

Consolidated Financial Statements of

IROC SYSTEMS CORP.

Three and six months ended June 30, 2005 and 2004

IROC SYSTEMS CORP.

Consolidated Balance Sheets

	June 30, 2005	December 31, 2004
	(unaudited)	(audited)
Assets		
Current assets:		
Cash	\$ 32,568	\$ 50,571
Accounts receivable	4,293,537	3,433,071
Inventories	281,682	46,522
Prepaid expenses and deposits	602,043	156,537
	<u>5,209,830</u>	<u>3,686,701</u>
Prepaid lease costs	7,503	17,503
Property and equipment (note 4)	22,396,200	13,318,971
Intangible assets (note 3)	350,000	—
Goodwill	1,771,495	1,339,571
Future income taxes	1,223,000	1,304,000
	<u>\$ 30,958,028</u>	<u>\$ 19,666,746</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	\$ 1,351,130	\$ —
Accounts payable and accrued liabilities	2,574,790	2,920,168
Income taxes payable	48,064	—
Callable term debt	7,589,509	2,955,819
Current portion of obligations under capital lease	56,882	83,472
	<u>11,620,375</u>	<u>5,959,459</u>
Obligations under capital lease	54,416	33,906
Convertible debentures	—	279,852
	<u>11,674,791</u>	<u>6,273,217</u>
Shareholders' equity:		
Convertible debentures	—	40,000
Share capital (note 5)	18,974,346	13,246,030
Contributed surplus (note 5(d))	75,889	10,623
Retained earnings	233,002	96,876
	<u>19,283,237</u>	<u>13,393,529</u>
	<u>\$ 30,958,028</u>	<u>\$ 19,666,746</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Thomas Alford"

Director

"Brian Neeland"

Director

IROC SYSTEMS CORP.

Consolidated Statements of Earnings (Loss) and Retained Earnings (Deficit)

(Unaudited)

	Six months ended		Three months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Revenue	\$ 9,886,126	\$ 3,464,957	\$ 4,050,127	\$ 1,586,477
Expenses:				
Operating	6,851,033	2,086,724	3,144,536	1,096,991
General and administrative	1,516,500	981,307	896,054	576,742
Interest	152,076	28,405	89,960	13,393
Interest on obligations under capital lease	3,362	7,270	1,569	2,833
Depreciation and amortization	1,277,217	458,729	653,874	288,994
	9,800,188	3,562,435	4,785,993	1,978,953
Earnings (loss) from operations	85,938	(97,478)	(735,866)	(392,476)
Other earnings:				
Gain on disposal of equipment	152,988	75,103	119,185	68,243
Interest income	781	6,426	24	3,059
	153,769	81,529	119,209	71,302
Earnings (loss) before income taxes	239,707	(15,949)	(616,657)	(321,174)
Income taxes:				
Current	16,302	–	16,302	–
Future	87,279	2,831	(204,827)	(111,719)
Net earnings (loss)	136,126	(18,780)	(428,132)	(209,455)
Retained earnings (deficit) at beginning of period	96,876	(106,059)	661,134	84,616
Retained earnings (deficit) at end of period	\$ 233,002	\$ (124,839)	\$ 233,002	\$ (124,839)
Earnings per share – basic and diluted	\$ 0.00	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted shares outstanding	28,566,218	17,262,042	30,075,874	20,492,930

See accompanying notes to consolidated financial statements.

IROC SYSTEMS CORP.

Consolidated Statements of Cash Flow

(Unaudited)

	Six months ended		Three months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Cash provided by (used in):				
Operations:				
Net earnings (loss)	\$ 136,126	\$ (18,780)	\$ (428,132)	\$ (209,455)
Items not affecting cash:				
Depreciation and amortization	1,277,217	458,729	653,874	288,994
Stock-based compensation	66,381	–	43,974	–
Non-cash interest expense on convertible debentures	3,095	(4,395)	–	(2,195)
Future income taxes	87,279	2,831	(204,827)	(111,719)
Non-cash rent expense	10,000	10,000	5,000	5,000
Gain on disposal of property and equipment	(152,988)	(75,103)	(119,185)	(68,243)
	1,427,110	373,282	(49,296)	(97,618)
Changes in non-cash working capital balances	(1,891,204)	20,350	889,234	180,945
	(464,094)	393,632	839,938	83,327
Investing:				
Cash related to business combinations	160,521	(245,125)	–	(245,125)
Purchase of property, plant and equipment	(5,985,361)	(2,714,429)	(3,071,724)	(606,238)
Proceeds on sale of property, plant and equipment	249,130	145,225	196,581	126,953
	(5,575,710)	(2,814,329)	(2,875,143)	(724,410)
Financing:				
Issue of callable term debt	5,189,618	–	2,390,650	–
Net operating loan advances (repayments)	1,351,130	(350,325)	(310,597)	–
Repayment of callable term debt	(555,928)	(116,260)	(387,148)	(58,130)
Repayment of obligations under capital lease	(49,769)	(86,713)	(25,087)	(63,034)
Issue of common shares	86,750	3,300,000	77,900	–
Share issue costs	–	(43,584)	–	(18,050)
	6,021,801	2,703,118	1,745,718	(139,214)
Increase (decrease) in cash during the period	(18,003)	282,421	(289,487)	(780,297)
Cash at beginning of period	50,571	6,991	322,055	1,069,709

Cash at end of period	\$	32,568	\$	289,412	\$	32,568	\$	289,412
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See accompanying notes to consolidated financial statements.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three and six months ended June 30, 2005 and 2004
(Unaudited)

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. Summary of Significant Accounting Policies:

The Corporation'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, 2004. The disclosures included below are incremental to those included with the annual financial statements and notes thereto included in the Corporation's annual report for the year ended December 31, 2004.

2. Seasonality:

The Corporation's operations are carried on in western Canada. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring breakup" has a direct impact on the Corporation's activity levels. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen enough to support equipment. The timing of freeze up and spring breakup affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Corporation's slowest time, and as such the operating results of the Corporation will vary on a quarterly basis.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements, page 2

Three and six months ended June 30, 2005 and 2004
(Unaudited)

3. Business combination:

On March 22, 2005, the Corporation acquired all of the issued and outstanding shares of Global Atmospheric Sensing Inc. ("Global") pursuant to a Letter of Intent entered into on February 21, 2005. Pursuant to the terms of the Letter of Intent, the shareholders of Global received \$75,000 in cash and 607,473 common shares of IROC at a price of \$1.81 per share.

The purchase price of \$1,198,460 including transaction costs of \$23,934 has been allocated to Global'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	\$ 259,455
Accounts receivable	201,557
Prepaid expenses and deposits	450
Equipment	247,248
Future income taxes	6,279
Intangible – customer list	100,000
Intangible – Proprietary software development	250,000
Goodwill	431,924
	<hr/>
	1,496,913

Liabilities assumed:

Accounts payable	176,235
Obligations under capital lease	43,689
Income taxes payable	78,529
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	298,453

Net assets acquired	\$ 1,198,460
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Consideration given:

Cash	\$ 75,000
607,473 common shares	1,099,526
Costs of acquisition	23,934

Total consideration	\$ 1,198,460
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IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements, page 3

Three and six months ended June 30, 2005 and 2004
(Unaudited)

4. Property and equipment:

			June 30 2005	December 31 2004
	Cost	Accumulated depreciation and amortization	Net book value	Net book value
Rig equipment	\$ 19,755,656	\$ 1,233,673	\$ 18,521,983	\$ 10,102,801
Trailers	3,068,663	1,093,374	1,975,289	1,489,744
Field equipment	2,380,297	1,102,416	1,277,881	1,205,824
Other equipment	628,341	336,492	291,849	139,723
Data acquisition centre	353,500	149,884	203,616	226,240
Leasehold improvements	47,895	13,587	34,308	38,792
Building	3,520	162	3,358	3,426
	<u>26,237,872</u>	<u>3,929,588</u>	<u>22,308,284</u>	<u>13,206,550</u>
Under capital lease:				
Trailers	253,577	198,039	55,538	65,339
Vehicles	54,417	22,039	32,378	38,093
Other equipment	—	—	—	8,989
	<u>307,994</u>	<u>220,078</u>	<u>87,916</u>	<u>112,421</u>
	<u>\$ 26,545,866</u>	<u>\$ 4,149,666</u>	<u>\$ 22,396,200</u>	<u>\$ 13,318,971</u>

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements, page 4

Three and six months ended June 30, 2005 and 2004
(Unaudited)

5. Share capital:

(a) Authorized:

Unlimited number of voting common shares without nominal or par value

(b) Issued:

	Number	Amount
Balance at December 31, 2004	25,734,342	\$13,246,030
Issued on acquisition of service rig equipment	3,766,052	4,217,978
Issued on acquisition of Global Atmospheric Sensing Inc.	607,473	1,099,526
Issued for cash on exercise of options	175,000	87,865
Issued on conversion of debentures	600,000	322,947
Balance at June 30, 2005	30,882,867	\$18,974,346

(c) Stock options:

Changes in the number of common shares under option during the six month period ended June 30, 2005 and the year ended December 31, 2004 are summarized as follows:

	Six Months Ended 2005	
	Number of options	Weighted exercise price
Balance at beginning of period	630,000	\$ 0.67
Granted	500,000	1.56
Forfeited	(50,000)	1.03
Exercised	(175,000)	0.50
Balance at end of period	905,000	\$ 1.17

At June 30, 2005 there were a total of 505,001 (2004 - 430,000) options exercisable at a weighted average exercise price of \$0.95.

- (d) The Corporation recorded stock-based compensation expense and contributed surplus of \$66,381 (2004 - \$nil) for the six months ended June 30, 2005. Contributed surplus was reduced and share capital was increased by \$1,115 (2004 - \$nil) for options that were exercised during the six months ended June 30, 2005.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements, page 5

Three and six months ended June 30, 2005 and 2004
(Unaudited)

6. Supplemental information:

	Six months ended		Three months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Interest paid	\$ 155,438	\$ 35,675	\$ 91,529	\$ 16,226

Components of change in non-cash working capital balances:

	Six months ended		Three months ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Accounts receivable	\$ (752,479)	\$ (144,097)	\$ 1,194,684	\$ 79,188
Inventory	(235,160)	(19,311)	(73,369)	17,648
Prepaid expenses and deposits	(445,056)	(178,761)	(465,825)	(189,600)
Accounts payable and accrued liabilities	(458,509)	362,519	233,744	273,709
	\$ (1,891,204)	\$ 20,350	\$ 889,234	\$ 180,945

7. Related party transactions:

During the six months ended June 30, 2005 the Corporation paid \$40,000 (2004 - \$40,000) in management fees to a corporation owned by the spouse of an officer of the Corporation.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements, page 6

Three and six months ended June 30, 2005 and 2004
(Unaudited)

8. Segmented information:

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 provisions of on-site safety personnel and equipment and remote data monitoring using IROC's S.M.A.R.T. system and the downwind monitoring technology recently added through the acquisition of Global Atmospheric Sensing Inc. 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.

As at and for the six months ended June 30, 2005	Safety Monitoring Services	Well Servicing	Environmental Services	Total
Revenue	\$ 3,405,475	\$ 5,152,608	\$ 1,328,043	\$ 9,886,126
Earnings before interest, taxes, depreciation and amortization	418,586	1,174,915	78,861	1,672,362
Net income (loss)	55,119	58,171	22,836	136,126
Depreciation and amortization	448,125	803,973	25,119	1,277,217
*Purchase of property and equipment	975,169	9,223,275	4,897	10,203,341
Intangible assets acquired	350,000	—	—	350,000
Goodwill acquired	431,925	—	—	431,925
Total assets	\$ 8,684,145	\$21,061,955	\$ 1,211,928	\$30,958,028

As at and for the six months ended June 30, 2004	Safety Monitoring Services	Well Servicing	Environmental Services	Total
Revenue	\$ 2,787,383	\$ 500,579	\$ 176,995	\$ 3,464,957
Earnings before interest, taxes, depreciation and amortization	499,482	48,645	(69,672)	478,455
Net income (loss)	99,465	(66,596)	(51,649)	(18,780)
Depreciation and amortization	307,315	144,556	6,858	458,729
*Purchase of property and equipment	180,825	2,533,604	—	2,714,429
Intangible assets acquired	—	—	—	—
Goodwill acquired	1,339,571	—	—	1,339,571
Total assets	\$ 6,474,465	\$3,025,461	\$ 570,522	\$10,070,448

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements, page 7

Three and six months ended June 30, 2005 and 2004
(Unaudited)

- Excludes business acquisitions

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements, page 8

Three and six months ended June 30, 2005 and 2004
(Unaudited)

9. Subsequent event:

The Company intends to complete a private placement of a minimum of \$5 million and a maximum of \$7.5 million worth of three year eight per cent unsecured debentures.

The debentures will be offered in multiples of \$1,000 and for each \$1,000 of debentures purchased subscribers will also receive 150 warrants to purchase common shares of IROC at a price of \$2.50 for the first two years and at a price of \$2.70 for the third year of the warrant.