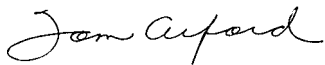


IROC SYSTEMS CORP.
Consolidated Balance Sheets
Years ended December 31, 2004 and 2003

	2004	2003 (restated -note 1)
Assets		
Current assets:		
Cash	\$ 50,571	\$ 6,991
Accounts receivable	3,433,071	1,315,934
Inventories	46,522	105,127
Prepaid expenses and deposits	156,537	101,832
Note receivable	-	100,000
	3,686,701	1,629,884
Prepaid lease costs	17,503	37,502
Property and equipment (note 5)	13,318,971	2,346,262
Goodwill	1,339,571	-
Future income taxes (note 11)	1,304,000	1,588,000
	\$ 19,666,746	\$ 5,601,648
Liabilities		
Current liabilities:		
Operating loan (note 6)	\$ -	\$ 350,325
Accounts payable and accrued liabilities	2,920,168	764,801
Callable term debt (note 7)	2,955,819	786,197
Current portion of obligations under capital lease (note 8)	83,472	105,203
	5,959,459	2,006,526
Obligations under capital lease (note 8)	33,906	88,372
Convertible debentures (note 9)	279,852	260,000
	6,273,217	2,354,898
Shareholders' equity:		
Convertible debentures (note 9)	40,000	40,000
Share capital (note 10)	13,246,030	3,312,808
Contributed surplus (note 10 (h))	10,623	-
Retained earnings (deficit)	96,876	(106,058)
	13,393,529	3,246,750
Commitments and contingencies (notes 10(g), 13 and 19)		
	\$ 19,666,746	\$ 5,601,648

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Director



Director

IROC SYSTEMS CORP.
Consolidated Statements of Earnings
and Retained Earnings (Deficit)
Years ended December 31, 2004 and 2003

	2004	2003 (restated -note 1)
Revenue	\$ 10,295,209	\$ 5,347,639
Expenses:		
Operating	6,260,273	3,341,212
General and administrative	2,336,857	1,349,129
Depreciation and amortization	1,381,387	723,056
Interest on callable term debt	41,852	19,667
Interest on convertible debentures	40,652	10,400
Interest on obligations under capital lease	24,293	32,334
	<u>10,085,314</u>	<u>5,475,798</u>
Earnings (loss) from operations	209,895	(128,159)
Other items:		
Gain on disposal of property and equipment	322,231	37,251
Other income	7,443	7,065
Write-down of investments (note 12)	-	(168,984)
	<u>329,674</u>	<u>(124,668)</u>
Earnings (loss) before income taxes	539,569	(252,827)
Future income tax expense (note 11)	333,435	54,864
Net earnings (loss)	206,134	(307,691)
Retained earnings (deficit) at beginning of year	(106,058)	203,233
Interest on convertible debentures	(3,200)	(1,600)
Retained earnings (deficit) at end of year	\$ 96,876	\$ (106,058)
Earnings (loss) per share:		
Basic	\$ 0.01	\$ (0.02)
Diluted	\$ 0.01	\$ (0.02)

See accompanying notes to consolidated financial statements.

IROC SYSTEMS CORP.
Consolidated Statements of Cash Flow
Years ended December 31, 2004 and 2003

	2004	2003 (restated -note 1)
Cash flows from operating activities:		
Net earnings (loss)	\$ 206,134	\$ (307,691)
Items not affecting cash:		
Depreciation and amortization	1,381,387	723,056
Stock-based compensation	58,428	-
Non-cash interest expense on convertible debentures	19,852	-
Future income taxes	333,435	54,864
Non-cash rent expense	20,000	20,000
Gain on disposal of property and equipment	(322,231)	(37,251)
Write-down of investments	-	168,984
	<u>1,697,005</u>	<u>621,962</u>
Changes in non-cash working capital balances (note 15)	336,641	(622,106)
	2,033,646	(144)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(7,685,287)	(1,008,941)
Collection (purchase) of note receivable	100,000	(100,000)
Business acquisitions	(245,125)	(174,363)
Proceeds on sale of property, plant and equipment	752,781	130,449
	<u>(7,077,631)</u>	<u>(1,152,855)</u>
Cash flows from financing activities:		
Issue of callable term debt	3,012,167	716,680
Issue of obligations under capital lease	58,226	-
Net operating loan advances (repayments)	(350,325)	342,330
Issue of convertible debentures	-	300,000
Repayment of callable term debt	(842,546)	(163,783)
Repayment of obligations under capital lease	(134,423)	(106,834)
Issue of common shares	3,391,250	-
Share issue costs	(43,584)	-
Interest on convertible debentures	(3,200)	(1,600)
	<u>5,087,565</u>	<u>1,086,793</u>
Increase (decrease) in cash during the year	43,580	(66,206)
Cash at beginning of year	6,991	73,197
Cash at end of year	<u>\$ 50,571</u>	<u>\$ 6,991</u>

See accompanying notes to consolidated financial statements.

NOTES

General:

IROC Systems Corp. (the "Corporation") is a Canadian corporation supplying equipment and personnel in the areas of safety, air quality monitoring, well servicing and reclamation and abandonment services to the oil and gas industry. The Corporation's common stock is traded on the TSX Venture Exchange.

1. Restatement:

The consolidated balance sheet at December 31, 2003 has been restated to reflect the classification of the convertible debentures of \$260,000 as a non-current liability rather than as a component of shareholder's equity. In addition, interest on convertible debentures of \$7,600, net of income taxes, originally charged to retained earnings, has been charged to earnings for the year ended December 31, 2003. This has resulted in a reduction of net earnings previously reported in the amount of \$2,800 but has had no impact on basic and diluted earnings per unit.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements are expressed in Canadian dollars and have been prepared in accordance with accounting principles generally accepted in Canada.

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, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results may differ materially from these estimates.

(b) Principles of consolidation:

These consolidated financial statements include the accounts of the Corporation and its subsidiaries all of which are wholly owned.

(c) Inventories:

Inventory is carried at the lower of cost, determined on a weighted average bases, and net realizable value.

(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.

(f) Amortization:

Property and equipment are depreciated over their estimated useful lives using the following annual rates and methods:

Rig equipment	Straight-line with 20% residual	10%
Trailers	Declining balance	30%
Field equipment	Declining balance	20% - 50%
Other equipment	Declining balance	20% - 100%
Data acquisition centre	Declining balance	20%
Leasehold improvements	Straight-line	20%
Buildings	Straight-line	4%

(g) Goodwill:

Goodwill represents the excess of the purchase price over the fair market value of the net assets acquired in a business combination. Goodwill is not amortized and is tested for impairment, at least annually. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using the Corporation's weighted average cost of capital. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

(h) Long-lived assets:

On a periodic basis, management assesses the carrying value of long lived assets for indications of impairment. Indications of impairment include items such as an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, the Corporation tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value.

(i) Revenue recognition:

The Corporation's services are generally sold based upon purchase orders or contracts with customers that include fixed or determinable prices based upon daily, hourly, or job rates. Customer contract terms do not include provisions for significant post-service delivery obligations. Revenue is recognized when services and equipment rentals are rendered and only when collectability is reasonably assured.

(j) 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 assets or liabilities. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment or substantive enactment date.

(k) Stock based compensation:

The Corporation has equity incentive plans, which are described in note 10. The fair value of common share purchase options is calculated at the date of grant using the Black-Scholes option pricing model and that value is recorded as compensation expense over the grant's vesting period with an offsetting credit to contributed surplus. Upon exercise of the share purchase option, the associated amount is reclassified from contributed surplus to share capital. Consideration paid by employees upon exercise of share purchase options is credit to share capital.

(l) Per share amounts:

Per share amounts are calculated using the weighted average number of common shares outstanding during the year. Diluted per share amounts are calculated following the treasury stock method assuming that proceeds obtained upon exercise of the options and conversion of convertible debentures would be used to purchase common shares at the average market price during the period.

(m) Comparative figures:

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

3. Change in accounting policy:

Stock based compensation plans:

Effective January 1, 2004, the Corporation adopted the revised Canadian accounting standards with respect to accounting for stock-based compensation. Under the new standard, the fair value of common share purchase options is calculated at the date of the grant and that value is recorded as compensation expense over the vesting period of those grants. Under the previous standard, no compensation expense was recorded when stock options were issued with any consideration received upon exercise credits to share capital.

The Corporation has retroactively applied this standards, however there has been no affect on the prior years' consolidated financial statements.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Years ended December 31, 2004 and 2003

4. Business combinations:

- (a) On April 30, 2004 the Corporation acquired all of the issued and outstanding shares of Canstar Environmental Corp. ("Canstar") pursuant to a Letter of Intent entered into on February 18, 2004. Pursuant to the agreement the shareholders of Canstar received \$200,000 in cash and 1,600,000 common shares of IROC at a price of \$0.80 per share. In addition, shareholders' loans owing to Deercorp Financial Inc. were paid by issuance of 357,732 additional common shares of IROC with an aggregate market value totaling \$290,264, the amount of the shareholders' loans. The terms of the acquisition also called for "earn-out payments" based on future operating results of Canstar. See Note 19.

In accordance with the purchase method, the allocation of the purchase price is based on the financial position of Canstar at April 29, 2004 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.

The purchase price of \$1,833,605, including transaction costs of \$63,341, has been allocated to Canstar's net assets and liabilities as follows:

Assets acquired:	
Cash	\$ 18,216
Accounts receivable	373,291
Other Assets	76,939
Future income taxes	33,475
Property and equipment	147,832
Goodwill	1,339,571
	<hr/>
	1,989,324
Liabilities assumed:	
Accounts payable	155,719
	<hr/>
Net assets acquired	<hr/>
	\$ 1,833,605
Consideration given:	
Cash	\$ 200,000
1,957,732 common shares	1,570,264
Transaction costs	63,341
	<hr/>
Total consideration	<hr/>
	\$ 1,833,605

- (b) 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.

In accordance with the purchase method 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.

The purchase price of \$1,233,868, including transaction costs of \$177,000 has been allocated to Sat-Tel's net assets and liabilities as follows:

Assets acquired:	
Cash	\$ 2,637
Accounts receivable	37,201
Inventories	8,916
Future income taxes	1,353,178
Capital assets	89,000
	<u>1,490,932</u>
Liabilities assumed:	
Accounts payable	<u>257,064</u>
Net assets acquired	<u>\$ 1,233,868</u>
Consideration given:	
2,032,439 common shares	\$ 1,056,868
Transaction costs	<u>177,000</u>
Total consideration	<u>\$ 1,233,868</u>

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Years ended December 31, 2004 and 2003

5. Property and equipment:

2004	Cost	Accumulated depreciation and amortization	Net book value
Rig equipment	\$ 10,548,247	\$ 445,446	\$ 10,102,801
Trailers	2,468,404	978,660	1,489,744
Field equipment	2,193,887	988,063	1,205,824
Other equipment	395,172	255,449	139,723
Data acquisition centre	353,500	127,260	226,240
Leasehold improvements	47,894	9,102	38,792
Building	3,520	94	3,426
	16,010,624	2,804,074	13,206,550
Under capital lease:			
Trailers	253,577	188,238	65,339
Vehicles	54,418	16,325	38,093
Other equipment	26,216	17,227	8,989
	334,211	221,790	112,421
	\$ 16,344,835	\$ 3,025,864	\$ 13,318,971
2003			
Field equipment	\$ 1,513,069	\$ 684,725	\$ 828,344
Trailers	1,646,491	697,855	948,636
Data acquisition centre	353,500	70,700	282,800
Other equipment	172,300	74,752	97,548
	3,685,360	1,528,032	2,157,328
Under capital lease:			
Trailers	400,772	246,659	154,113
Other equipment	89,661	54,840	34,821
	490,433	301,499	188,934
	\$ 4,175,793	\$ 1,829,531	\$ 2,346,262

6. Operating loan:

The Corporation has available a \$3,000,000 operating credit facility - with the Canadian Western Bank which bears interest at prime plus 0.75%. This operating loan is payable upon demand and is secured by a general security agreement which provides a specific first charge against certain property and equipment and a floating first charge against all of the Corporation's assets.

7. Callable term debt:

	2004	2003
Term demand loans, Canadian Western Bank, repayable in monthly installments of \$45,602 including interest at prime plus 1.0%	\$ 2,147,736	\$ -
Term demand loans, Canadian Western Bank, repayable in monthly installments of \$30,040 including interest at prime plus 1.0%	808,083	-
Term demand loans, Community Savings, repayable in monthly installments of \$13,542 plus interest at prime plus 1.5%	-	622,917
Term demand loans, Community Savings, repayable in monthly installments of \$5,835 plus interest at prime plus 1.5%	-	163,280
	<u>\$ 2,955,819</u>	<u>\$ 786,197</u>

Security for the callable term debt is the same as for the operating loan as outlined in Note 6.

The total term demand loan facility at Canadian Western Bank at December 31, 2004 is \$8,500,000 and accordingly, the Corporation has available credit of \$5,544,181 to fund the acquisition of service rig support equipment and the construction of other operating equipment.

Minimum principal repayments on callable term debt for the next five fiscal years, assuming that existing obligations are not called, are as follows:

2005	\$ 789,444
2006	813,333
2007	635,305
2008	480,000
2009	462,367
	<u>\$ 3,180,449</u>

8. Obligations under capital lease:

	2004	2003
Capital leases, repayable in monthly installments of \$5,151 including interest at 9.24%, maturing in September 2005 and secured by trailers under capital lease	\$ 61,725	\$ 156,908
Capital lease, repayable in monthly installments of \$1,394 including interest at 2.80%, maturing in February 2008 and secured by vehicles under capital lease	50,634	-
Capital lease, repayable in monthly installments of \$832 including interest at 12.25%, maturing in April 2005 and secured by other equipment under capital lease	5,019	36,667
	<u>117,378</u>	<u>193,575</u>
Less current portion	<u>83,472</u>	<u>105,203</u>
	<u>\$ 33,906</u>	<u>\$ 88,372</u>

IROC SYSTEMS CORP.
Notes to Consolidated Financial Statements
Years ended December 31, 2004 and 2003

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

2005	\$ 83,472
2006	\$ 16,728
2007	\$ 16,728
2008	\$ 450

9. Convertible debentures:

During the year ended December 31, 2003 the Corporation issued \$300,000 of unsecured convertible debentures bearing interest at 8.0% payable quarterly and maturing on June 23, 2006. These debentures are convertible at the option of the holders into common shares of the Corporation prior to maturity at conversion prices of \$0.50 per share on or before June 23, 2005 and \$0.55 per share thereafter. The convertible debenture is presented in the financial statements in its components parts, measured at their respective fair values at the time of issue. The debt component has been calculated as the present value of the required interest and principle payments discounted at a rate approximately the interest rate that would have been applicable to non-convertible debt at the time the debenture was issued. Interest expense is determined on the debt component. The difference between the debt component and the face value of the debenture is classified as equity, net of issue costs adjusted for income taxes.

During the year, the Company paid \$24,000 (2003 - \$12,000) of interest related to the convertible debenture. Of this amount, \$3,200 (2003 - \$1,600) was attributable to the equity component of the debenture and has been recorded as interest on convertible debenture.

The Company is amortizing the equity component of the convertible debenture over its five year term. During the year, \$19,852 (2003 - \$nil) was recorded as a charge to income and an increase in the face value of the debt component of the debenture.

10. Share capital:

(a) Authorized:

Unlimited number of voting common shares without nominal or par value

(b) Issued:

	Number	Amount
Balance at January 1, 2003	10,548,166	\$ 2,255,940
Issued on acquisition of Sat-Tel Corporation	2,032,438	1,056,868
Balance at December 31, 2003	12,580,604	3,312,808
Issued for cash on private placement	6,600,000	3,300,000
Issued on acquisition of service rig equipment	4,421,006	4,951,527
Issued on acquisition of Canstar Environmental Corp.	1,957,732	1,570,264
Issued for cash on exercise of options	175,000	139,055
Share issue costs net of income tax benefits	-	(27,624)
Balance at December 31, 2004	25,734,342	\$ 13,246,030

(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, 2004 and 2003 are summarized as follows:

	2004		2003	
Fixed options	Number of options	Weighted exercise price	Number of options	Weighted exercise price
Balance at beginning of year	555,000	\$ 0.49	385,000	\$ 0.61
Granted	650,000	0.78	250,000	0.35
Forfeited	(400,000)	0.35	(80,000)	0.61
Exercised	(175,000)	0.52	-	-
Balance at end of year	630,000	\$ 0.67	555,000	\$ 0.49

The following table summarizes information about the stock options outstanding at December 31, 2004:

Options exercisable					
Exercise price	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at December 31, 2004	Weighted average exercise price
\$0.35	150,000	3.25	\$ 0.35	100,000	\$.33
0.50	90,000	0.53	0.50	90,000	.50
0.65	180,000	1.04	0.65	180,000	.65
0.80	10,000	1.31	0.80	10,000	.80
0.89 - 1.10	200,000	4.42	0.99	67,000	.99
\$0.35 - 1.10	630,000	2.57	\$ 0.67	447,000	

The fair value of common share options is estimated as at the grant date using the Black-Scholes option pricing model, with the following weighted average assumptions:

Risk free interest rate (%)	\$ 3.8
Expected lives (years)	5.0
Expected volatility (%)	68.0
Dividend per share	-

The weighted average fair value of the options issued is \$0.32.

For the year ended December 31, 2004, stock based compensation costs included in net earnings (loss) totaled \$58,428 (2003 - \$nil).

- (d) On March 11, 2004 the Company closed a private placement, which resulted in the issue of 6,600,000 common shares at a price of \$0.50 per common share for gross proceeds of \$3,300,000.
- (e) Per share amounts - The weighted average number of shares outstanding during the year was 19,816,619 (2003 - 12,241,864). In computing diluted earnings per share for 2004, 1,075,058 shares (nil - shares for 2003) were added to the average number of common shares outstanding to give effect to stock options and convertible debentures.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Years ended December 31, 2004 and 2003

- (f) Escrowed shares - At December 31, 2004 the Corporation held 425,000 shares in escrow (2003 - 524,999). These shares are releasable at various dates between February 28, 2005 and February 28, 2009.
- (g) On July 20, 2004 the Corporation entered into an agreement to purchase ten service rigs, supporting equipment and inventory from Key Energy Services Inc. ("Key"), a publicly listed company on the New York Stock Exchange. The purchase price for the equipment is \$7,000,000 US, which will be converted at the agreed exchange amount of \$0.7634 or approximately \$9,170,000 CDN. The purchase price will be paid by way of issuance of 8,178,058 common shares of the Corporation at a price of \$1.12 per share. As at December 31, 2004 3,757,052 common shares remained to be issued pending future delivery of the remaining service rigs.
- (h) Contributed surplus:

Contributed surplus represents the cost of the stock-based compensation payments relating to the compensation expense for stock options granted to employees, directors and consultants.

The following tables summarize information regarding contributed surplus:

	Amount
Balance, December 31, 2003	\$ -
Stock - based compensation	58,428
Options exercised	(47,805)
Balance, December 31, 2004	\$ 10,623

11. Income taxes:

The future income tax asset is comprised of:

	2004	2003
Future tax assets:		
Income tax losses	\$ 1,084,300	\$ 1,283,100
Property and equipment	405,200	549,700
Share issue costs	141,200	114,700
Investments	28,400	30,900
	1,659,100	1,978,400
Valuation allowance	(355,100)	(390,400)
Future income tax asset	\$ 1,304,000	\$ 1,588,000

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The valuation allowance is based upon management's projections of future taxable income and the amount of the future tax asset that is considered realizable could be increased in the near term if estimates of future taxable income during the carry-forward period are increased.

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

	2004	2003
Earnings (loss) before income taxes	\$ 539,569	\$ (252,827)
Combined federal and provincial income tax rate	33.62%	36.62%
Expected income taxes (recovery)	181,403	(92,585)
Increase (decrease) resulting from:		
Income tax effect of income tax rate change	140,536	109,009
Non-deductible items	31,326	11,351
Write-down of investment	-	30,941
Reassessment of prior years	-	(3,710)
Non-taxable portion of capital gains	(19,830)	(142)
	\$ 333,435	\$ 54,864

The Corporation has a carry-forward of losses for income tax purposes totaling \$3,226,249 which are available for application against taxable income until:

2005	\$ 743,897
2006	\$ 878,396
2007	\$ 926,509
2008	\$ 366,393
2009	\$ 1,500
2014	\$ 309,554

The future income tax benefit relating to these losses has been recognized in the accounts to the extent the Corporation's management believes it is more likely than not that the losses will be utilized.

12. Investments:

The Corporation holds a 16.7% interest in Sentry Information & Alert Systems Corp. and has accounted for this investment using the cost method. The initial investment in shares of \$100,000 was made in 2002 and during the year ended December 31, 2003 the Corporation advanced an additional \$68,984 to Sentry in the form of non-interest bearing loans.

During the year ended December 31, 2003 the Corporation's management determined that there was a significant likelihood that there had been an impairment in the value of the investment in Sentry that was other than temporary in nature and accordingly the investment was written down to recognize the loss.

13. Commitments:

The Corporation has entered into agreements to lease equipment and real estate requiring future minimum payments totaling \$1,550,771. Minimum annual payments during the next five fiscal years are as follows:

2005	\$ 545,875
2006	\$ 482,974
2007	\$ 372,930
2008	\$ 74,496
2009	\$ 74,496

14. Financial instruments:

(a) **Fair value of financial assets:**

The Company's financial instruments recognized in the balance sheet consists of cash and cash equivalents, accounts receivable accounts payable and accrued liabilities, convertible debentures and callable term debt. The fair value of these financial statements approximate their carrying amounts due to their short terms to maturity.

(b) **Interest rate risk:**

The Companies exposed to interest rate risk to the extent that changes in market interest rate will impact the Company's debts that have a floating interest rate. The Companies had no interest rate swaps or hedges at December 31, 2004.

(c) **Credit risk:**

Accounts receivable includes balances from a large number of customers primarily operating in the oil and gas industry. 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 risk on these amounts as normal for the industry.

15. Supplemental information:

Components of change in non-cash working capital balances:

	2004	2003
Accounts receivable	\$ (1,822,625)	\$ (1,075,868)
Inventory	58,605	26,543
Prepaid expenses and deposits	(54,705)	42,241
Accounts payable and accrued liabilities	2,155,366	384,978
	<u>\$ 336,641</u>	<u>\$ (622,106)</u>

16. Related party transactions:

- (a) During the year ended December 31, 2004 the Corporation paid \$80,000 (2003 - \$80,000) in management fees to a corporation owned by the spouse of an officer of the Corporation. Included in accounts payable and accrued liabilities at December 31, 2004 is \$7,133 (2003 - \$67,380) owing by the Corporation to an officer and a corporation controlled by the spouse of an officer of the Corporation.
- (b) On July 3, 2003 the Corporation issued two convertible debentures (as outlined in Note 8) to an officer and the spouse of an officer of the Corporation. Interest paid was \$24,000 (2003 - \$12,000)

These transactions were recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. The advances from related parties are non-interest bearing and without specific terms of repayment.

17. Segmented information:

As at December 31, 2004 the Corporation operates in three main operating segments, which are substantially in one geographic segment. The segments are Safety and Monitoring Services, Well Servicing and Environmental Services. The Safety and Monitoring Services segment includes the provision of on-site safety personnel and equipment and remote data monitoring using IROC's S.M.A.R.T. system. The Well Servicing segment comprises the operations of Eagle Well Servicing Corp. which includes the contracting of well servicing equipment and the provision of personnel required to operate the equipment. The Environmental Services segment comprises the operations of Canstar Environmental Corp. which includes the provision of personnel and equipment in connection with the reclamation and abandonment of oil industry related sites.

Year Ended December 31, 2004	Safety and Monitoring Services	Well Servicing	Environmental Services	Total
Revenue	\$ 6,885,263	\$ 2,249,328	\$ 1,160,618	\$ 10,295,209
Earnings before interest, taxes, depreciation and amortization	1,617,212	467,725	(57,184)	2,027,753
Earnings (loss) from operations	284,391	6,983	(85,240)	206,134
Depreciation and amortization	902,449	450,883	28,055	1,381,387
Purchase of property and equipment	1,995,592	10,580,490	6,231	12,582,313
Goodwill acquired	–	–	1,339,571	1,339,571
Total assets	\$ 6,158,651	\$ 11,194,406	\$ 2,313,689	\$ 19,666,746

Prior to January 1, 2004 the Corporation operated solely in the Safety and Monitoring Services segment.

Major Customers

Revenues from one customer in the Safety and Monitoring Services segment represents approximately 12% of the Corporation's consolidated revenue for the year ended December 31, 2004 (10% in 2003).

18. Subsequent events:

On March 22, 2005 the Corporation acquired all the issued and outstanding shares of Global Atmospheric Sensing Inc. ("Global") pursuant to an agreement entered into on February 21, 2005. Global shareholders received \$1,174,526 for all the issued and outstanding shares and \$74,526 for shareholder loans, which will be paid by way of issuance of 607,473 common shares of IROC at a price of \$1.81 per share and a cash payment of \$75,000.

19. Contingencies:

- (a) On April 30, 2004 the Corporation acquired all of the issued and outstanding shares of Canstar Environmental Corp. ("Canstar"). See Note 3. The terms of the acquisition called for "earn-out payments" based on future operating results of Canstar. These earn-out payments are subject to certain limitations concerning the timing (calculation based on EBITDA for each of fiscal years 2004 through 2006 and for that three year period in total) and amount (maximum payments of \$83,333 per year and \$250,000 in total) of any such payments. For 2004, no amounts had been earned or paid under this agreement.
- (b) A legal action seeking damages and compensation of \$821,000 plus \$50,000 for punitive damages has been filed against the Corporation. 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 the Corporation 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.
- (c) A legal action seeking compensation of USD \$39,506 plus damages has been filed against the Corporation 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.
- (d) A legal action seeking compensation of \$90,000 for wrongful dismissal damages has been filed against the Corporation. Management has indicated that it intends to vigorously 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.