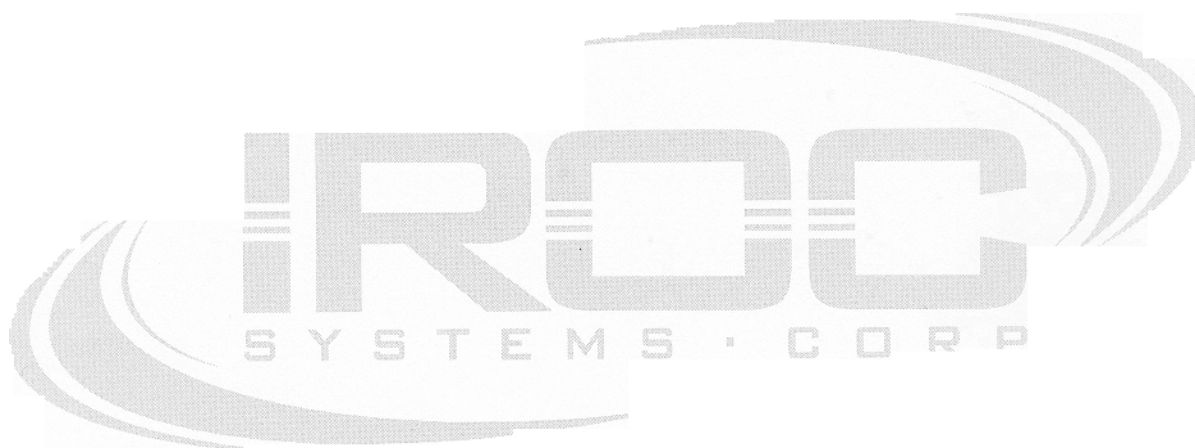




## 2004 FIRST QUARTER REPORT (UNAUDITED)



### Report Contents

TSXV: ISC

MARCH 31, 2004

*Partnerships*

in HEALTH and SAFETY

<i>Profile &amp; Highlights</i>	1
<i>President's Message</i>	2
<i>Balance Sheet</i>	4
<i>Statement of Operations</i>	5
<i>Statement of Cash Flows</i>	6
<i>Notes to the Statements</i>	7
<i>Management's Discussion &amp; Analysis</i>	9
<i>Corporate Directory</i>	15

8113 - 49th Ave. Close Red Deer, AB T4P 2V5

Phone: 403.346.9710  
Toll Free: 1.877.346.9710  
Fax: 403.346.9770

TSX VEN: ISC  
EMAIL: [mail@iroccorp.com](mailto:mail@iroccorp.com)  
WEBSITE: [www.iroccorp.com](http://www.iroccorp.com)



# PROFILE

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 servicing operations by designing unique, proactive industry leading safety solutions. Also, the Corporation’s wireless technologies provide custom solutions and innovative products, which integrate wireless and satellite technologies, to deliver connectivity solutions for specialized markets in a variety of industries.

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.<sup>TM</sup> (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, operational expertise, and experienced management to continue its growth both internally and through the exploitation of our “in house” technology. The increasing public awareness of environmental issues will provide substantial opportunity to grow our company. Environmental businesses, which provide services that complement those offered by IROC are logical extensions of our existing business and will be pursued to help achieve “profitable growth” in the short and long term. Our focus is clear, our products superior and the future is exciting for management, employees, customers and shareholders of IROC Systems Corp.



# FINANCIAL HIGHLIGHTS

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
<b>Financial Results</b>		
Revenue	\$ 1,878,480	1,376,617
Net earnings (loss)	194,475	(5,189)
Net earnings(loss) per share	0.01	(0.00)
Earnings before interest, taxes and depreciation & amortization	494,409	152,098
Earnings before interest, taxes and depreciation & amortization per share	0.04	0.01
Weighted average shares outstanding	14,031,153	11,225,646

# PRESIDENT'S MESSAGE

Dear Shareholders,

The first quarter of 2004 was ushered in on the back of strong commodity prices and field activity and leaves the same way. IROC Systems Corp. was able to capitalize to a degree on this activity as revenues and performance rose on a year over year basis. Revenue increases in our medical treatment centre and S.M.A.R.T. divisions account for the bulk of the improvement in performance and management expects that the trend in these areas will continue to improve. Much time and effort has been spent on identifying opportunity and developing growth strategies for this company. During the quarter decisions were made which will allow the company to start a phase of growth that is expected to provide positive returns for our shareholders in both near and longer terms. Growth at IROC Systems Corp. is happening and it is happening now.

A private placement was completed during March, raising 3.3 million dollars in equity for the company. The capital raised was intended to acquire assets that will form the basis for our growth in the coming months and years. The first acquisition, Canstar Environmental Projects Ltd., brings IROC a company that has been successful in the area of environmental remediation, delivering more than 10 million dollars in sales in their most recent fiscal year. To date this company has been a high volume, low margin operator with services being offered in a number of geographic and market segments. It is the intention of management to refocus the environmental operation into areas that will deliver higher margins and have previously demonstrated core competency. Additionally, the development of a cased hole abandonment business inside the existing Canstar infrastructure will be undertaken and executed in the near term. Management expects that revenues will drop significantly in this subsidiary before stabilizing, but that the contribution from this area will be enhanced immediately. We believe that this format will prove successful in an area of increasing need in the Western Canadian oilfield services industry. In order to execute the business developed by Canstar it was determined prudent to acquire a base of service rig assets. The rig assets of Corram Energy Services Inc. were purchased for cash in the amount of 2.05 million dollars, with some refurbishment of one rig taking the total cost to approximately 2.7 million dollars.

With these moves IROC has defined the immediate avenues for growth and will look to exploiting these assets in a manner that will best benefit our shareholders. Operations which are counter cyclical to our existing business, better utilization of our administrative infrastructure and a larger footprint that will allow deeper penetration into our existing customer base all played a role in the development of this strategy. Management expects that our current technology based activities will continue to gain strength throughout the rest of this year, with S.M.A.R.T. leading the way. Obviously, we are expecting significant increases in revenues and bottom line performance, however, given the timing of the initiatives and startup costs, shareholders should be looking to the third quarter of 2004 for any marked improvement. The operation that emerges will have multiple opportunities for further growth, allowing management options that will be evaluated and acted upon in the best interests of the company. For ease of understanding the new corporate structure is outlined below.

The management and staff is excited about the opportunity in front of us and will endeavour to exploit it to the best of our ability. Thank you for your continued support.

Respectfully submitted



Thomas M. Alford  
President and Chief Executive Officer





The accompanying unaudited consolidated financial statements for IROC Systems Corp. for the three months ended March 31, 2004 have not been subject to review procedures by the Corporation's auditors.



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

	March 31 2004 (Unaudited)	December 31 2003 (Audited)
<b>Assets</b>		
Current assets		
Cash	\$ 1,069,709	6,991
Accounts receivable	1,539,219	1,315,934
Inventories	142,086	105,127
Prepaid expenses and deposits	90,993	101,832
Note receivable	100,000	100,000
	<b>2,942,007</b>	<b>1,629,884</b>
Prepaid lease costs	32,502	37,502
Capital assets	4,273,306	2,346,262
Future income taxes	1,485,000	1,588,000
	<b>\$ 8,732,815</b>	<b>5,601,648</b>
<b>Liabilities</b>		
Current liabilities		
Operating loan	\$ -	350,325
Accounts payable and accrued liabilities	853,612	764,802
Callable term debt	728,067	786,197
Current portion of obligations under capital lease	103,361	105,203
	<b>1,685,040</b>	<b>2,006,527</b>
Obligations under capital lease	66,535	88,372
	<b>1,751,575</b>	<b>2,094,899</b>
<b>Shareholders' Equity</b>		
Convertible debentures	300,000	300,000
Share capital	6,596,624	3,312,808
Retained earnings(deficit)	84,616	(106,059)
	<b>6,981,240</b>	<b>3,506,749</b>
	<b>\$ 8,732,815</b>	<b>5,601,648</b>

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

	2004	2003
<b>Revenue</b>	\$ 1,878,480	1,376,617
<b>Expenses</b>		
Operating	989,734	932,257
General and administrative	404,564	292,803
Amortization	169,735	147,499
Interest on callable term debt	11,212	4,515
Interest on obligations under capital lease	4,437	7,093
	1,579,682	1,384,167
<b>Earnings (loss) from operations</b>	<b>298,798</b>	<b>(7,550)</b>
<b>Other earnings</b>		
Gain on disposal of capital assets	6,860	319
Interest income	3,367	222
	10,227	541
<b>Earnings (loss) before income taxes</b>	<b>309,025</b>	<b>(7,009)</b>
<b>Income taxes</b>		
Current	-	-
Future	114,550	(1,820)
	114,550	(1,820)
<b>Net earnings (loss)</b>	<b>194,475</b>	<b>(5,189)</b>
Interest on convertible debentures, net of income taxes	(3,800)	-
Retained earnings(deficit) at beginning of period	(106,059)	203,232
<b>Retained earnings at end of period</b>	<b>\$ 84,616</b>	<b>198,043</b>
<b>Net earnings (loss) per share</b>	<b>\$ 0.01</b>	<b>(0.00)</b>
<b>Weighted average shares outstanding</b>	<b>14,031,153</b>	<b>11,225,646</b>

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

	2004	2003
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 1,655,195	784,070
Cash paid to suppliers and employees	(1,332,328)	(953,124)
Interest paid	(15,649)	(11,608)
Interest received	3,367	222
Cash acquired in Sat-Tel acquisition	-	3,343
	<b>310,585</b>	<b>(177,097)</b>
<b>Cash flows from financing activities</b>		
Issue of callable term debt	-	300,000
Repayment of obligations under capital lease	(23,679)	(23,164)
Net operating loan advances (repayments)	(350,325)	138,278
Repayment of callable term debt	(58,130)	(26,217)
Interest paid on convertible debentures	(6,000)	-
Issue of shares	3,300,000	-
Share issue costs	(25,534)	-
	<b>2,836,332</b>	<b>388,897</b>
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(102,471)	(56,479)
Acquisition of service rig assets (Note 3)	(2,000,000)	(211,983)
Sale of capital assets	18,272	1,400
	<b>(2,084,199)</b>	<b>(267,062)</b>
<b>Increase (decrease) in cash during the period</b>	<b>1,062,718</b>	<b>(55,262)</b>
<b>Cash at beginning of period</b>	<b>6,991</b>	<b>73,198</b>
<b>Cash at end of period</b>	<b>\$ 1,069,709</b>	<b>17,936</b>

**IROC Systems Corp.**  
**Notes to Consolidated Financial Statements**  
**Three Months Ended March 31, 2004**  
**(Unaudited)**

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

The Company's interim financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and reflect the same accounting policies and methods of computation as the financial statements for the fiscal year ended December 31, 2003. 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, 2003.

**NOTE 2 - SHARE CAPITAL**

On March 11, 2004, the Corporation completed a private placement of 6,600,000 common shares issued at \$0.50 per common share for gross proceeds of \$3,300,000.00. The common shares issued pursuant to the private placement will be subject to resale restrictions until July 12, 2004.

(a) Authorized:

Unlimited number of voting common shares.

(b) Issued:

	Number	Amount
Balance at January 1, 2003	10,548,166	\$ 2,255,940
Issued on amalgamation	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
Share issue costs, net of income tax benefits		(16,184)
Balance at March 31, 2004	19,180,604	\$ 6,596,624

**NOTE 3 - ACQUISITION OF BUSINESS ASSETS**

On March 15, 2004, the Corporation completed the purchase of substantially all the business assets of Corram Energy Services Inc. which consist of three service rigs and related inventory. Proceeds from the private placement of common shares were used to finance the purchase.

#### NOTE 4 – BUSINESS COMBINATION

On February 18, 2004, IROC Systems Corp. and Deercorp Financial Inc. and Southlink Investments Inc. entered into a Letter of Intent whereby IROC has agreed to acquire all the issued and outstanding shares of Canstar. Pursuant to the terms of the Letter of Intent, the shareholders of Canstar will receive \$200,000 in cash and 1,600,000 common shares of IROC at a deemed issuance price of \$0.60 per share. In addition, shareholders' loans owing to Deercorp Financial Inc. will be paid by issuance of additional common shares of IROC with an aggregate market value equal to the amount of the shareholders' loans, based on the weighted average price of IROC common shares on the TSX Venture Exchange over the last 10 trading days immediately prior to the closing date. The business combination is contingent upon obtaining approval from the TSX Venture Exchange and the appropriate regulatory authorities.

The purchase price of \$1,616,600 including estimated transaction costs of \$50,000 will be allocated to Canstar's net assets and liabilities, after giving effect to the repayment of shareholders' loans, in accordance with the purchase method as follows:

Assets acquired:	
Cash	\$ 99,953
Accounts receivable	1,591,348
Capital assets	197,000
Other assets	61,628
	<hr/>
	1,949,929
Liabilities assumed:	
Accounts Payable	1,358,329
Net assets acquired	<hr/>
	\$ 591,600
Consideration given:	
Cash	200,000
2,108,250 common shares	1,366,600
Estimated transactions costs	50,000
	<hr/>
Total Consideration	<hr/>
	\$ 1,616,600
	<hr/>
Excess of consideration given over the fair value of net assets	<hr/>
	\$ 1,025,000

The allocation of the purchase price is preliminary and based on the estimated financial position of Canstar at June 30, 2003. The actual purchase price allocation will reflect the fair value, at the closing date, of the assets acquired and liabilities assumed based upon the acquirer's evaluation of such assets and liabilities following the closing of the combination and, accordingly, the final purchase price allocation may differ from the preliminary allocation reflected herein. The excess of the consideration given over the fair value of the net assets will be reflected as goodwill in the Corporation's consolidated balance sheet.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) focuses on key statistics from the consolidated financial statements of IROC for the three months ended March 31, 2004 as compared to the three months ended March 31, 2003, and pertains to known risks and uncertainties relating to our business. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This MD&A of the financial condition and results of operations for the quarter ended March 31, 2004 should be read in conjunction with the consolidated financial statements and related notes for the period, which are prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). All amounts are expressed in Canadian dollars unless otherwise noted.

## OVERVIEW

IROC Systems Corp. ("IROC" or the "Company") is a Canadian oilfield services 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 servicing operations by designing unique proactive industry leading safety solutions. Also, the Company's wireless technologies provide custom solutions and innovative products, which integrate wireless and satellite technologies, to deliver connectivity solutions for specialized markets in a variety of industries.

IROC completed an amalgamation with Sat-Tel Company in the first quarter of 2003, which resulted in IROC securing the satellite technology that, along with IROC's S.M.A.R.T.<sup>™</sup> technology, provides the platform for the Company to exploit existing products and technology and to develop new and more advanced technologies and products for a variety of industries.

During the first quarter of 2004 a private placement was completed, raising 3.3 million dollars through the sale of 6,600,000 common shares. The Company, through its wholly owned subsidiary Eagle Well Servicing Corp., used a portion of the proceeds of the private placement to acquire the service rig assets of Corram Energy Services Inc. Further, during the first quarter of 2004 the Company entered into an agreement to purchase 100% of the issued and outstanding shares of Canstar Environmental Projects Ltd. ("Canstar"), an environmental company specializing in reclamations. The Canstar transaction was completed in the second quarter of 2004 and IROC intends on offering a complete range of abandonment services through Canstar.

## SAFETY TRAILERS AND MOBILE TREATMENT CENTERS

IROC expanded its fleet of trailers to 70 with the production of 20 new office trailers in the last quarter of 2003, with 10 of these being deployed in late December. The remaining 10 new trailers started generating revenue in January of 2004. IROC's office trailer model is becoming very popular as is evident from the monthly utilization rates during the third and fourth quarters of 2003 and the first quarter of 2004 which consistently ranged between 70% and 85%.

The concentrated sales effort to promote and inform the industry about our 21 mobile treatment centers (MTCs) over the past year appears to have been effective as there was an increase in demand for the MTCs during the third and fourth quarters of 2003 and utilization numbers were up approximately 8% during the first three months of 2004. The revenues from IROC's safety trailer/MTC division increased from \$1,066,837 for the first quarter in 2003 to \$1,228,133 for the first quarter of 2004 with a corresponding increase in contribution margin from \$388,830 in 2003 as compared to \$568,695 for the three months ending March 31, 2004.

## S.M.A.R.T.™

IROC's state of the art S.M.A.R.T.™ (Satellite Monitored Automated Reporting Terminal) system continues to generate interest from oil & gas producers and is earning a reputation for high accuracy and reliability from our customers and from the people they represent. Increased marketing strategies that concentrate on educating our customers on the advantages and future potential of this system resulted in revenues in 2003 from the S.M.A.R.T.™ systems of approximately \$1,074,000 compared to 2002 revenues of \$453,000. This positive trend has continued into the first quarter of 2004 with S.M.A.R.T.™ revenues reaching \$413,673 for the quarter compared to revenues of \$134,216 during the first three months of 2003.

## EAGLE WELL SERVICING CORP.

Eagle Well Servicing Corp. was incorporated February 12, 2004 as a wholly owned subsidiary of the Company and proceeded to purchase the service rig assets of Corram Energy Services Inc. on March 16, 2004 which included three mobile single service rigs and related equipment. These rigs worked a total of 35 days in March out of a possible 48 and generated revenue of \$138,468 with a contribution to the consolidated group of \$25,109 before amortization, but after development and acquisition costs.

## RESULTS OF OPERATIONS

### **Comparison of three months ended March 31, 2004 to three months ended March 31, 2003 (First Quarter)**

Consolidated financial results for the quarter ended March 31, 2004 report net earnings of \$194,475 versus a net loss of \$5,189 in the first quarter of 2003. Revenue increased to \$1,878,480 in the first quarter of 2004 as compared to \$1,376,617 in 2003, an increase of 36%. Operating costs increased slightly (approximately 6%) to \$989,734 in 2004 from \$932,257 in 2003. Gross margin increased significantly in the first quarter of 2004 moving to 47.3% versus 32.3% for the same period in the previous year.

General and Administrative (G&A) expenses increased to \$404,564 in 2004 from \$292,803 in 2003. \$43,900 of this increase is directly attributed to the addition of Eagle Well Servicing Corp. While Eagle only generated revenue for 16 days, there were consulting fees and administrative costs incurred earlier in the quarter to establish the company and source the assets. The balance of the increase can be directly attributed to the overhead related to the operation of Sat-Tel Corporation, which was amalgamated into IROC on February 28, 2003 thereby adding only one month of additional overhead in the first quarter of 2003 as opposed to the full three months in 2004.

### **Summary of Quarterly Results**

The following table presents the unaudited selected financial data for each of the last eight quarters of the Company ended March 31, 2004.

	For the quarter ended							
	March 31 2004	Dec. 31 2003	Sept. 30 2003	June 30 2003	March 31 2003	Dec. 31 2002	Sept. 30 2002	June 30 2002
Revenue	\$1,878,480	\$1,790,443	\$1,242,892	\$937,689	\$1,376,617	\$776,981	\$783,126	\$840,176
Net earnings(loss)	194,475	(138,300)	(1,374)	(156,828)	(5,189)	(304,457)	(76,049)	(92,543)
Net earnings(loss)per share <sup>(1)</sup>	\$ 0.01	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ (0.01)	\$ (0.01)

(1) Net earnings(loss) per share was calculated using the weighted average number of common shares outstanding. Diluted loss per share amounts have not been calculated since the result would be anti-dilutive.

## CAPITAL EXPENDITURES

Capital expenditures on equipment were \$2,102,471 for the first quarter of 2004 compared to \$211,983 for the first quarter of 2003. Of the \$2,102,471, \$2,000,000 relates to the purchase from Corram Energy Services Inc. of three service rigs and related inventory. This transaction was completed on March 15, 2004 and the service rigs will be utilized by IROC through its wholly owned subsidiary Eagle Well Servicing Corp. The purchase was completed for cash, using a portion of the proceeds from the private placement of common shares (as described elsewhere in the MD&A).

## LIQUIDITY AND CAPITAL RESOURCES

The Company ended the first quarter of 2004 with working capital of \$1,256,967 as compared to a working capital deficiency of \$376,643 at December 31, 2003. 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 \$3,300,000.00. \$2,050,000.00 of the proceeds were used to purchase three service rigs and related inventory from Corram Energy Services Inc., \$950,000.00 was used to eliminate the operating line of credit and increase the current cash position of the Company and \$300,000.00 remains in trust with the Company's legal counsel to be used to satisfy the cash component of the acquisition of all the issued and outstanding shares of Canstar.

Accounts receivable show an increase to \$1,539,219 at March 31, 2004 compared to \$1,315,934 at year-end, 2003. This reflects the increased sales of the Company during the later part of the winter season.

Prepaid expenses and deposits decreased slightly from \$101,832 at December 31, 2003 to \$90,993 at March 31, 2004, while the note receivable of \$100,000, which is due on demand and bears interest at 12% per annum receivable monthly, remained unchanged. This loan was made to a third party contractor who plays an important role in securing and maintaining a significant portion of the turnaround revenue that IROC generates.

Net capital assets increased to \$4,273,306 at March 31, 2004 from \$2,346,262 at December 31, 2003. The purchase of three service rigs by the Company's wholly owned subsidiary Eagle Well Servicing Corp. constituted the majority of this increase. These increases were offset by accumulated depreciation booked in accordance with rates defined in the December 31, 2003 audited statements.

Reductions to obligations under capital lease during the period came about as a result of regular monthly payments decreasing to \$169,896 at March 31, 2004 from \$193,575 at December 31, 2003. Regular monthly payments resulted in a net decrease to callable term debt of \$58,130. The callable term debt is in the form of demand loans, repayable in monthly instalments of \$5,835 and \$13,542 plus interest at a rate of prime plus 1.5%. Capital leases vary in their amount and terms and the last of these will be repaid within approximately 18 months. The two convertible debentures in the amount of \$150,000 each bear interest at 8% per annum, payable quarterly, commencing on September 30, 2003 and mature in June 2006.

Future cash requirements will be met through funds from operations, bank financing, or issuance of equity as available. The Board of Directors and Management will determine the appropriate option as conditions dictate.

## RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2004 the Company paid \$20,000 in management fees to a Company owned by the spouse of an officer of the Company. Included in accounts payable and accrued liabilities at March 31, 2004 is \$32,500 owing to an officer of the Company.

On July 3, 2003 the Company issued two unsecured 8% convertible debentures in the principal amount of \$150,000 each to an officer and the spouse of an officer of the Company.

At March 31, 2004 accounts payable and accrued liabilities included \$42,554 owing by the Company to a shareholder as a result of the amalgamation with Sat-Tel Corporation in 2003.

These transactions were conducted in the normal course of business and are 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.

### SHARE CAPITAL

a) Authorized:

Unlimited number of voting common shares

b) Issued:

	Number	Amount
Balance at January 1, 2003	10,548,166	\$ 2,255,940
Issued on amalgamation	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
Share issue costs, net of income tax benefits		(16,184)
Balance at March 31, 2004	19,180,604	\$ 6,596,624

c) Stock options:

The Company 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 Company's Board of Directors. Changes in the number of common shares under option during the first quarter of 2004 and the year ended December 31, 2003 are summarized as follows:

	Three Months Ended March 31, 2004		Year Ended December 31, 2003	
	Number of Options	Weighted Average Price	Number of Options	Weighted Average Price
Balance at beginning of period	555,000	\$0.49	385,000	\$0.61
Forfeited	(100,000)	0.35	(80,000)	0.61
Exercised	---	---	---	---
Granted	450,000	0.50	250,000	0.35
Balance at end of period	905,000	\$0.51	555,000	\$0.49

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

Exercise Price	Number of Options	Weighted Average Remaining Contractual Life (years)	Weighted Average Price
\$ 0.35	150,000	4.00	\$ 0.35
0.50	90,000	1.28	0.50
0.50	450,000	4.84	0.50
0.65	205,000	1.79	0.65
0.80	10,000	2.06	0.80
\$	905,000	3.63	\$ 0.51

## **PROPOSED TRANSACTIONS**

On February 18, 2004, IROC and Deercorp Financial Inc. and Southlink Investments Inc. entered into a Letter of Intent whereby IROC has agreed to acquire all the issued and outstanding shares of Canstar. Pursuant to the terms of the Letter of Intent, the shareholders of Canstar will receive \$200,000 in cash and 1,600,000 common shares of IROC at a deemed issuance price of \$0.60 per share. In addition, shareholders' loans owing to Deercorp Financial Inc. will be paid by issuance of additional common shares of IROC with an aggregate market value equal to the amount of the shareholders' loans, based on the weighted average price of IROC common shares on the TSX Venture Exchange over the last 10 trading days immediately prior to the closing date.

Canstar is an environmental services company-serving clients in the oil and gas industry throughout Alberta, British Columbia and Saskatchewan. Management believes that the addition of Canstar's business is a major step in the growth of IROC. Canstar will provide a significant increase in the Company's revenues and act as a base for the development of complementary revenue streams. The ability to take advantage of IROC's existing sales and administrative infrastructure is a key component of this transaction. Additionally, the counter cyclical nature of Canstar's business will provide for greater stability and profitability going forward.

IROC completed the acquisition of all of the issued and outstanding shares of Canstar Environmental Projects Ltd. on May 14, 2004.

## **RISK AND UNCERTAINTIES**

The general risk factors associated with IROC's business and operations are as follows:

### **Operational Risks**

Demand and prices for IROC's products and services depend upon the level of activity in the Canadian oil and gas exploration and production industry which in turn depends on the level of oil and gas prices, expectations about future oil and gas prices, the cost of exploring for, producing and delivering oil and gas, the discovery rate of new oil and gas reserves, available pipeline and other oil and gas transportation capacity, worldwide weather conditions, political, military, regulatory and economic conditions and the ability of oil and gas companies to raise capital. The level of activity in the Canadian oil and gas exploration and production industry has been volatile. No assurances can be given that current levels of oil and gas exploration and production activities will continue or that demand for the Company's services will continue to reflect the level of activity in the industry generally. Industry conditions will continue to be influenced by numerous factors over which the Company will have no control. Prices for oil and gas are expected to continue to be volatile and to affect the demand for and pricing of the Company's products and services. A material decline in oil or gas prices or Canadian industry activity could have a material adverse affect on the Company's business, results or operations and prospects.

The Company's operations are subject to hazards inherent in the oilfield service industry, such as explosions, fires and spills that can cause personal injury or loss of life, damage to or destruction of property, equipment and the environment and suspension of operations. In addition, claims for loss of oil and gas production, damage to formations, damage to facilities and business interruptions can occur. While the Company maintains insurance coverage that it believes to be adequate and customary in the industry there can be no assurances that insurance proceeds will be available or sufficient or that IROC will be able to maintain adequate insurance in the future at rates considered reasonable. The single occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by the Company could have a material adverse effect on the Company's business, results of operation and prospects.

### **Seasonal Nature of IROC's Business**

To a large extent, IROC's breathing air trailer business is seasonal in nature. Generally, exploration and drilling in the oil and gas industry is conducted in the winter months and the length and severity of winter conditions can affect the demand for certain of IROC's products.

### **Environment**

All phases of IROC's business could be affected by changes to environmental legislation and regulations in the various jurisdictions in which the Company operates. While the Company expects that environmental legislation is evolving in a manner, which will enhance the value of the Company's products and services, there can be no assurances that such changes to existing legislation will occur.

### **Competition**

The oilfield service industry is highly competitive and there are a number of other oilfield service companies, which have greater technical ability and greater financial resources than IROC. There are no assurances that IROC will be able to compete with these other companies.

### **Future Capital Requirements**

IROC may require additional financing in the future to implement its strategies and business objectives. It is possible that such financing will not be available, or if available, will not be available on favourable terms. Also, if IROC issues any shares in the future to finance its operations or implement its strategies, the current shareholders of IROC will suffer a dilution of their interest.

### **OUTLOOK**

2003 was a tremendous year in the oil and gas industry in Western Canada with 19,957 wells being completed, the highest number ever recorded. The pace has continued during the first quarter of 2004 and given the strong commodity pricing in this environment it would seem that high levels of activity would be more or less certain for the remainder of the year. While most expect the record pricing, cash flow and service activity to moderate somewhat in the coming months there is little doubt that solid operating conditions will be prevalent. The future pricing for commodities in the market remains strong, with supply hard to come by and demand remaining firm, especially with natural gas. Given that IROC Systems Corp. is generally dependent upon the natural gas sector, and more specifically the sour gas segment, management feels that the growth initiatives undertaken in the quarter are appropriate.

Despite the positive picture being drawn, management believes that there are certain components inside the industry that are worthy of consideration. A constantly evolving regulatory environment, high rates of decline, continued flows of capital into certain areas of the industry and a tight labor market are areas of concern for our company. We continue to be wary that we are operating in a cyclical business, with little doubt that there will be some correction in activity in the future.

### **FORWARD-LOOKING STATEMENT**

Except for historical information, this "Management Discussion & Analysis" contains forward-looking statements, which may not be based on historical fact. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause actual results, events or developments to be materially different from any further results, events, developments expressed or implied by such forward-looking statements. Such factors include, among other things, risks associated with commodity prices, the ability to protect the company's intellectual property, long term capital requirements and IROC's stage of development. Each factor should be considered carefully and readers are cautioned not to place undue reliance on such forward-looking statements.

## CORPORATE DIRECTORY

### CORPORATE HEADQUARTERS

8113 - 49th Avenue Close  
Red Deer, Alberta  
T4P 2V5

Phone: 403-346-9710

Fax: 403-346-9770

Website: [www.iroccorp.com](http://www.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 S. Morrical, CGA  
Controller