



#### CORPORATE HEADQUARTERS

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#### TRADING SYMBOL "IRC"

TSX Venture Exchange  
Calgary, Alberta

#### PRINCIPAL BANK Community Savings

**AUDITORS**  
Brown Smith Owen  
Chartered Accountants  
Red Deer, Alberta

**LEGAL COUNSEL**  
Miller Thomson  
Barristers & Solicitors  
Edmonton, Alberta

**TRANSFER AGENT**  
Computershare Investor Services  
Calgary, Alberta

#### DIRECTORS AND SENIOR OFFICERS

Thomas M. Alford  
Director, President and Chief Executive Officer

Brian Neeland  
Director and Chairman of the Board

Trevor Hillman  
Director

Susan McArthur  
Director

Stuart Watson  
Director

Tim Sebastian  
Corporate Secretary

Gayle Morrical  
Controller



## 2002 SECOND QUARTER REPORT (unaudited)

**TSX-VEN: IRC**

**JUNE 30, 2002**

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## PROFILE

IROC Systems Corp. ("IROC") is a Canadian oilfield services company supplying safety and environmental equipment and personnel to the oil and gas industry. Since its inception, IROC has consistently addressed the safety needs of gas plants, pipelines, and drilling or servicing operations by designing unique, proactive industry leading safety solutions.

Our breathing air trailers 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 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.

*IROC Systems Corp.*  
**Notes to the Consolidated Financial Statements**  
*(Unaudited)*  
*Six Months Ended June 30, 2002*

### Note 1 - Accounting Policies

The interim financial statements of IROC Systems Corp. have been prepared by management in accordance with the 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, 2001. The disclosures included below are incremental to those included with the annual financial statements. The interim financial statements should be read in conjunction with the financial statements and notes thereto in the Corporation's annual report for the year ended December 31, 2001.

### Note 2 - Comparative Figures

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

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## HIGHLIGHTS

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
Revenue	2,357,335	1,940,478
Net Earnings	163,259	164,183
Net Income/share	.015	.016
EBITDA	571,611	582,365
EBITDA/share	.054	.056
Weighted average shares outstanding	10,547,916	10,356,814

*IROC Systems Corp.*  
**Consolidated Statement of Cash Flows**  
*(Unaudited)*

	Six Months <b>June 30, 2002</b>	Six Months June 30, 2001	Three Months <b>June 30, 2002</b>	Three Months June 30, 2001
<i>Cash flows from operating activities:</i>				
Net Income (Loss)	\$ 163,259	164,183	(92,543)	85,725
<b>Items not involving cash for operations:</b>				
Depreciation and amortization	301,782	272,558	171,703	130,295
Equity in income of partnership	(17,363)	-	37,270	-
Future income taxes	53,000	-	(3,000)	(66,000)
Loss (gain) on disposal of capital assets	(56,409)	(101,025)	(781)	(31,086)
<b>Cash flows from operations</b>	<b>444,269</b>	<b>335,716</b>	<b>112,649</b>	<b>118,934</b>
Net change in non-cash working capital items	(1,134,155)	141,599	(147,217)	(190,110)
	<b>(689,886)</b>	<b>477,315</b>	<b>(34,568)</b>	<b>(71,176)</b>
<i>Cash flows from investing activities:</i>				
Sale of capital assets	2,013,475	265,662	7,450	104,500
Purchase of capital assets	(847,441)	(991,465)	(456,066)	23,475
Deferred Start up costs	-	(46,151)	-	(46,151)
Advances to IROC Systems NWT Corp.	(161,366)	-	(24,102)	-
	<b>1,004,668</b>	<b>(771,954)</b>	<b>(472,718)</b>	<b>81,824</b>
<i>Cash flows from financing activities:</i>				
Repayment of obligations under capital lease	(140,373)	-	(19,579)	-
Repayment of operating loan	(166,369)	-	60,078	-
Repayment of long-term debt	(35,010)	(26,712)	(17,505)	(21,674)
Issue of obligation under capital lease	26,235	-	26,235	-
Issue of share capital (net of issue costs)	750	9,325	-	15,500
	<b>(314,767)</b>	<b>(17,387)</b>	<b>49,229</b>	<b>(6,174)</b>
<b>Net increase (decrease) in cash</b>	<b>15</b>	<b>(312,026)</b>	<b>(458,057)</b>	<b>4,474</b>
<b>Cash at the beginning of the period</b>	<b>185</b>	<b>932,575</b>	<b>458,257</b>	<b>616,075</b>
<b>Cash at the end of the period</b>	<b>\$ 200</b>	<b>620,549</b>	<b>200</b>	<b>620,549</b>
<b>Cash flow from operations per share</b>	<b>\$ 0.042</b>	<b>0.032</b>	<b>0.011</b>	<b>0.011</b>

## *PRESIDENT'S MESSAGE*

Dear Shareholders

The second quarter of 2002 continued the trend that emerged in the second half of 2001, that of an increasingly difficult operating environment. While IROC Systems Corp. was able to maintain positive cash flow in the quarter, reduced capital expenditures in the industry continue to have a negative effect. One might think that the current high prices for oil translate directly into activity at the field level but a number of other factors are in play that has come together to create the slower conditions.

IROC Systems Corp. is leveraged to the natural gas business in Western Canada therefore changing conditions in this sector directly affect our company. A slower North American economy and a relatively mild winter dictated less demand for the commodity and increased storage levels, reducing prices and the resulting field activity. Additionally, the significant number of mergers and development of oil and gas trusts have served to delay activity further as new structures are developed and implemented into operation.

While these and other factors lead to weakness in the short term, the long-term fundamentals remain strong. High decline rates, reduced drilling activity, improved economic activity and an increasing reliance on natural gas as a "clean" source of energy will all play a part in providing a solid future for our industry. Management has continued to work towards building a company, which will be a key player in the provision of oilfield safety services.

Highlights of the Second Quarter were:

- ⇒ The company announced a proposed amalgamation with our technology partner, Sat Tel Corp., allowing for future growth while protecting our current position in the market place. The transaction is expected to come before shareholders for approval in Q4 2002.
- ⇒ Continued diversification of the products and services being offered to our customers.
- ⇒ Despite reduced revenues year over year, gross margins remained intact.
- ⇒ Strong financial position remains intact to react to opportunities as they present themselves.

The anticipated consolidation of our sector of the industry has not yet begun. It is important for IROC System Corp. to become larger if it is to operate efficiently in the public markets. Management is continuing its efforts on this front and believes the conditions remain to accomplish our goal.

In summary, the difficult conditions currently present in the markets for our products and services are expected to linger for the remainder of this year, but significant evidence is beginning to build to support our belief that 2003 will be the beginning of a prolonged period of increased activity and solid financial performance for the industry as a whole and IROC Systems Corp. in particular.

Respectfully submitted

Thomas M. Alford  
 President and C.E.O.  
 IROC Systems Corp.

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

	<b>June 30 2002 (Unaudited)</b>	December 31 2001 (Audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash and term deposits	\$ 200	185
Marketable securities	-	6,758
Accounts receivable	1,481,815	717,491
Investment in IROC (NWT) Limited Partnership	247,084	68,354
Inventory	27,807	20,793
Prepaid expenses and deposits	116,222	72,580
Current portion of lease receivable	4,800	10,800
Future income tax benefit	-	28,000
	<u>1,877,928</u>	<u>924,961</u>
Capital assets	2,126,792	3,538,198
Prepaid lease costs	67,501	77,500
Future income taxes	119,000	144,000
	<u>\$ 4,191,221</u>	<u>4,684,659</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Operating loan	\$ 60,078	226,447
Accounts payable and accrued liabilities	644,940	1,016,750
Income taxes payable	29,878	-
Current portion of long-term debt	70,020	70,020
Current portion of obligations under capital lease	91,552	104,276
	<u>896,468</u>	<u>1,417,493</u>
Long-term debt	198,290	233,300
Obligations under capital lease	256,783	358,197
	<u>1,351,541</u>	<u>2,008,990</u>
<b>Shareholders' Equity</b>		
Share Capital	2,255,940	2,255,190
Retained Earnings	583,740	420,479
	<u>2,839,680</u>	<u>2,675,669</u>
	<u>\$ 4,191,221</u>	<u>4,684,659</u>
Weighted average shares outstanding	<u><b>10,547,916</b></u>	<u><b>10,356,814</b></u>

**IROC Systems Corp.**  
**Consolidated Statement of Earnings and Retained Earnings**  
**(Unaudited)**

	<b>Six Months Ended June 30 2002</b>	Six Months Ended June 30 2001	<b>Three Months Ended June 30 2002</b>	Three Months Ended June 30 2001
<b>Revenue</b>	\$ 2,357,335	1,940,478	830,216	1,168,188
<b>Expenses</b>				
Operating	1,441,559	1,205,953	559,719	790,119
General and administrative	431,782	258,207	202,976	117,364
Amortization	301,782	272,558	171,703	130,295
Interest on long-term debt	23,692	11,292	11,939	11,292
	<u>2,198,815</u>	<u>1,748,010</u>	<u>946,337</u>	<u>1,049,070</u>
<b>Earnings (loss) from operations</b>	<u>158,520</u>	<u>192,468</u>	<u>(116,121)</u>	<u>119,118</u>
<b>Other income (loss)</b>				
Gain on disposal of capital assets	56,409	101,025	781	31,086
Gain on sale of securities	1,300	-	1,300	-
Equity in income of partnership	17,363	-	(37,270)	-
Interest	12,545	5,022	1,383	3,853
	<u>87,617</u>	<u>106,047</u>	<u>(33,806)</u>	<u>34,939</u>
<b>Earnings (loss) before income taxes</b>	<u>246,137</u>	<u>298,515</u>	<u>(149,927)</u>	<u>154,057</u>
<b>Income taxes</b>				
Current (recovery)	29,878	134,332	(54,384)	68,332
Future (benefit)	53,000	-	(3,000)	-
	<u>82,878</u>	<u>134,332</u>	<u>(57,384)</u>	<u>68,332</u>
<b>Net earnings (loss)</b>	<u>163,259</u>	<u>164,183</u>	<u>(92,543)</u>	<u>85,725</u>
Retained earnings at beginning of period	420,481	556,309	676,283	634,767
<b>Retained earnings at end of period</b>	<u>\$ 583,740</u>	<u>720,492</u>	<u>583,740</u>	<u>720,492</u>
<b>Earnings (loss) per share</b>	<u>\$ 0.015</u>	<u>0.016</u>	<u>(0.009)</u>	<u>0.008</u>