



Second Quarter Interim Report

**For the Period Ended June 30, 2001
(unaudited)**

IROC Systems Corp.
President's Message

To our Shareholders,

On behalf of the Board, I am pleased to present IROC System Corp.'s financial results for our second quarter ended June 30th, 2001.

Revenues for the second quarter were \$1,157,609, as compared to \$186,894 for the quarter ended June 30th, 2000. This is an impressive increase of 519%.

This increase can be attributed to the expansion of our breathing air trailer operation during the first quarter of 2001, and the increased visibility of the SMART technology. IROC continues to experience revenue increases due to the purchase of 30 breathing air trailers that were acquired in the first quarter of 2001. Other revenues continue to be generated from our facility shutdown/turnaround joint venture and our hotshot services.

The Corporation also had equipment sales and a gain on sale of capital assets as it sold three trailers. These proceeds were added to IROC's general funds.

Direct expenses in the second quarter were \$799,692 as compared to \$415,834 in the first quarter of 2001. This rise reflects the increase in revenue, namely the costs associated with consultants required for our breathing air trailers. Overhead and administrative expenses increased due to IROC administration relocating to leased office space, subcontracted professional fees and the cost of adding to the equipment base.

In anticipation of increased activity in the oil and gas industry in northern Alberta, northern British Columbia and the Northwest Territories we have entered into a partnership in the Northwest Territories to participate in these areas. The partnership grants IROC exclusivity in supplying safety equipment and services on the lands of First Nations groups that join in the partnership. This alliance will allow aboriginal people to train and work in their communities or surrounding areas, and participate in the development of their lands. We will be opening satellite offices in Fort St. John, BC and Hay River, NWT to service the northern regions.

In closing, I would like to thank our staff, senior officers and the board of directors for their dedication. Finally, a thank you to our shareholders for your continued confidence in our company.

Sincerely,

"Dennis Featherstone"

Dennis Featherstone

IROC Systems Corp.
Consolidated Balance Sheet
(unaudited)

	<u>June 30</u>	<u>December 31</u>
	<u>2001</u>	<u>2000</u>
ASSETS		
Current		
Cash and short term investments	\$ 620,550	\$ 932,575
Accounts receivable	771,927	254,503
Inventory	0	3,431
Prepaid expenses and deposits	80,042	266,749
Income taxes recoverable	61,031	90,374
Current portion lease receivable	14,400	14,400
Future income taxes	0	28,600
	<u>1,547,950</u>	<u>1,590,632</u>
Lease receivable	4,800	12,000
Capital	2,429,014	1,579,198
Future Income Taxes	94,000	94,000
Other	<u>93,151</u>	<u>53,000</u>
	<u>\$ 4,168,915</u>	<u>\$ 3,328,830</u>
LIABILITIES		
Current		
Short term bank loan	\$ 0	\$ 230,000
Accounts payable and accrued liabilities	669,160	241,441
Corporate income taxes payable	136,052	0
Payable to shareholders	0	4,484
Current portion of long term debt	<u>110,000</u>	<u>35,545</u>
	915,212	511,470
Long Term Debt	381,843	119,009
Future Income Taxes	<u>0</u>	<u>0</u>
	<u>1,297,055</u>	<u>630,479</u>
SHAREHOLDERS' EQUITY		
Share Capital	2,151,368	2,142,042
Retained Earnings	<u>720,492</u>	<u>556,309</u>
	<u>2,871,860</u>	<u>2,698,351</u>
	<u>\$ 4,168,915</u>	<u>\$ 3,328,830</u>

Approved by the Board

"Dennis Featherstone"

Director

"John Roth"

Director

IROC Systems Corp.

Consolidated Statement of Operations and Retained Earnings

(unaudited)

	<u>For the Three Months Ended June 30,2001</u>	<u>For the Three Months Ended June 30,2000</u>	<u>For the Six Months Ended June 30,2001</u>	<u>For the Six Months Ended June 30,2000</u>
REVENUE				
Consulting and equipment rental revenue	\$ 1,107,019	\$ 186,894	\$ 1,806,323	\$ 439,849
Trucking and hotshot delivery	50,590	0	114,735	0
	<u>1,157,609</u>	<u>186,894</u>	<u>1,921,058</u>	<u>439,849</u>
Direct expenses (Schedule 1)	799,692	117,108	1,215,526	225,370
Contribution margin	<u>357,917</u>	<u>69,786</u>	<u>705,532</u>	<u>214,479</u>
Equipment sales	29,207	28,973	87,647	40,573
Cost of equipment sales	18,628	18,179	68,227	28,958
Contribution margin	<u>10,579</u>	<u>10,794</u>	<u>19,420</u>	<u>11,615</u>
Total contribution margin	368,496	80,580	724,952	226,094
GENERAL AND ADMINISTRATIVE EXPENSES (Schedule 1)				
	247,659	162,936	530,765	251,318
	<u>120,837</u>	<u>(82,356)</u>	<u>194,187</u>	<u>(25,224)</u>
RESEARCH AND DEVELOPMENT				
Research and development expenses	1,719	91,281	1,719	119,415
Research and development tax credits recoverable	0	31,950	0	31,950
	<u>1,719</u>	<u>59,331</u>	<u>1,719</u>	<u>87,465</u>
INCOME (LOSS) FROM OPERATIONS				
	119,118	(141,687)	192,468	(112,689)
OTHER INCOME (EXPENSE)				
Interest income	3,853	15,899	5,022	16,064
Gain on disposal of capital asset	31,086	0	101,025	22,010
	<u>34,939</u>	<u>15,899</u>	<u>106,047</u>	<u>38,074</u>
INCOME (LOSS) BEFORE INCOME TAXES				
	154,057	(125,788)	298,515	(74,615)
INCOME TAX (RECOVERY)	68,332	(24,090)	134,332	(11,090)
NET INCOME (LOSS)	85,725	(101,698)	164,183	(63,525)
RETAINED EARNINGS, BEGINNING OF PERIOD				
	634,767	677,566	556,309	639,393
RETAINED EARNINGS, END OF PERIOD				
	<u>\$ 720,492</u>	<u>\$ 575,868</u>	<u>\$ 720,492</u>	<u>\$ 575,868</u>
EARNINGS (LOSS) PER SHARE				
Basic	0.008	(0.012)	0.016	(0.007)

IROC Systems Corp.

Consolidated Schedule of Expenses

(unaudited)

	For the Three Months Ended June 30,2001	For the Three Months Ended June 30,2000	For the Six Months Ended June 30,2001	For the Six Months Ended June 30,2000
CONSOLIDATED SCHEDULE OF DIRECT EXPENSES				
Consulting fees	\$ 369,100	\$ 29,956	\$ 543,061	\$ 55,459
Equipment rental	74,249	2,225	88,582	2,225
Interest on long term debt	11,292	961	11,292	961
Repairs and maintenance	15,060	12,817	16,240	14,875
Supplies	18,260	5,540	27,058	8,799
Telephone	13,720	6,927	21,689	10,275
Travel and subsistence	76,367	19,322	145,027	47,785
Vehicle operating	38,195	17,031	65,005	45,660
Wages and benefits	183,449	22,329	297,572	39,331
	<u>\$ 799,692</u>	<u>\$ 117,108</u>	<u>\$ 1,215,526</u>	<u>\$ 225,370</u>

**CONSOLIDATED
SCHEDULE OF GENERAL
AND ADMINISTRATIVE
EXPENSES**

Advertising and promotion	\$ 17,393	\$ 48,107	\$ 21,916	\$ 48,565
Amortization				
- capital asset	127,295	37,410	266,558	64,562
- goodwill	3,000	3,000	6,000	3,000
Bad debts	710	0	710	0
Insurance, licenses and taxes	15,775	1,745	23,250	2,945
Interest and bank charges	4,161	477	4,414	683
Office	10,601	7,044	13,110	9,104
Professional fees	22,700	18,205	49,273	35,098
Rent	27,928	15,250	50,215	24,250
Sales and marketing	3,690	0	21,492	11,075
Subcontract	0	30,265	0	30,265
Utilities	2,281	1,433	5,149	3,302
Wages and benefits	12,125	0	68,678	18,469
	<u>\$ 247,659</u>	<u>\$ 162,936</u>	<u>\$ 530,765</u>	<u>\$ 251,318</u>

IROC Systems Corp.

Consolidated Statement of Cash Flows

(unaudited)

	For the Three Months Ended June 30,2001	For the Three Months Ended June 30,2000	For the Six Months Ended June 30,2001	For the Six Months Ended June 30,2000
Cash Provided By				
(Used For) The Following				
Operating Activities				
Net income (loss) for the period \$	85,725	\$ (101,698)	\$ 164,183	\$ (63,525)
Amortization	130,295	40,410	272,558	67,562
Future income taxes	(66,000)	0	0	(15,000)
Gain on sale of capital assets	(31,086)	0	(101,025)	(22,010)
Net changes in working capital balances	(193,710)	193,703	134,399	(83,629)
	<u>(74,776)</u>	<u>132,415</u>	<u>470,115</u>	<u>(116,602)</u>
Financing Activities				
Lease receivable receipts	3,600	0	7,200	0
Repayment of long term debt	(21,674)	(2,639)	(26,712)	(5,519)
Shareholders' advances	0	52,653	0	52,653
Issue of shares (net of share issue costs)	15,500	0	9,325	1,563,008
	<u>(2,574)</u>	<u>50,014</u>	<u>(10,187)</u>	<u>1,610,142</u>
Investing Activities				
Purchase of capital assets	23,475	(522,935)	(991,465)	(601,744)
Deferred start up costs	(46,151)	0	(46,151)	0
Purchase of goodwill	0	(60,000)	0	(60,000)
Proceeds on sale of capital assets	104,500	0	265,662	198,659
	<u>81,824</u>	<u>(582,935)</u>	<u>(771,954)</u>	<u>(463,085)</u>
Increase (decrease) in cash				
for the period	4,474	(400,506)	(312,026)	1,030,455
Cash beginning of period	616,075	1,642,949	932,575	211,988
Cash end of period	<u>620,549</u>	<u>\$ 1,242,443</u>	<u>\$ 620,549</u>	<u>\$ 1,242,443</u>
Represented by:				
Cash	620,550	\$ 1,472,443	\$ 620,550	\$ 1,472,443
Short term investments	0	(230,000)	0	(230,000)
	<u>620,550</u>	<u>\$ 1,242,443</u>	<u>\$ 620,550</u>	<u>\$ 1,242,443</u>
Funds from operation				
Basic	(0.007)	0.016	0.045	(0.014)

IROC Systems Corp.
Notes to Consolidated Financial Statements
June 30, 2001

1. These Consolidated Financial Statements contain the accounts of IROC Systems Corp. and its wholly owned subsidiary Cori Monitoring Systems Inc., as well as, the company's 50% interest in the IROC/Safety Hawk Industrial Services Inc., which has been accounted for using the proportionate consolidation method.
2. These Consolidated Interim Financial Statements follow the same accounting policies and methods of their application as the most recent annual financial statements.
3. At June 30, 2001 there were 10,377,000 common shares outstanding. As well there were 1,294,000 options outstanding and 1,563,000 warrants outstanding. The expiry date of the 1,563,000 warrants has been extended to June 30, 2002. The number of common shares in escrow is 3,390,000.
4. During the six month period ended June 30, 2001 the company paid \$30,000 in rent to the major shareholders of the company for shop premises, which are at the amounts agreed between the related parties.
5. During the period the company incurred costs of \$46,151 relating to the set up and training of personnel for the company's Northwest Territories operation. These costs will be amortized over a period not exceeding 3 years, once operations commence.

Corporate Information

Head Office

#201, 4922 - 53 Street Red Deer, AB T4N 2E9

Registered Office

C/O Shea Nerland Calnan
#1900, 715 - 5 Ave SW Calgary, AB T2P 2X6

Directors and Officers

Brian Neeland	Chairman of the Board and Director
Dennis Featherstone	Director, President & Chief Executive Officer
Trevor Hillman	Director
John Roth	Director
Darcy Will	Director
Tim Sebastian	Executive Vice-President, Secretary & Corporate Counsel
Allan Slobodian, CA	Chief Financial Officer
Elizabeth Libby	Controller
Laura Featherstone	Assistant Controller

Principal Bank

Community Savings Red Deer, Alberta

Legal Counsel

Shea Nerland Calnan
Barristers and Solicitors Calgary, Alberta

Gerig Hamilton Neeland
Barristers and Solicitors Red Deer, Alberta

Auditors

Meyers Norris Penny LLP Red Deer, Alberta

Transfer Agent

Computershare Investors Services Calgary, Alberta

Trading Symbol

IRC Canadian Venture Exchange

Website

www.iroccorp.com