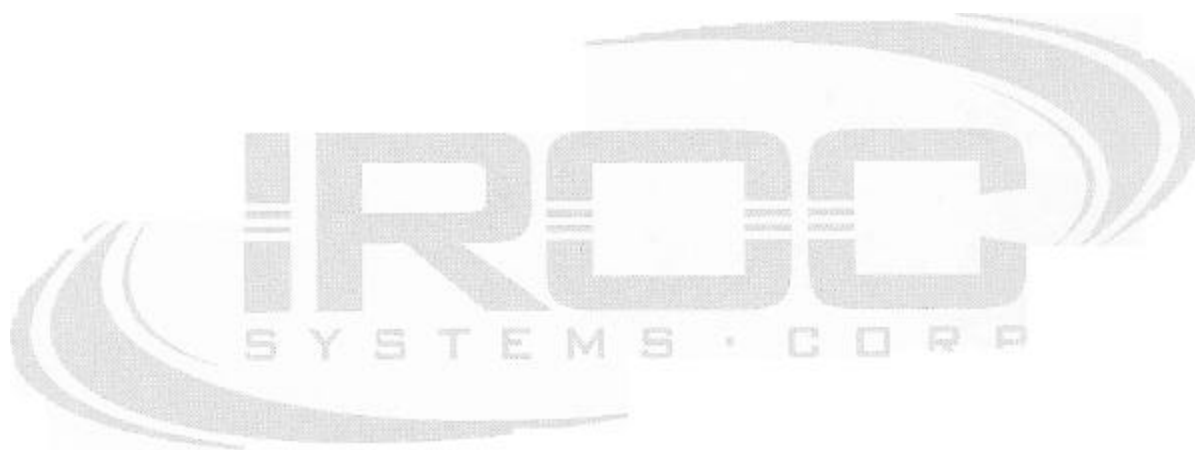




# 2003 FIRST QUARTER REPORT

(UNAUDITED)



## Report Contents

**TSXV: ISC**

**MARCH 31, 2003**

*Partnerships*

in HEALTH and SAFETY

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# PROFILE

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IROC Systems Corp. (“IROC” or the “Company”) is a Canadian oilfield service company supplying safety and environmental equipment and personnel to the oil and gas industry. Founded in 1982 and entering the public market in 2000, the Company was created to respond to the employee and public protection concerns of the oil and gas industry. IROC has consistently addressed the safety needs of gas plants, pipelines, and drilling or serving operations by designing unique, proactive industry leading safety solutions.

Our equipment is widely considered to set the bar in terms of quality and innovation. IROC’s breathing air trailers are proprietary in their design and incorporate industrial specification components to operate in the harsh environment of Western Canada. The air/office units 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 also 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. A fleet of Mobile Treatment Centers, tracked by our 24/7 Call Center, is available to customers, capitalizing on our existing technology infrastructure to provide a superior product.

Looking to the future, IROC is well positioned to capitalize on its operating leverage, field expertise and experienced management to continue its growth both internally and through the exploitation of our “in house” technology. Our focus is clear, our products superior and the future is exciting for management, employees, customers and shareholders of IROC Systems Corp.

# FINANCIAL HIGHLIGHTS

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	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
<b>Financial Results</b>		
Revenue	\$ 1,376,617	1,727,594
Net Earnings	\$ (5,189)	255,802
Net Earnings per share	--	.024
Earnings before interest, taxes and depreciation & amortization	152,097	537,896
Earnings before interest, taxes and depreciation & amortization per share	0.014	.051
Weighted average shares outstanding	11,225,646	10,547,649

# P R E S I D E N T ' S M E S S A G E

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Dear Shareholders,

Despite improving fundamentals in our business, the first quarter of our year did not meet management's objective of increased revenue. A slow start to the winter in the northern areas where the bulk of our revenues are derived, higher operating costs, increased competition and the prolonged amalgamation process with Sat-Tel Corp. all combined to create a reduction in our financial performance for the quarter. Having said that there are a number of positives that continue to develop for the company.

The amalgamation, finally completed, allows our companies to better manage the intellectual property that has been developed over the past in the building of our S.M.A.R.T. technology. The technology is now held by one entity, adding security to our existing product line as well as increasing the potential for additional development of new applications in a proficient manner. The expansion of our base technology to other areas of the oil and gas industry has been undertaken, the results of which will be seen in coming quarters.

The introduction of our mobile treatment centers (MTC) did not achieve our goals for revenue during the quarter, but management feels that their superior design, functionality and satellite linked tracking system will become the industry standard during the coming year. This internal growth initiative is indicative of the types of products and services that can easily be enhanced by our existing infrastructure. The end result will be a more diversified revenue base that is not as dependent on the cyclical nature of the oil and gas industry.

The awareness of our products inside the marketplace is growing with our technology based products creating significant interest. Oil & gas production companies, government regulatory bodies, environmental groups and the general public have become more aware of the benefits of real time data when dealing with the hazards inherent in dealing with HS and SO<sub>2</sub> emissions. Our S.M.A.R.T. system provides benefits to all parties involved and will become the industry standard in the coming years, allowing IROC Systems Corp. to prosper as the developer of this and related technologies. It is only a matter of when, not if, this will happen.

While management is very excited about the potential for our company, acceptance of new technology is often a "hard sell" inside a very conservative industry. The amalgamation with Sat-Tel will provide superior returns over time, but in the short term, with the additional overhead and product development costs, the expectation of our shareholders should be modest. With increasing levels of activity in the Western Canadian oil and gas industry, for what could be a prolonged period of time, we see the timing as right for the acceptance of our technology based products.

Respectfully submitted



Thomas M. Alford  
President and Chief Executive Officer

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## TOTAL SAFETY MANAGEMENT SOLUTIONS

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

	<b>March 31</b>	<b>December 31</b>
	<b>2003</b>	<b>2002</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets</b>		
Current assets		
Cash	\$ 17,936	73,197
Accounts receivable	1,137,707	516,091
Inventories	140,783	136,150
Prepaid expenses and deposits	92,962	144,073
	1,389,388	869,511
Prepaid lease costs	52,501	57,501
Investments	100,000	100,000
Capital assets	2,215,633	2,065,686
Future income taxes	1,643,000	288,000
	\$ 5,400,522	3,380,698
<b>Liabilities</b>		
Current liabilities		
Operating loan	\$ 146,273	7,995
Accounts payable and accrued liabilities	958,365	379,823
Current portion of callable term debt	170,040	70,020
Current portion of obligations under capital lease	97,929	96,200
	1,372,607	554,038
Callable term debt	337,749	163,280
	1,710,356	717,318
Obligations under capital lease	179,315	204,208
	1,889,671	921,526
<b>Shareholders' Equity</b>		
Share capital	3,312,808	2,255,940
Retained earnings	198,043	203,232
	3,510,851	2,459,172
	\$ 5,400,522	3,380,698

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

	<b>2003</b>	<b>2002</b>
<b>Revenue</b>	\$ 1,376,617	1,727,594
<b>Expenses</b>		
Operating	932,257	1,015,980
General and administrative	292,803	265,565
Amortization	147,499	130,079
Interest on term debt	4,515	3,948
Interest on obligations under capital lease	7,093	7,804
	1,384,167	1,423,376
<b>Earnings (loss) from operations</b>	(7,550)	304,218
<b>Other earnings (loss)</b>		
Government grants	-	25,057
Gain (loss) on disposal of capital assets	319	55,628
Interest income	222	11,161
	541	91,846
<b>Earnings (loss) before income taxes</b>	(7,009)	396,064
<b>Income taxes</b>		
Current	-	84,262
Future	(1,820)	56,000
	(1,820)	140,262
<b>Net earnings (loss)</b>	(5,189)	255,802
Retained earnings at beginning of period	203,232	420,481
<b>Retained earnings at end of period</b>	\$ 198,043	676,283
<b>Net earnings (loss) per share</b>	\$ (0.000)	0.024
<b>Weighted average shares outstanding</b>	11,225,646	10,547,649

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

	<b>2003</b>	<b>2002</b>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 784,070	928,084
Cash paid to suppliers and employees	(953,124)	(1,582,811)
Interest paid	(11,608)	(11,752)
Interest received	222	11,161
Cash acquired in Sat-Tel acquisition	3,343	-
	(177,097)	(655,318)
<b>Cash flows from financing activities</b>		
Issuance of callable term debt	300,000	-
Repayment of obligations under capital lease	(23,164)	(120,794)
Net operating loan advances (repayments)	138,278	(226,447)
Repayment of callable term debt	(26,217)	(17,505)
Issue of shares	-	750
	388,897	(363,996)
<b>Cash flows from investing activities</b>		
Advances to partnership	-	(137,264)
Sat-Tel acquisition costs	(56,479)	-
Purchase of capital assets	(211,983)	(391,375)
Sale of capital assets	1,400	2,006,025
	(267,062)	1,477,386
<b>Increase (decrease) in cash during the period</b>	(55,262)	458,072
<b>Cash at beginning of period</b>	73,198	185
<b>Cash at end of period</b>	\$ 17,936	458,257

## IROC Systems Corp.

### Notes to Consolidated Financial Statements

Three Months Ended March 31, 2003

(Unaudited)

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements of IROC Systems Corp. have been prepared by management in accordance with 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, 2002. The disclosures included below are incremental to those included with the annual financial statements. These interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Corporation's annual report for the year ended December 31, 2002.

#### NOTE 2 - BUSINESS COMBINATION

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 has been accounted for as a business combination whereby the Corporation has acquired Sat-Tel corporation.

The purchase price of \$1,233,868, including transaction costs of \$177,000, has been 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	1,353,178
Capital assets	89,000
	<hr/>
	1,490,932
Liabilities assumed:	
Accounts payable	257,064
Net assets acquired	<hr/>
	\$ 1,233,868
Consideration given:	
2,032,439 common shares	\$ 1,056,868
Transaction costs	177,000
Total consideration	<hr/>
	\$ 1,233,868

The allocation of the purchase price is based on the financial position of Sat-Tel Corporation at February 28, 2003 and reflects the fair value, at that date, of the assets acquired and liabilities assumed based upon an evaluation of such assets and liabilities by management.

#### NOTE 3 - COMPARATIVE FIGURES

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



## CORPORATE DIRECTORY

### **CORPORATE HEADQUARTERS**

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Website: [www.iroccorp.com](http://www.iroccorp.com)  
E-mail: [mail@iroccorp.com](mailto:mail@iroccorp.com)

### **TRADING INFORMATION**

Symbol: ISC

TSX Venture Exchange  
Calgary, Alberta



### **PRINCIPAL BANK**

Community Savings

### **AUDITORS**

Brown Smith Owen LLP  
Chartered Accountants  
Red Deer, Alberta

### **LEGAL COUNSEL**

Miller Thomson  
Barristers & Solicitors  
Edmonton, Alberta

### **TRANSFER AGENT**

Computershare Investor Services  
Calgary, Alberta

### **DIRECTORS**

Thomas M. Alford  
President and Chief Executive Officer

Brian Neeland  
Director and Chairman of the Board

Stuart Watson  
Director

### **OFFICERS**

Thomas M. Alford  
President and Chief Executive Officer

Timothy J. Sebastian  
Corporate Secretary

Gayle Morrical  
Controller