



# 2003 THIRD QUARTER REPORT

(UNAUDITED)



## Report Contents

**TSX VENTURE: ISC**

**SEPTEMBER 30, 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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		Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
<b>Financial Results</b>			
Revenue	\$	3,557,197	3,350,896
Net earnings (loss)	\$	(163,391)	87,210
Net earnings (loss) per share		(0.013)	0.008
Earnings before interest, taxes and depreciation & amortization	\$	260,623	609,964
Earnings before interest, taxes and depreciation & amortization per share		0.021	0.058
Weighted average shares outstanding		12,128,951	10,548,000

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

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Dear Shareholders,

The third quarter of 2003 saw progress made on a number of fronts for IROC Systems Corp., while at the same time a continuing frustration on the part of management in not being able to make a substantial move to increase the size of the company. Sales increased substantially year over year as our marketing efforts began to broaden our customer base. Companies in the exploration and production sector of our industry are beginning to fully understand the benefits that IROC brings to them on a continuing basis.

Our proprietary technology that was developed to form the basis of our S.M.A.R.T. systems continues to be refined in consultation with our major customers. A changing regulatory environment, increased awareness of public safety issues and a clearer understanding of the capabilities of our equipment are all responsible for increasing revenue from this division of our company. The technology that IROC acquired as a result of the Sat-Tel merger, which concluded in the first quarter of 2003, is now fully integrated into our operations. Increased operational cost associated with the 24/7 call center will be justified over time as we widen our product offering into other related data collection and storage areas.

Growth continues to come from internally generated initiatives. Our Medical Treatment Centers will provide increased revenues through the winter season, as will an additional 20 trailers that are being added into the fleet during the fourth quarter of 2003. It is vital that the company continue to grow given that management believes that revenues could increase 100% before any significant additions to corporate overhead would need to be incurred. Management continues to search for proper opportunities to move the company forward and believes that the current operating environment is conducive to doing just that.

In addition to internally generated growth and searching for acquisitions inside of our segment of the oilfield services industry in Western Canada, the company is considering other growth alternatives in related businesses to take advantage of the management infrastructure in place currently. The integration of other services into our company would allow for superior returns given the cost structure being absorbed by our existing operations.

The present operating environment remains strong given current commodity pricing but the industry remains concerned about a rising Canadian dollar and the continued uncertainty in international markets. A strong winter season is assured subject to weather considerations and reasonable activity during the remainder of 2004. Management will continue to take actions intended to benefit the company in the intermediate and longer term in an effort to grow in a sustained manner.

Respectfully submitted



Thomas M. Alford  
President and Chief Executive Officer

TOTAL SAFETY MANAGEMENT SOLUTIONS

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

	<b>September 30</b>	<b>December 31</b>
	<b>2003</b>	<b>2002</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets</b>		
Current assets		
Cash	\$ 7,343	73,197
Accounts and notes receivable	1,308,323	516,091
Inventories	168,139	136,150
Prepaid expenses and deposits	172,828	144,073
	<u>1,656,633</u>	<u>869,511</u>
Prepaid lease costs	42,502	57,501
Investments	100,000	100,000
Capital assets	2,059,907	2,065,686
Future income taxes	1,738,000	288,000
	<u>\$ 5,597,042</u>	<u>3,380,698</u>
<b>Liabilities</b>		
Current liabilities		
Operating loan	\$ 396,796	7,995
Accounts and notes payable and accrued liabilities	895,999	379,823
Current portion of callable term debt	170,040	70,020
Current portion of obligations under capital lease	112,555	96,200
	<u>1,575,390</u>	<u>554,038</u>
Callable term debt	252,400	163,280
	<u>1,827,790</u>	<u>717,318</u>
Obligations under capital lease	116,603	204,208
Long term debt	300,000	-
	<u>2,244,393</u>	<u>921,526</u>
<b>Shareholders' Equity</b>		
Share capital	3,312,808	2,255,940
Retained earnings	39,841	203,232
	<u>3,352,649</u>	<u>2,459,172</u>
	<u>\$ 5,597,042</u>	<u>3,380,698</u>

**IROC Systems Corp.**

**Consolidated Statement of Earnings and Retained Earnings**

**(Unaudited)**

	<b>Nine Months</b>	Nine Months	<b>Three Months</b>	Three Months
	<b>Ended Sept 30</b>	Ended Sept 30	<b>Ended Sept 30</b>	Ended Sept 30
	<b>2003</b>	2002	<b>2003</b>	2002
<b>Revenue</b>	\$ 3,557,197	3,350,896	1,242,892	783,126
<b>Expenses</b>				
Operating	2,309,917	2,080,860	741,886	492,896
General and administrative	1,000,846	742,785	315,228	237,317
Amortization	475,782	455,975	165,363	154,192
Interest on term debt	19,544	11,618	13,239	3,879
Interest on obligations under capital lease	25,508	24,161	5,912	8,208
	3,831,597	3,315,399	1,241,628	896,492
<b>Earnings (loss) from operations</b>	(274,400)	35,497	1,264	(113,366)
<b>Other earnings (loss)</b>				
Government grants	-	28,146	-	1,126
Gain (loss) on disposal of capital assets	10,124	40,369	358	(16,041)
Gain on sale of marketable securities	-	1,300	-	-
Interest income	4,065	12,898	3,004	354
	14,189	82,713	3,362	(14,561)
<b>Earnings (loss) before income taxes</b>	(260,211)	118,210	4,626	(127,927)
<b>Income taxes</b>				
Current	-	-	-	(29,878)
Future	(96,820)	31,000	6,000	(22,000)
	(96,820)	31,000	6,000	(51,878)
<b>Net earnings (loss)</b>	(163,391)	87,210	(1,374)	(76,049)
Retained earnings at beginning of period	203,232	420,481	41,215	583,740
<b>Retained earnings at end of period</b>	\$ 39,841	507,691	39,841	507,691
<b>Net earnings (loss) per share</b>	\$ (0.013)	0.008	(0.000)	(0.007)
<b>Weighted average shares outstanding</b>	12,128,951	10,548,000	12,580,604	10,548,166

**IROC Systems Corp.**

**Consolidated Statement of Cash Flows**

**(Unaudited)**

	<b>Nine Months</b>	Nine Months	<b>Three Months</b>	Three Months
	<b>Ended Sept 30</b>	Ended Sept 30	<b>Ended Sept 30</b>	Ended Sept 30
	<b>2003</b>	2002	<b>2003</b>	2002
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 2,961,348	2,911,274	1,039,698	1,300,320
Cash paid to suppliers and employees	(3,047,322)	(3,291,296)	(911,208)	(1,001,601)
Interest paid	(45,052)	(35,779)	(19,151)	(12,087)
Interest received	4,065	12,898	3,004	353
Cash acquired in Sat-Tel acquisition	3,343	-	-	-
	(123,618)	(402,903)	112,343	286,985
<b>Cash flows from financing activities</b>				
Issuance of callable term debt	300,000	-	-	-
Issue of obligation under capital lease	-	26,235	-	-
Issuance of long term debt	300,000	-	300,000	-
Repayment of obligations under capital lease	(71,249)	(162,418)	(24,341)	(22,045)
Issuance of notes receivable	(167,314)	-	(1,166)	-
Net operating loan advances (repayments)	388,801	(226,447)	(77,212)	(60,078)
Repayment of callable term debt	(111,568)	(52,515)	(42,511)	(17,505)
Repayment of note payable	(20,000)	-	(170,000)	-
Issue of shares	-	750	-	-
	618,670	(414,395)	(15,230)	(99,628)
<b>Cash flows from investing activities</b>				
Advances to partnership	-	(101,638)	-	59,728
Sat-Tel acquisition costs	(177,000)	-	(53,597)	-
Purchase of capital assets	(410,847)	(1,063,774)	(65,262)	(190,892)
Sale of capital assets	26,940	2,059,260	1,980	20,342
	(560,907)	893,848	(116,879)	(110,822)
<b>Increase (decrease) in cash during the period</b>	(65,855)	76,550	(19,766)	76,535
<b>Cash at beginning of period</b>	73,198	185	27,109	200
<b>Cash at end of period</b>	\$ 7,343	76,735	7,343	76,735

# IROC Systems Corp.

## Notes to Consolidated Financial Statements

Nine Months Ended September 30, 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 ("Sat-Tel"), a publicly traded corporation on the TSX Venture Exchange, completed an amalgamation pursuant to an agreement entered into on December 16, 2002. Under the agreement the shareholders of IROC 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.

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
	<hr/>
Net assets acquired	\$ 1,233,868
Consideration given:	
2,032,439 common shares	\$ 1,056,868
Transaction costs	177,000
	<hr/>
Total consideration	\$ 1,233,868

The allocation of the purchase price is based on the financial position of Sat-Tel 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 - LONG TERM DEBT

On July 3, 2003, the Corporation completed a private placement of two convertible debentures for aggregate gross proceeds of \$300,000. The debentures bear interest at 8% per annum, payable quarterly, commencing on September 30, 2003 and mature in June, 2006. The debentures are unsecured and are convertible into common shares of the Corporation at the option of the holder at an exercise price of \$0.50 per share if exercised during the first two years after issue and at \$0.55 per share if converted thereafter until maturity.

### NOTE 4 - RELATED PARTY TRANSACTIONS

- A) On June 6, 2003, the Corporation was advanced \$150,000 in exchange for a promissory note payable from a company owned by an officer of the Corporation. On July 3, 2003, the note was repaid in full by the Corporation
- B) On July 3, 2003, the Corporation issued two convertible debentures (as outlined in Note 3) to an officer and the spouse of an officer of the Corporation.

### NOTE 5 - 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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### 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  
Director

Brian Neeland  
Director and Chairman of the Board

Stuart Watson  
Director

### OFFICERS

Thomas M. Alford  
President, Chief Executive Officer and  
Chief Financial Officer

Timothy J. Sebastian  
Corporate Secretary

Gayle Morrival CGA  
Controller