from operating activities</i>	<b>2001</b>	<u>2000</u>
Net income	\$ 255,802	78,854
Items not involving cash for operations		
Amortization	130,079	142,263
Equity in income of partnership	(54,633)	-
Gain on sale of capital assets	(55,628)	(69,939)
Future income taxes	<u>56,000</u>	<u>-</u>
Cash flows from operations	331,620	151,178
Net change in non-cash working capital	<u>(986,938)</u>	<u>397,315</u>
	<u>(655,318)</u>	<u>548,493</u>
 <i>Cash flows from investing activities</i>		
Sale of capital assets	2,006,025	161,162
Purchase of capital assets	(391,375)	(1,014,942)
Advances to IROC (NWT) Limited Partnership	<u>(137,264)</u>	<u>-</u>
	<u>1,477,386</u>	<u>(853,780)</u>
 <i>Cash flows from financing activities</i>		
Repayment of obligations under capital lease	(120,794)	(5,038)
Repayment of operating loan	(226,447)	-
Repayment of long-term debt	(17,505)	-
Issue of share capital (net of issue costs)	750	(6,175)
	<u>(363,996)</u>	<u>(11,213)</u>
Net increase (decrease) in cash	458,072	(316,500)
Cash at beginning of period	<u>185</u>	<u>932,575</u>
Cash at end of period	<u>\$ 458,257</u>	<u>616,075</u>
Cash flow from operations per share	<u>\$ 0.031</u>	<u>0.015</u>

Dear Shareholders

As forecast in our annual report the operating environment we are faced with at IROC Systems Corp. proved to be difficult during the first quarter of 2002. Reduced drilling activity and delayed capital projects continued the trend that began last year with deteriorating commodity prices. The end result was increased pressure on the utilization of our equipment and profitability. Management spent much of the winter refining our structure to provide for the more efficient delivery of our equipment and services that will enable us to meet the increasing demand expected during the second half of the year. IROC was, however, able to post year over year gains in revenues and earnings while expanding its operations in scope and by region. The quality of our equipment combined with a larger asset base to operate from allowed the company to achieve what management would classify as modest success during the quarter.

Highlights of the quarter were:

⇒ The completion of the sale and leaseback of our main facility in Red Deer made the balance sheet much stronger with working capital moving from (\$492,532) at year end to \$1,369,874 by March 31, 2002. This positions the company in a favorable position to respond to opportunities as they arise.

⇒ The deployment of our SMART systems began to gain momentum with the department generating approximately \$253,000 in revenue as compared to nil the previous year. The activity prompted management to construct an additional 12 units bringing our fleet to 36 currently.

⇒ A positive contribution from our partnership in the North West Territories.

⇒ Gross margins improved to 42.4% from 36.4% the previous year, indicating a continued acceptance by our customers of the quality equipment and services that IROC provides.

The size of our company is proving to be an obstacle as we move forward. The oil and gas industry continues to trend toward single source providers in each sector in its search for greater efficiency. Management continues to believe that we must develop greater scope in the type and number of services we provide to our customers and enable us to achieve our maximum potential. We will continue to look for opportunities that will allow us to do that.

The outlook for this sector of the oilfield services business in the near term remains uncertain for a number of reasons. A reduction in commodity pricing over the past year has caused reductions to the operating budgets of the E&P companies, the significant merger activity creates delays and a change in focus, and there remains an equipment surplus from the increased activity levels of the recent past. Over the intermediate to longer term, however, the prospects for this business and IROC in particular remain bright. The natural gas side of the business has seen rapid growth over the past number of years and given its nature there will be continued expenditure increases in this area over time. Greater industry awareness toward safety and environmental issues as well as further adherence to new and existing government regulation provide the basis for growth of this sector of the oil and gas services business. The quality of our equipment, the use of unique technology, as well as the drive and desire of management to grow the company place us in a good position to capitalize on the impending expansion of the industry for the benefit of our employees and shareholders.

In summary, the softness in the markets for our products and services will continue through the second and into the third quarter of 2002 but management is confident that a better operating environment will appear later in the year and expand as 2003 unfolds.

Respectfully submitted

Thomas M. Alford  
President and C.E.O.  
IROC Systems Corp.

**IROC Systems Corp.**  
**Consolidated Balance Sheet**

**IROC Systems Corp.**  
**Consolidated Statement of Earnings and Retained Earnings**  
**(Unaudited)**  
**Three Months Ended March 31**

	<b>March 31 2002 (Unaudited)</b>	<b>December 31 2001 (Audited)</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and term deposits	\$ 458,257	185
Marketable securities	6,758	6,758
Accounts receivable	1,322,809	717,491
Investment in IROC (NWT) Limited Partnership	260,252	68,354
Inventory	25,734	20,793
Prepaid expenses and deposits	114,205	72,580
Current portion of lease receivable	8,400	10,800
Future income taxes	-	28,000
	<u>2,196,415</u>	<u>924,961</u>
Capital assets	1,849,098	3,538,198
Prepaid lease costs	72,500	77,500
Future income taxes	116,000	144,000
	<u>\$ 4,234,013</u>	<u>4,684,659</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Operating loan	\$ -	226,447
Accounts payable and accrued liabilities	590,034	1,016,750
Income taxes payable	84,262	-
Current portion of long-term debt	70,020	70,020
Current portion of obligations under capital lease	82,225	104,276
	<u>826,541</u>	<u>1,417,493</u>
Long-term debt	215,795	233,300
Obligations under capital lease	259,454	358,197
	<u>1,301,790</u>	<u>2,008,990</u>
<b>Shareholders' Equity</b>		
Share Capital	2,255,940	2,255,190
Retained Earnings	676,283	420,479
	<u>2,932,223</u>	<u>2,675,669</u>
	<u>\$ 4,234,013</u>	<u>4,684,659</u>
Weighted average shares outstanding	<u><b>10,547,649</b></u>	<u><b>10,356,814</b></u>

	<b>2002</b>	<b>2001</b>
<b>Revenue</b>	\$ <u>1,527,119</u>	<u>822,289</u>
<b>Expenses</b>		
Operating	878,946	522,865
General and administrative	231,913	83,415
Amortization	130,079	142,263
Interest on long-term debt	<u>11,753</u>	<u>-</u>
	<u>1,252,691</u>	<u>748,543</u>
<b>Earnings from operations</b>	<u>274,428</u>	<u>73,746</u>
<b>Other income</b>		
Gain on disposal of capital assets	55,628	69,939
Equity in income of partnership	54,633	-
Interest	<u>11,375</u>	<u>1,169</u>
	<u>121,636</u>	<u>71,108</u>
<b>Earnings before income taxes</b>	<u>396,064</u>	<u>144,854</u>
<b>Income taxes</b>		
Current	84,262	109,600
Future (benefit)	<u>56,000</u>	<u>(43,600)</u>
	<u>140,262</u>	<u>66,000</u>
<b>Net earnings</b>	255,802	78,854
Retained earnings at beginning of period	420,481	556,309
<b>Retained earnings at end of period</b>	<u>\$ 676,283</u>	<u>635,163</u>
<b>Earnings per share</b>	<u>\$ 0.024</u>	<u>0.008</u>