

IROC SYSTEMS CORP.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of IROC Systems Corp. as at December 31, 2002 and the consolidated statements of loss and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for the year ended December 31, 2001 were reported on by other auditors who expressed an opinion without reservation.

RED DEER, Alberta
March 3, 2003

CHARTERED ACCOUNTANTS

IROC SYSTEMS CORP.
CONSOLIDATED BALANCE SHEET
DECEMBER 31

	<u>Assets</u>	<u>2002</u>	<u>2001</u>
Current assets			
Cash		\$ 73,197	185
Accounts receivable		516,091	735,049
Inventories		136,150	20,793
Prepaid expenses and deposits		144,073	72,580
Investment in partnership (Note 2)		-	68,354
Future income taxes (Note 8)		-	28,000
		<u>869,511</u>	<u>924,961</u>
Prepaid lease costs		57,501	77,500
Investments		100,000	-
Capital assets (Note 3)		2,065,686	3,538,198
Future income taxes (Note 8)		288,000	144,000
		<u>\$ 3,380,698</u>	<u>4,684,659</u>

Liabilities

Current liabilities			
Operating loan (Note 4)		\$ 7,995	226,447
Accounts payable and accrued liabilities		379,823	1,016,750
Current portion of callable term debt (Note 5)		70,020	70,020
Current portion of obligations under capital lease (Note 6)		96,200	104,276
		<u>554,038</u>	<u>1,417,493</u>
Callable term debt (Note 5)		163,280	233,300
		<u>717,318</u>	<u>1,650,793</u>
Obligations under capital lease (Note 6)		204,208	358,197
		<u>921,526</u>	<u>2,008,990</u>

Shareholders' Equity

Share capital (Note 7)		2,255,940	2,255,190
Retained earnings		203,232	420,479
		<u>2,459,172</u>	<u>2,675,669</u>
		<u>\$ 3,380,698</u>	<u>4,684,659</u>

Approved on behalf of the Board

Signed "Thomas. M. Alford"

Director

Signed "Brian D. Neeland"

Director

IROC SYSTEMS CORP.

CONSOLIDATED STATEMENT OF LOSS AND RETAINED EARNINGS

YEARS ENDED DECEMBER 31

	<u>2002</u>	<u>2001</u>
Revenue	\$ <u>4,127,877</u>	<u>3,373,683</u>
Expenses		
Operating	2,707,507	2,091,514
General and administrative	1,128,215	725,330
Amortization	571,913	679,852
Interest on term debt	11,481	18,420
Interest on obligations under capital lease	<u>32,334</u>	<u>21,135</u>
	<u>4,451,450</u>	<u>3,536,251</u>
Loss from operations	<u>(323,573)</u>	<u>(162,568)</u>
Other earnings (loss)		
Government grants	58,046	-
Investment income	15,396	18,157
Share of partnership operating loss	-	(47,282)
Gain (loss) on disposal of capital assets	(32,889)	94,007
Share of partnership restructuring loss	<u>(50,227)</u>	<u>-</u>
	<u>(9,674)</u>	<u>64,882</u>
Loss before income taxes and discontinued operations	(333,247)	(97,686)
Income taxes (Note 8)	<u>(116,000)</u>	<u>(29,042)</u>
Loss before discontinued operations	(217,247)	(68,644)
Discontinued operations (Note 10)	<u>-</u>	<u>(67,186)</u>
Net loss	(217,247)	(135,830)
Retained earnings at beginning of year	<u>420,479</u>	<u>556,309</u>
Retained earnings at end of year	\$ <u><u>203,232</u></u>	\$ <u><u>420,479</u></u>
Loss per share	\$ <u><u>(0.02)</u></u>	\$ <u><u>(0.01)</u></u>

IROC SYSTEMS CORP.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities		
Cash received from customers	\$ 4,404,881	2,976,505
Cash paid to suppliers and employees	(3,976,736)	(2,593,203)
Interest paid	(43,815)	(51,345)
Investment income received	15,396	19,502
Income taxes recovered	-	156,523
	<u>399,726</u>	<u>507,982</u>
Cash used for discontinued operations	-	(24,196)
	<u>399,726</u>	<u>483,786</u>
Cash flows from investing activities		
Sale of capital assets	2,073,566	539,938
Advances from (to) partnership	18,132	(115,636)
Purchase of investments	(100,000)	-
Purchase of capital assets	(1,841,828)	(2,054,977)
	<u>149,870</u>	<u>(1,630,675)</u>
Cash flows from financing activities		
Issue of shares	750	9,325
Issue of term debt	-	350,000
Advances to shareholders	-	(4,484)
Repayment of term debt	(70,020)	(89,312)
Repayment of obligations under capital lease	(188,857)	(37,481)
Net operating loan repayments	(218,452)	(3,553)
	<u>(476,579)</u>	<u>224,495</u>
Net increase (decrease) in cash	73,017	(922,394)
Cash at beginning of year	<u>181</u>	<u>922,575</u>
Cash at end of year	<u>\$ 73,198</u>	<u>181</u>

IROC SYSTEMS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

Note 1 - Summary of Significant Accounting Policies

- a) Nature of Operations - IROC Systems Corp. is an Alberta based, fully integrated safety services company providing downwind air quality monitoring and related safety services to the energy sector. The Corporation has developed key technologies to address remote air quality monitoring and has recently expanded operations to provide full safety services for drilling, completion, production and plant turn-around activities.
- b) Principles of Consolidation - The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Cori Monitoring Systems Inc., IROC Systems (NWT) Corp., and IROC NWT Limited Partnership.
- c) Inventories - Inventories are carried at the lower of cost and net realizable value. Cost is determined using the first in, first out method.
- d) Prepaid Lease Costs - Prepaid lease costs represent the value of shares issued in exchange for a reduction in lease payments required on the first five years of a property lease held by the Corporation. The lease costs are amortized using the straight-line method over five years.
- e) Investments - The Corporation holds a 16.7% interest in Sentry Information & Alert Systems Corp. and accounts for this investment using the cost method.
- f) Amortization - Capital assets are amortized over their estimated useful lives using the following annual rates and methods:
- | | |
|------------------------|-------------------------|
| Equipment | - 20% Declining balance |
| Trailers | - 30% Declining balance |
| Leasehold improvements | - 20% Straight-line |
| Vehicles | - 30% Declining balance |
| Computer hardware | - 30% Declining balance |
| Buildings | - 4% Declining balance |
- g) Stock Based Compensation - The Corporation has a stock option plan as described in Note 7. No compensation expense is recognized when stock options are granted. Any consideration received on the exercise of stock options is credited to share capital.
- h) Income Taxes - The Corporation follows the liability method of accounting for income taxes. Temporary differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

IROC SYSTEMS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

Note 1 - Summary of Significant Accounting Policies (continued)

- i) Financial Instruments - The Corporation, as part of its operations, has a number of financial instruments. It is management's opinion that the Corporation is not exposed to significant interest rate or foreign currency risks arising from these financial instruments.

The fair values of cash, accounts receivable, prepaid expenses and deposits, operating loan, accounts payable and accrued liabilities and callable term debt approximate their carrying values because of the short term to maturity of these instruments. The fair values of the Corporation's prepaid lease costs and obligations under capital lease have not been determined since it was not possible within the constraints of timeliness or cost to do so with sufficient reliability.

Since the Corporation's incremental borrowing rate is higher than the rate on several of the capital leases, the Corporation would incur a significant discount if it were to replace the existing obligations with new debt. It is not management's intention to replace or refinance the existing obligations prior to their maturity.

The majority of the Corporation's clients are in the oil and gas industry and, as a result, the Corporation is exposed to the credit risks of that industry. Financial instruments that potentially subject the Corporation to concentrations of credit risk consist primarily of trade accounts receivable. The Corporation assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. Accordingly, the Corporation views the credit risks on these amounts as normal for the industry.

- j) Measurement Uncertainty - The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ materially from these estimates.
- k) Comparative Figures - Certain of the comparative figures have been reclassified to conform with the presentation adopted for the current year.

Note 2 - Investment in Partnership

During the year ended December 31, 2001 the Corporation entered into an agreement with 4859 Northwest Territories Ltd. to form a partnership, IROC NWT Limited Partnership. The Corporation held a 48% interest in IROC NWT Limited Partnership. The Corporation also held 49% of the outstanding shares of IROC Systems (NWT) Corp., the general partner of the partnership.

Effective July 1, 2002, 4859 Northwest Territories Ltd. withdrew from the partnership and delivered all of its shares of IROC Systems (NWT) Corp. to that corporation for cancellation. As a result, IROC Systems Corp. holds 100% of the outstanding shares of IROC Systems (NWT) Corp. which in turn

IROC SYSTEMS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

Note 2 - Investment in Partnership (continued)

holds a 52% interest in IROC NWT Limited Partnership. Accordingly, the Corporation has changed its reporting method for IROC Systems (NWT) Corp. and IROC NWT Limited Partnership from the equity method to the consolidation method effective January 1, 2002.

Under the equity method the investment account at December 31, 2001 consisted of the following:

Contributions to partnership	\$ 48
Share of loss of partnership	(47,282)
Shares of IROC Systems (NWT) Corp.	49
Advances to IROC Systems (NWT) Corp.	<u>115,539</u>
	<u>\$ 68,354</u>

Upon withdrawal, 4859 Northwest Territories Ltd.'s proportionate share of the capital deficiency was assumed by the general partner. Accordingly, this amount has been charged to consolidated earnings in 2002.

Note 3 - Capital Assets

	<u>2002</u>			<u>2001</u>
	<u>Accumulated</u>			
	<u>Cost</u>	<u>Amortization</u>	<u>Net</u>	<u>Net</u>
Equipment	\$ 1,381,228	499,597	881,631	827,189
Trailers	1,027,269	452,245	575,024	574,904
Leasehold improvements	276,636	96	276,540	1,972
Vehicles	113,951	56,140	57,811	90,455
Computer hardware	28,219	13,168	15,051	11,622
Land	-	-	-	412,401
Buildings	-	-	-	<u>1,255,218</u>
	<u>2,827,303</u>	<u>1,021,246</u>	<u>1,806,057</u>	<u>3,173,761</u>
Under capital lease				
Trailers	402,298	192,415	209,883	243,182
Computer hardware	48,235	18,736	29,499	14,224
Vehicles	41,426	21,179	20,247	<u>107,031</u>
	<u>491,959</u>	<u>232,330</u>	<u>259,629</u>	<u>364,437</u>
	<u>\$ 3,319,262</u>	<u>1,253,576</u>	<u>2,065,686</u>	<u>3,538,198</u>

At December 31, 2002 leasehold improvements include expenditures of \$276,159 for a data acquisition centre which were not subject to amortization.

IROC SYSTEMS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

Note 4 - Operating Loan

The corporation has available a \$500,000 operating credit facility which bears interest at prime plus 1%. This operating loan is payable upon demand and is secured by an assignment of accounts receivable, an assignment of patents and trademarks and a general security agreement which provides a floating charge against all of the Corporation's assets.

Note 5 - Callable Term Debt

	<u>2002</u>	<u>2001</u>
Term demand loan, Community Savings, repayable in monthly installments of \$5,835 plus interest at prime plus 1.5%	\$ 233,300	303,320
Less current portion	<u>70,020</u>	<u>70,020</u>
	<u>\$ 163,280</u>	<u>233,300</u>

The Community Savings term demand loan is secured by an assignment of patents and trademarks and a general security agreement which provides a specific charge over certain trailers with a carrying value of \$575,024 and a floating charge against all of the Corporation's assets.

Minimum principal repayments on callable term debt for the next four fiscal years assuming that existing obligations are refinanced at maturity upon the same terms, are as follows:

2003	\$ 70,020
2004	\$ 70,020
2005	\$ 70,020
2006	\$ 23,240

Note 6 - Obligations Under Capital Lease

	<u>2002</u>	<u>2001</u>
Capital leases, repayable in monthly installments of \$1,520 including interest at rates ranging from 12.25% to 14.69%, maturing on various dates between February 2004 and April 2005 and secured by computer hardware under capital lease	\$ 30,395	15,330

IROC SYSTEMS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

Note 6 - Obligations Under Capital Lease (continued)

	<u>2002</u>	<u>2001</u>
Capital leases, repayable in monthly installments of \$7,565 including interest at 9.24%, maturing in September 2005 and secured by trailers under capital lease	239,205	324,035
Capital leases, repayable in monthly installments of \$998 including interest at 10.59%, maturing in June 2004 and secured by vehicles under capital lease	<u>30,808</u>	<u>123,108</u>
	300,408	462,473
Less current portion	<u>96,200</u>	<u>104,276</u>
	<u>\$ 204,208</u>	<u>358,197</u>

Minimum principal repayments on obligations under capital lease for the next three fiscal years are as follows:

2003	\$ 96,200
2004	\$ 110,224
2005	\$ 93,984

Note 7 - Share Capital

a) Authorized:
Unlimited number of voting common shares

b) Issued:

	<u>Number</u>	<u>Amount</u>
Balance at January 1, 2001	10,346,000	\$ 2,142,042
Issued for cash on private placement	166,666	100,000
Issued for cash on exercise of options	34,000	17,000
Share issue costs net of income tax benefits	<u>-</u>	<u>(3,852)</u>
Balance at December 31, 2001	10,546,666	2,255,190
Issued for cash on exercise of options	<u>1,500</u>	<u>750</u>
Balance at December 31, 2002	<u>10,548,166</u>	<u>\$ 2,255,940</u>

IROC SYSTEMS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

Note 7 - Share Capital (continued)

c) Stock options:

The Corporation has a stock option plan for its directors, officers and key employees whereby an amount of options to a maximum of ten percent of the issued and outstanding common shares may be granted subject to certain terms and conditions. Stock option vesting privileges are at the discretion of the Corporation's Board of Directors. Changes in the number of common shares under option during the years ended December 31, 2002 and 2001 are summarized as follows:

	2002		2001	
	Number	Weighted Average	Number	Weighted Average
	<u>of Options</u>	<u>Price</u>	<u>of Options</u>	<u>Price</u>
Balance at beginning of year	678,500	\$ 0.65	227,500	\$ 0.50
Forfeited	(292,000)	0.71	(935,000)	0.64
Exercised	(1,500)	0.50	(34,000)	0.50
Granted	-	-	1,420,000	0.67
Balance at end of year	<u>385,000</u>	<u>\$ 0.61</u>	<u>678,500</u>	<u>\$ 0.65</u>

The following table summarizes information about the stock options outstanding at December 31, 2002:

Exercise	Number of	Weighted Average of Remaining Contractual Life	Weighted Average
<u>Price</u>	<u>Options</u>	<u>(years)</u>	<u>Price</u>
\$ 0.50	110,000	2.53	0.50
0.65	265,000	3.04	0.65
0.80	10,000	3.31	0.80
<u>\$.50 -.80</u>	<u>385,000</u>	<u>2.90</u>	<u>\$ 0.61</u>

The Corporation uses the intrinsic value method to account for its stock-based compensation plan. Under this method, no compensation costs are recorded in the financial statements for stock options granted to employees and directors. If the fair value method had been used, the Corporation's stock-based compensation costs, net loss and loss per share for the year ended December 31, 2002 would be the same as presented since additional options were not granted during that period.

IROC SYSTEMS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

Note 7 - Share Capital (continued)

d) Escrowed shares

At December 31, 2002 the Corporation held 253,332 shares in escrow (2001 - 253,332). Dates of release and number of shares are as follows:

<u>Release Date</u>	<u>Number of Shares</u>
June 18, 2003	60,000
November 1, 2003	33,333
December 18, 2003	60,000
November 1, 2004	33,333
November 1, 2005	33,333
November 1, 2006	<u>33,333</u>
	<u><u>253,332</u></u>

e) Per share amounts - Loss per share amounts are calculated using the weighted average number of shares outstanding during the year of 10,548,166 (2001 - 10,356,814). During the year ended December 31, 2001 the loss per share from discontinued operations was \$0.01. Diluted loss per share amounts have not been calculated since the result would be anti-dilutive.

Note 8 - Income Taxes

The future income tax asset is comprised of:

	<u>2002</u>	<u>2001</u>
Future tax assets		
Capital assets	\$ 212,600	65,400
Share issue costs	53,400	64,600
Income tax losses	<u>22,000</u>	<u>42,000</u>
Future income tax asset	\$ <u><u>288,000</u></u>	<u><u>172,000</u></u>

IROC SYSTEMS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

Note 8 - Income Taxes (continued)

The following table reconciles income taxes calculated at the Canadian statutory rates as indicated with actual income taxes:

	<u>2002</u>	<u>2001</u>
Loss before income taxes and discontinued operations	\$ (333,247)	(97,686)
Combined federal and provincial income tax rate	<u>39.24</u>	<u>41.8</u>
Computed income tax recovery	(130,766)	(40,833)
Increase (decrease) resulting from:		
Adjustment on partnership restructuring loss	19,707	-
Tax effect of statutory rate change	10,289	-
Other	5,449	7,349
Reassessment of prior years	-	4,442
Non-taxable portion of capital gains	(1,036)	-
Adjustment of prior years' losses	<u>(19,643)</u>	<u>-</u>
	<u>\$ (116,000)</u>	<u>(29,042)</u>

The Corporation has a loss carry-forward for income tax purposes totalling \$56,814 which is available for application against taxable income until:

2008	\$ 975
2009	\$ 55,839

The future income tax benefit relating to these losses has been recognized in the accounts.

Note 9 - Related Party Transactions

During the year ended December 31, 2001 the Corporation paid \$53,500 for rental of shop premises to an officer and director of the Corporation. This transaction was conducted in the normal course of business at an amount agreed to by the parties.

IROC SYSTEMS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

Note 10 - Discontinued Operations

On October 31, 2001 the Corporation ceased the operations of its hotshot and trucking services. For reporting purposes the results of operations and cash flows from operating activities of the hotshot and trucking services business have been disclosed separately from those of continuing operations for the period presented.

The results of discontinued operations during the year ended December 31, 2001 were as follows:

Revenue	\$ <u>285,381</u>
Loss before income taxes	\$ (89,663)
Income taxes recovered	<u>(22,477)</u>
Net loss to measurement date	\$ <u>(67,186)</u>

At December 31, 2001 assets and liabilities presented in the consolidated balance sheet include the following assets and liabilities of discontinued operations:

Non-current assets	\$ 64,811
Non-current liabilities	5,176

During the year ended December 31, 2002 the Corporation sold the non-current assets and proceeds were used to settle non-current liabilities as they related to the financing of these assets.

Cash flows derived from (used for) discontinued operations during the year ended December 31, 2001 were as follows:

Operating activities	\$ (17,550)
Financing activities	(66,646)
Investing activities	<u>60,000</u>
Decrease in cash	\$ <u>(24,196)</u>

Note 11 - Lease Obligations

The corporation has entered into agreements to lease equipment and real estate requiring future minimum payments totalling \$1,099,200. Minimum annual payments during the next four fiscal years are as follows:

2003	\$338,528
2004	\$295,742
2005	\$236,285
2006	\$228,645

IROC SYSTEMS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

Note 12 - Subsequent Events

On February 28, 2003 the Corporation and Sat-Tel Corporation, a publicly traded corporation on the Canadian Venture Exchange, completed an amalgamation pursuant to an agreement entered into on December 16, 2002. Under the agreement the shareholders of IROC Systems Corp. received one share of the amalgamated corporation for each IROC common share held and the shareholders of Sat-Tel received one share of the amalgamated corporation for each six Sat-Tel common shares held. This transaction will be accounted for as a business combination whereby the Corporation will be deemed to have acquired Sat-Tel Corporation. The ongoing business will continue as that of IROC Systems Corp..

The purchase price of \$1,306,868, including estimated transaction costs of \$250,000, will be allocated to Sat-Tel's net assets and liabilities in accordance with the purchase method as follows:

Assets acquired:	
Cash	\$ 2,637
Accounts receivable	37,201
Inventories	8,916
Future income taxes	1,328,408
Capital assets	<u>42,777</u>
	<u>1,419,939</u>
Liabilities assumed:	
Accounts payable	<u>257,064</u>
Net assets acquired	<u>1,162,875</u>
Consideration given:	
2,032,439 common shares	1,056,868
Estimated transaction costs	<u>250,000</u>
Total consideration	<u>1,306,868</u>
Excess of consideration given over the fair value of net assets	\$ <u><u>143,993</u></u>

The allocation of the purchase price is preliminary and based on the estimated financial position of Sat-Tel Corporation at February 28, 2003. The actual purchase price allocation will reflect the fair value, at that date, of the assets acquired and liabilities assumed based upon an evaluation of such assets and liabilities following the issue of these financial statements and, accordingly, the final purchase price allocation may differ from the preliminary allocation reflected above. The excess of the consideration given over the fair value of the net assets will be reflected as goodwill in the Corporation's balance sheet.

IROC SYSTEMS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Note 13 - Contingencies

A legal action seeking damages and compensation of \$821,000 plus \$50,000 for punitive damages has been filed against Sat-Tel Corporation (see Note 12). Four parties have been named including Sat-Tel. The claim seeks damages and compensation for non-performance in regard to a 1996 agreement. The claim has been responded to by Sat-Tel and a counterclaim has been filed in the amount of \$220,241 for failure to perform pursuant to the 1996 agreement, plus all amounts currently outstanding. No liability in respect of these actions has been included in these consolidated financial statements as management intends to vigorously defend the matter and believes the outcome will be in its favor. Any amounts awarded as a result of these actions will be reflected in the year the amounts become reasonably estimable.

A legal action seeking compensation of USD \$39,506 plus damages has been filed against Sat-Tel (see Note 12) for non-performance in regard to a contract. Management has indicated that it intends to defend the matter and believes the outcome will be in its favor. Any amounts awarded as a result of this action will be reflected in the year the amounts become reasonably estimable.