



#### CORPORATE HEADQUARTERS

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

Phone: 403-346-9710  
Fax: 403-346-9770

Website: www.iroccorp.com  
Email: mail@iroccorp.com

#### TRADING SYMBOL "IRC"

TSX Venture Exchange  
Calgary, Alberta

#### PRINCIPAL BANK Community Savings

AUDITORS  
Brown Smith Owen  
Chartered Accountants  
Red Deer, Alberta

LEGAL COUNSEL  
Miller Thomson  
Barristers & Solicitors  
Edmonton, Alberta

TRANSFER AGENT  
Computershare Investor Services  
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

Susan McArthur  
Director

Stuart Watson  
Director

Tim Sebastian  
Corporate Secretary

Gayle Morrival  
Controller

## 2002 THIRD QUARTER REPORT (unaudited)

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**TSX-VEN: IRC**

**SEPTEMBER 30, 2002**

*Partnerships*  
in HEALTH and SAFETY

## 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)*  
*Nine Months Ended September 30, 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.

### Note 2 - Comparative Figures

Certain of the comparative figures have been reclassified to conform with the presentation adopted for the current period.

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## HIGHLIGHTS

	<b>Nine Months Ended September 30, 2002</b>	<b>Nine Months Ended September 30, 2001</b>
Revenue	3,121,366	2,657,357
Net Earnings	87,210	115,911
Net Income/share	0.008	0.011
EBITDA	609,964	645,335
EBITDA/share	.058	.062
Weighted average shares outstanding	10,548,000	10,362,111

**IROC Systems Corp.**  
**Consolidated Statement of Cash Flows**  
*(Unaudited)*

**PRESIDENT'S MESSAGE**

	Nine Months Sept. 30, <u>2002</u>	Nine Months Sept. 30, <u>2001</u>	Three Months Sept. 30, <u>2002</u>	Three Months Sept. 30, <u>2001</u>
<b>Cash flows from operating activities:</b>				
Net Income (Loss)	\$ 87,210	115,911	(76,049)	(48,269)
<b>Items not involving cash for operations:</b>				
Depreciation and amortization	455,975	431,902	154,193	159,344
Equity in loss of partnership	20,017	-	37,380	-
Future income taxes	31,000	36,600	(22,000)	36,600
Gain on disposal of marketable securities	(1,300)	-	-	-
Loss (gain) on disposal of capital assets	(40,369)	(72,640)	16,041	28,385
<b>Cash flows from operations</b>	<b>552,533</b>	<b>511,773</b>	<b>109,565</b>	<b>176,060</b>
Net change in non-cash working capital items	(963,494)	521,196	177,420	379,597
	<b>(410,961)</b>	<b>1,032,969</b>	<b>286,985</b>	<b>555,657</b>
<b>Cash flows from investing activities:</b>				
Sale of capital assets	2,059,260	260,758	20,342	(4,905)
Purchase of capital assets	(1,063,774)	(2,178,264)	(190,892)	(1,186,802)
Sale of Marketable Securities	8,058	-	-	-
Advances to IROC Systems NWT Corp.	(101,638)	(92,483)	59,728	(46,332)
	<b>901,906</b>	<b>(2,009,989)</b>	<b>(110,822)</b>	<b>(1,238,039)</b>
<b>Cash flows from financing activities:</b>				
Repayment of obligations under capital lease	(162,418)	-	(22,045)	-
Repayment of operating loan	(226,447)	(230,000)	(60,078)	(230,000)
Repayment of long-term debt	(52,515)	(94,870)	(17,505)	(68,158)
Issue of long-term debt	-	823,358	-	823,358
Issue of obligation under capital lease	26,235	-	-	-
Issue of share capital (net of issue costs)	750	9,325	-	-
	<b>(414,395)</b>	<b>507,813</b>	<b>(99,628)</b>	<b>525,200</b>
<b>Net increase (decrease) in cash</b>	<b>76,550</b>	<b>(469,207)</b>	<b>76,535</b>	<b>(157,182)</b>
<b>Cash at the beginning of the period</b>	<b>185</b>	<b>932,575</b>	<b>200</b>	<b>620,550</b>
<b>Cash at the end of the period</b>	<b>\$ 76,735</b>	<b>463,368</b>	<b>76,735</b>	<b>463,368</b>
<b>Cash flow from operations per share</b>	<b>\$ 0.052</b>	<b>0.049</b>	<b>0.010</b>	<b>0.017</b>

Dear Shareholders

The 3<sup>rd</sup> quarter continued to show the lower levels of activity that have persisted since the first quarter of 2001. It is, however, clearer as to why conditions persist despite very good prices for both oil and natural gas. Merger activity by the producers and the growth of oil and gas trusts have come together simultaneously to change the structure of the upstream business and had a significant effect on the fortunes of much of the oilfield services sector. The mergers have proven to slow the activity at the field level until new structures are formalized and trusts by their nature reduce the amount of service activity required. This condition will evolve over time, as it always does, with the smaller companies participating in the rationalization that the larger companies undertake after merging. It will not, however, happen over night and as a result management must adjust accordingly. While there are general signs of weakness inside our sector of the industry, IROC Systems Corp. has been able to remain cash flow positive through the third quarter and its performance is comparable with the corresponding period of 2001.

The previously announced transaction with SAT-TEL Corp. continues to move forward and management now anticipates its completion during the first quarter of 2003. Operationally, IROC continues to build the infrastructure which will allow the company to benefit from the increased activity that comes with the winter drilling season and yet maintain the flexibility needed to adjust to the slower quarters following.

The company continues to make progress with its S.M.A.R.T. technology and its deployment, looking forward to an active time in the next six months. Management continues to grow the company internally given our inability to acquire like businesses. The environment facing the safety sector will certainly lead to consolidation over the next year, a situation that our company continues to monitor closely.

Management anticipates that the most important factor facing our business, natural gas pricing, will continue to remain strong. There are indications that the merger activity in the upstream side of the business has subsided and companies will again begin to focus their activities at the field level. Our ability to react quickly to this ever-changing market will ultimately deliver the results expected by our shareholders and employees.

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)**

	<b>September 30 2002 (Unaudited)</b>	<b>December 31 2001 (Audited)</b>		<b>Nine Months Ended Sept. 30 2002</b>	<b>Nine Months Ended Sept. 30 2001</b>	<b>Three Months Ended Sept. 30 2002</b>	<b>Three Months Ended Sept. 30 2001</b>
<b>Assets</b>							
<b>Current assets</b>							
Cash and term deposits	\$ 76,735	185					
Marketable securities	-	6,758	<b>Revenue</b>	\$ 3,121,366	2,657,357	764,032	716,882
Accounts receivable	966,854	717,491					
Investment and Advances in IROC (NWT) Limited Partnership	149,976	68,354	<b>Expenses</b>				
Inventory	63,096	20,793	Operating	1,911,025	1,679,248	469,466	473,295
Prepaid expenses and deposits	91,875	72,580	General and administrative	634,927	430,935	203,145	172,728
Current portion of lease receivable	1,200	10,800	Amortization	455,975	431,902	154,193	159,344
Future income tax benefit	-	28,000	Interest on long-term debt	35,779	25,722	12,087	14,430
	<u>1,349,736</u>	<u>924,961</u>		<u>3,037,706</u>	<u>2,567,807</u>	<u>838,891</u>	<u>819,797</u>
Capital assets	2,127,107	3,538,198	<b>Earnings (loss) from operations</b>	<u>83,660</u>	<u>89,550</u>	<u>(74,859)</u>	<u>(102,915)</u>
Prepaid lease costs	62,501	77,500					
Future income taxes	141,000	144,000	<b>Other income (loss)</b>				
	<u>\$ 3,680,344</u>	<u>4,684,659</u>	Gain (loss) on disposal of capital assets	40,369	72,640	(16,041)	(28,385)
			Gain on sale of securities	1,300	-	-	-
<b>Liabilities</b>							
<b>Current liabilities</b>							
Operating loan	\$ -	226,447	Equity in loss of partnership	(20,017)	-	(37,380)	-
Accounts payable and accrued liabilities	339,618	1,016,750	Interest	12,898	25,521	353	20,499
Income taxes payable	-	-		<u>34,550</u>	<u>98,161</u>	<u>(53,068)</u>	<u>(7,886)</u>
Current portion of long-term debt	70,020	70,020	<b>Earnings (loss) before income taxes</b>	<u>118,210</u>	<u>187,711</u>	<u>(127,927)</u>	<u>(110,801)</u>
Current portion of obligations under capital lease	93,848	104,276					
	<u>503,486</u>	<u>1,417,493</u>	<b>Income taxes</b>				
Long-term debt	180,785	233,300	Current (recovery)	-	71,800	(29,878)	(62,532)
Obligations under capital lease	232,442	358,197	Future (benefit)	31,000	-	(22,000)	-
	<u>916,713</u>	<u>2,008,990</u>		<u>31,000</u>	<u>71,800</u>	<u>(51,878)</u>	<u>(62,532)</u>
<b>Shareholders' Equity</b>							
Share Capital	2,255,940	2,255,190	<b>Net earnings (loss)</b>	<u>87,210</u>	<u>115,911</u>	<u>(76,049)</u>	<u>(48,269)</u>
Retained Earnings	507,691	420,479	Retained earnings at beginning of period	420,481	556,312	583,740	720,492
	<u>2,763,631</u>	<u>2,675,669</u>	<b>Retained earnings at end of period</b>	<u>\$ 507,691</u>	<u>672,223</u>	<u>507,691</u>	<u>672,223</u>
	<u>\$ 3,680,344</u>	<u>4,684,659</u>	<b>Earnings (loss) per share</b>	<u>\$ 0.008</u>	<u>0.011</u>	<u>(0.007)</u>	<u>(0.005)</u>
Weighted average shares outstanding	<u><b>10,548,000</b></u>	<u><b>10,356,814</b></u>					