



2006 THIRD QUARTER REPORT

(UNAUDITED)

Report Contents

TSX: ISC

SEPTEMBER 30, 2006

Partnerships
in HEALTH and SAFETY

<i>Profile</i>	2
<i>President's Message</i>	3
<i>Management's Discussion & Analysis</i>	4 - 14
<i>Balance Sheet</i>	16
<i>Statement of Earnings</i>	17
<i>Statement of Cash Flows</i>	18
<i>Notes to the Statements</i>	19 - 25
<i>Corporate Directory</i>	26



P R O F I L E

IROC Systems Corp. (“IROC” or the “Corporation”) is a leading Canadian oilfield service company that supplies a comprehensive and diverse range of products, services and equipment to the oil and gas industry, through the IROC Energy Services Partnership.

- **Eagle Well Servicing**, IROC’s service rig division, currently operates 21 free standing single and double service rigs across Alberta and in Northern British Columbia. Eagle Well Servicing is strategically positioned to meet the service demands of a changing industry through building or acquiring new equipment and attracting quality personnel.
- **Aero Rentals and Fishing Services** is our newest division. Aero Rentals commenced operations in the third quarter of 2006, and provides rental equipment for surface pressure control in drilling and workover operations and tubular handling equipment in the workover, re-entry and completion areas. Aero Fishing will commence operations in early 2007 and will provide fishing and related equipment for surface and downhole environments, focusing primarily in cased hole applications.
- **Envirocore**, IROC’s environmental division, offers comprehensive environmental services ranging from project planning and construction to final reclamation. Envirocore provides project management services, risk analysis and construction planning and environmental monitoring. In addition, Envirocore owns, operates, and maintains a fleet of specialized equipment for lease construction, reclamation, remediation and waste transportation.
- **IROC Safety Services**, IROC’s safety division, has provided safety services and equipment to the oil and gas industry since 1982. A commitment to develop and deploy state-of-the-art equipment using the latest technology has resulted in a high quality inventory that includes safety trailers, personal gas monitors and wireless gas detection devices.
- **Oricomm Communications and Monitoring**, IROC’s communication’s division, provides customers with a wide range of air quality monitoring and communications products and services including real-time flare management, remote field communications, mobile and stationary air quality monitoring. Oricomm’s products and services are used in both the oil and gas industry and forest fire prevention.
- **Canada Tech Corp**, a subsidiary of IROC, has developed a wide range of memory gauges and permanent monitoring systems that measure pressure and temperature in the downhole and surface environment of oil and gas wells. Canada Tech Corp’s core business is to develop and use specialized technology that allows customers to optimize production of new and existing oil and gas wells. Canada Tech’s dedication to excellence has earned Canada Tech preferred supplier status with many of its customers including domestic and international service companies, oil and gas producers, mining and hydrology companies.



P R E S I D E N T ' S M E S S A G E

Dear Shareholders,

As we head into the final quarter of 2006 I think it is prudent to step back for a minute and look how far we have come and the principles upon which the growth of the Corporation has been based. We have had the good fortune of operating in an environment for the past few years that has provided opportunity to grow our company rapidly. Management has capitalized on some of those chances as sales have grown from \$5 million in 2003, to \$10 million in 2004, to \$33 million in 2005 and to \$48 million in the first nine months of 2006. Impressive growth to say the least but maybe more impressive when considering that the growth has been primarily organic in nature. Of our 2006 projected revenue of approximately \$70 million, we estimate that 75% comes from internally generated initiatives while the remainder was inherited through acquisitions. The financial performance of our Corporation will continue to gain momentum as the effects of our capital expenditure plans are felt and the business segments that are still developing begin to benefit from the efficiencies that result from larger organizations.

The strategy used to grow our company is simple. IROC Systems Corp has developed an oilfield services provider that is not fully dependent on any one product or service, is diversified geographically reducing commodity and labor force risks, and is continually building new equipment that will have cost advantages in an up or down market. Acquisitions, for the most part have remained expensive in our eyes, and therefore management has stuck to our plan of building the company organically, albeit on a number of fronts at the same time. We continue to believe in our strategy and feel it will serve the Corporation well with what we believe will be occurring in our industry in the foreseeable future.

Commodity prices dictate the health of the oil and gas service business, plain and simple. The recent erosion of commodity prices has begun to leave a mark on the overall utilization levels within the industry. Drilling rigs, the seasonal trend for our industry, are facing decreased activity for the first time in a number of quarters, with the greatest effects being felt in the shallow gas and coalbed methane areas of Central and Southern Alberta. Reduced cash flow for the exploration & production business will translate into less capital expenditure and the resulting reduction in activity is inevitable, affecting all companies in the oilfield services segment to varying degrees. Additionally, the recent announcement from the federal government regarding the taxation of trusts could have a negative effect upon our business going forward, the extent of which cannot be estimated accurately at this time.

Despite the probable reduction in activity in some segments of the oilfield service business over the short term we believe that we will have the ability to continue the growth of our Corporation. IROC Systems Corp is exposed to oil, both light and heavy in Central and Eastern Alberta through its Eagle and Aero divisions, sour gas through its Safety group and deep gas in NW Alberta and NE British Columbia benefits both Envirocore and Oricomm. The principles that have built the company to this point will remain in effect with opportunity continuing to be created through our various business segments and geographic exposure. Acquisitions are expected to become more realistic over time as the lower commodity prices ripple through the industry.

Management has the ability to deploy capital into multiple opportunities, given the diversity of our company, and can push forward, pull back or maintain the status quo in any one of our divisions and still be able to grow for the benefit of our stakeholders. The management and employees of IROC Systems Corp are excited about the opportunities that we have capitalized upon and those that are currently in front of us.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tom Alford".

Thomas M. Alford
IROC Systems Corp.
President and CEO



M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S

The following Management's Discussion and Analysis (MD&A) focuses on key statistics from the consolidated financial statements of IROC Systems Corp. ("IROC" or the "Corporation") for the three and nine months ended September 30, 2006 as compared to the three and nine months ended September 30, 2005, 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 three and nine months ended September 30, 2006 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. All amounts are expressed in Canadian dollars unless otherwise noted.

This report contains forward-looking statements which reflect management's expectations regarding IROC's future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "may", "will", "believe", "expect", "potential", "continue", "view" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk, uncertainties and assumptions. A number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. Although the forward-looking statements contained in this report are based upon what management believes to be reasonable assumptions, the Corporation cannot assure readers that actual results will be consistent with these forward-looking statements. Some of the risks, uncertainties, and factors include, but are not limited to: certain economic risks, most important of which are a slowdown in the general economy or reduced oil and natural gas drilling; changes to governmental regulations; prevailing interest rates; currency exchange rates; customer relationships; labor disruption; accidents and costs of liability insurance; and fuel prices. Given these risks and uncertainties, the reader should not place undue reliance on these forward-looking statements. See additional discussion under "**Risks and Uncertainties**".

F I N A N C I A L H I G H L I G H T S

(Expressed in thousands of dollars, except per share amounts – "Unaudited")

	<u>For the 3 months ended September 30,</u>			<u>For the 9 months ended September 30,</u>		
	2006	2005	% Change	2006	2005	% Change
Revenue	\$17,399	\$8,864	96%	\$48,043	\$18,751	156%
Operating costs	10,919	5,752	90%	31,664	12,603	151%
Gross Margin	6,480	3,112	108%	16,379	6,148	166%
Gross Margin %	37%	35%	6%	34%	33%	4%
G & A	2,495	924	170%	6,924	2,440	184%
EBITDA ⁽¹⁾	3,985	2,188	82%	9,455	3,706	155%
Per share diluted	0.10	0.07	52%	0.25	0.12	100%
Net earnings	933	992	-6%	2,201	1,128	95%
Per share diluted	0.03	0.03	0%	0.06	0.04	50%
Number of shares outstanding						
Basic	37,908,819	31,257,483	21%	37,634,643	29,473,165	28%
Diluted	38,192,163	31,830,097	20%	38,168,496	29,928,059	28%

(1) Refer to the "NON-GAAP MEASURES" section for further details.

OVERALL PERFORMANCE

IROC's revenue for the third quarter ended September 30, 2006 increased 96%, from \$8.9 million to \$17.4 million compared to the same period in 2005. Revenue for the nine months ended September 30, 2006 increased 156% from \$18.8 million to \$48.0 million year over year. The increases in both the three and nine months were achieved by increased equipment capacity from internal growth initiatives, business acquisitions completed in fiscal 2005 and price increases in certain divisions. Improvements in overall operating results reflect the impact of strategic growth plans initiated in fiscal 2005 and that continued through 2006 to expand the services offered by IROC. Significant growth and expansion throughout the past year within the original safety and monitoring division, development of the service rigs and environmental divisions, the addition of the downhole tools subsidiary and the establishment of a rental and fishing tools division has resulted in a changing mix of revenues, costs and margins for IROC in the first nine months of 2006 as compared to the first nine months of fiscal 2005.

EBITDA for the nine months ended September 30, 2006 was \$9.5 million or \$0.25 per share, a 155% increase as compared to \$3.7 million, or \$0.12 per share, in the same period of 2005. For the three months ended September 30, 2006 EBITDA was \$4.0 million, an increase of 82% compared to the same period of 2005. The increase in EBITDA is a result of the substantial growth in revenue as noted above. EBITDA as a percentage of revenue was 19.7% and 19.8% for the nine months ended September 30, 2006 and 2005, respectively. The continuing investment in the infrastructure of the Corporation and costs associated with the organic growth initiatives undertaken during the year while maintaining a stable EBITDA demonstrates management's commitment to cost controls.

The Corporation recorded net earnings of \$0.9 million, or earnings of \$0.03 per share, for the three months ended September 30, 2006 compared to net earnings of \$1.0 million, or earnings of \$0.03 per share, for the comparable period of 2005. Although net earnings remained flat year over year, earnings before tax increased by 77% to \$1.8 million as compared to \$1.0 million in 2005. The improvement in operating results is further reinforced in the year to date numbers as net earnings increased to \$2.2 million in 2006 from \$1.1 million in the comparable period of 2005 an increase of 95% year over year.

These strong results were delivered in a market where the number of wells drilled in the quarter decreased substantially, and drilling rig utilization declined slightly as compared to 2005. Lower natural gas prices due to concerns over inventory levels negatively impacted the industry late in the third quarter of 2006. The decline in natural gas prices along with continued high storage levels have prompted some producers to reduce their capital programs, particularly in areas of shallow gas drilling, resulting in lower than expected utilization in our Safety, Monitoring and Communications product line. In addition, wet weather in September negatively impacted company wide results.

The Corporation's third quarter financial results begin to reflect the growth initiatives that IROC implemented during the past few quarters. We are confident that our financial performance will continue to improve as the efficiencies associated with more equipment reaching the field are realized. Our capital expenditure program remains in tact at this point based upon continued demand for our products and services, the benefits of which will continue to be seen in the coming months. While IROC continues to perform well financially, management is keenly aware of the environment that it operates in and continues to monitor the market as it affects IROC, its competitors and its customers. The erosion in pricing of natural gas in particular and the recent announcement from the federal government regarding the taxation of trusts could have significant effects upon our business going forward, the extent of which cannot be estimated accurately at this time.

The following is a discussion of the operating segments in which IROC operates:

WELL SERVICING & RENTALS

The Well Servicing and Rentals segment earned revenue for the three months ended September 30, 2006 of \$8.7 million or 50% of total revenue as compared to the corresponding period in 2005 of \$4.8 million or 54% of total revenue representing a 79% increase. For the nine months ended September 30, 2006, revenue of \$24.3 million or 51% of total revenue was contributed by the Well Servicing and Rentals segment compared to \$10.0 million or 53% of total revenue for the same period of 2005. The \$14.3 million or 144% increase in revenue over the same period in 2005 was the result of capital additions during fiscal 2005 and continuing in 2006

coupled with higher utilization and improved pricing in this segment. For the nine months ended September 30, 2006, the Well Servicing and Rental segment has generated positive EBITDA of \$6.7 million compared to \$2.9 million in the same period of 2005 an increase of 131%. The increase is a direct result of the substantial growth in revenue from the capital additions completed over the past year as well as continued focus on controlling costs in the current operating environment.

Eagle Well Servicing (“Eagle”) increased its fleet of service rigs to 21 during the third quarter and all rigs were actively working during the quarter. Overall, Eagle experienced solid equipment utilization through the summer of 2006 as a result of good weather in July and August in Western Canada hampered in part by wet weather in the latter half of September which impacted activity. Eagle plans to build 2 additional double service rigs by the end of 2006 to bring its total fleet of service rigs to 23 by the end of 2006. Our original estimate of 28 rigs by fiscal year end 2006 will not be achieved due to delays and constraints in the manufacturing process. The remaining 5 rigs will be rescheduled in the capital build program for fiscal 2007. Eagle continued to meet its targeted numbers during the first nine months of 2006 and expects this trend to continue as the additional rigs are deployed to the field throughout the remainder of 2006 and into next year.

Aero Rentals is our newest division. Aero Rentals commenced commercial operations late in the third quarter of 2006. Aero Rentals provides rental equipment for surface pressure control in drilling and workover operations and tubular handling equipment in the workover, re-entry and completion areas. Late in the third quarter IROC acquired all of the assets and operations of Fast Oilfield Rentals Ltd. (“Fast”), a business involved in similar operations to that which Aero Rentals has been developing in Central Alberta. The acquisition of the assets from Fast provides the Corporation with strategic geographic locations in Northern Alberta and allows the Corporation to meet the growing demand for equipment and services by customers within this service line. We expect the fourth quarter to represent the first full quarter of operations for Aero Rentals and we will continue to execute on the original organic capital growth plan. For the nine months ended September 30, 2006, this division acquired capital assets totalling approximately \$3.7 million, including the assets acquired from Fast, with revenues being realized late in the third quarter as equipment is now being deployed to the field.

ENVIRONMENTAL SERVICES

Revenue for the third quarter ending September 30, 2006 was \$2.8 million or 16% of total revenue as compared to \$1.8 million or 21% of total revenue during the same period in 2005, which represents a 51% increase. During the nine months ended September 30, 2006 Environmental Services contributed \$7.5 million or 16% of total revenue as compared to \$3.2 million or 17% of total revenue for the corresponding period of 2005 representing an increase of 139%. The \$4.4 million increase year over year is a result of the addition of the lease construction and heavy hauling equipment and personnel during the third quarter of 2005 that allowed the Corporation to expand both in the array of services it offers as well as being able to service customers over a wider geographical area. EBITDA for the nine months ended September 30, 2006 was \$0.3 million as compared to \$0.3 million for the comparative period of 2005.

The Envirocore division continues to focus on internally generated growth initiatives to grow its lease construction and environmental consulting business. A growing backlog of wells requiring abandonment and a focus by oil and gas companies on new production are creating increasing opportunity in this area, which Envirocore intends to continue building on throughout 2006. Envirocore is gaining some traction in its complete abandonment business.

SAFETY, MONITORING, AND COMMUNICATION SERVICES

The Safety, Communication and Monitoring segment generated revenue of \$2.8 million or 16% of the Corporation's total revenue for the three months ended September 30, 2006, compared to \$2.2 million or 25% of total revenue in fiscal 2005. For the first nine months of 2006, \$7.2 million or 15% of the Corporation's total revenue was derived from Safety, Communication and Monitoring segment as compared to \$5.6 million or 30% for the same period in 2005. The \$1.6 million or 28% increase in revenue over the same nine month period of 2005 was the result of continued building of equipment and improved equipment utilization in most services. The continued development of the communication technology and infrastructure combined with the advancements and the build out of additional S.M.A.R.T.TM units had a negative impact on EBITDA. Continued focus on marketing efforts in these services should continue to develop new revenue sources from

additional customer and increase revenues from existing customers. The investment in the growth of this segment should over time have a positive impact on EBITDA margins and leverage of the fixed cost structure. EBITDA for the nine months ending September 30, 2006 in the Safety, Communication & Monitoring division of \$0.8 million compared to the corresponding period in 2005 of \$0.7 million, a 16% increase.

DOWNHOLE TOOLS

Canada Tech Corp. (“Canada Tech”) was acquired by IROC on October 31, 2005. Canada Tech is a developer, manufacturer and marketer of a wide line of tools and systems that measure pressures and temperatures in the downhole and surface environment of oil and gas wells, which forms the Downhole Tools operating segment.

During the three months ended September 30, 2006 the Downhole Tools operating segment generated revenues of \$3.2 million or 18% of total revenue. For the nine months ended September 30, 2006, revenue of \$9.0 million or 19% of total revenue was generated by the Downhole Tools operating segment. The Downhole Tools segment EBITDA was \$1.6 million (18% of revenue) for the first nine months of fiscal 2006. No comparatives have been shown as this division was purchased in the fourth quarter of fiscal 2005. The Downhole Tools segment has performed as expected for the first nine months of 2006. The Downhole Tools segment does not generally experience the seasonal impact that the other businesses that IROC operates in due to international exposure and can therefore be looked to for consistent EBITDA returns from quarter to quarter.

RESULTS OF OPERATIONS

Revenue

Revenue of \$17.4 million was generated during the third quarter of 2006 compared to \$8.9 million for the same period in 2005, an increase of 96%. For the nine months ended September 30, 2006, IROC recorded revenue of \$48.0 compared to \$18.8 million in the same period of 2005, an increase of 156%. The period over period increases are due to the effect of corporate acquisitions in 2005, significant capital expenditures on equipment in 2005 and in the first nine months of 2006 coupled with increased activity in all product lines.

A summary of the IROC’s mix of revenues from our operating segments is shown in the following table and demonstrates the changes that have occurred in revenue sources:

REVENUE SOURCE	<u>Three months September 30,</u>		<u>Nine months September 30,</u>	
	2006	2005	2006	2005
Well Servicing and Rentals	50%	54%	50%	53%
Safety, Monitoring, Communications	16%	25%	15%	30%
Environmental Services	16%	21%	16%	17%
Downhole Tools	18%	0%	19%	0%
TOTAL	100%	100%	100%	100%

Operating Costs and Gross Margin

For the three months ended September 30, 2006 direct costs were \$10.9 million (63% of revenue) as compared to \$5.8 million (65% of revenue) in the comparable period of 2005. Operating costs for the nine months ended September 30, 2006 were \$31.7 million (66% of revenue) as compared to \$12.6 million (67% of revenue) in the corresponding period of 2005. Gross margin increased when comparing the third quarter of 2006 and the comparable quarter of 2005 moving to 37% in 2006 versus 35% for the corresponding period in 2005. Gross margin for the nine month period of 2006 was 34% compared to 33% in the comparable period of 2005. We anticipate margins for fiscal 2006 should estimate in the range of 34% to 35% overall.

Significant growth and expansion through the increases in the service rig fleet, development of the environmental and rental and fishing services divisions and the acquisition of Canada Tech has resulted in a substantially different mix of revenues, costs and margins for the IROC group of companies in 2006 as

compared to the same period of 2005. Given the increased cost structure overall to conduct business in the oil and gas services industry, IROC has managed to contain costs as compared to revenues despite the fact that labour, fuel, equipment and many other operating costs have escalated. An increase in pricing on service rigs was implemented effective October 1, 2006 and should contribute positively to gross margins during the fourth quarter and into fiscal 2007. The price increase will be partially offset by increases in wages commensurate with the increase in pricing.

General and Administrative Expenses:

General and administrative expenses (“G&A”) for the three month period ended September 30, 2006 were \$2.4 million (14.3% of revenue) compared to \$0.9 million (10.4% of revenue) in the comparable period of 2005. G&A increased from \$2.4 million (13.0% of revenue) for the nine months ended September 30, 2005 to \$6.9 million (14.4% of revenue) for the same period in 2006. The year over year increase of \$4.5 million is primarily attributable to our continued investment in the overall infrastructure costs in IROC to appropriately support and manage the growth of our businesses which includes additional capital equipment in all services, the establishment of a new business line, Aero Rentals and Fishing Services as mentioned previously and continued expansion of our manufacturing capabilities in Canada Tech. There has been an overall head count increase consistent with the growth of in the past 18 months, coupled with higher employee compensation costs to remain competitive in the industry and increased consulting costs to address the immediate demands of our business. We also incurred higher than anticipated professional fees due to the conversion to a partnership structure during the current fiscal year, which provides for a more favourable income tax structure that fits the chosen growth strategy. All of these increases in G&A negatively impact the operating results of the Corporation in the immediate term as revenue related to these growth initiatives takes time to develop positive contributions. Costs continue to be incurred related to the growth of the Corporation’s infrastructure and we continue to review all areas for reductions where appropriate.

Included in G&A for the year is stock-based compensation expense totaling \$0.8 million for the nine months ended September 30, 2006 compared to \$0.2 million in the comparable period of 2005 contributing to the overall increase in G&A. The Corporation utilizes a stock option plan as part of its incentive compensation arrangements for key employees. The increase in stock-based compensation expense can be attributed to the increase in stock options granted during fiscal 2006 as a result of new employees being granted stock options as part of their incentive compensation to remain competitive in the industry. The impact of stock-based compensation expense has a non-cash impact on the operating results of the Corporation, however, the amount expensed represents the estimated fair value of the stock options granted using various assumptions using the Black-Scholes option pricing model, and is an estimate of the compensation expense dependant upon certain conditions existing at the time of granting of the related stock options.

Depreciation and Amortization:

For the three months ended September 30, 2006 depreciation expense and amortization of intangible assets totalled \$1.6 million, an overall increase of 60% compared to \$1.0 million of depreciation and amortization in the corresponding period of 2005. For the nine month period ended September 30, 2006 depreciation expense, amortization of intangible assets and deferred financing costs totalled \$4.4 million compared to \$2.3 million in the corresponding period of 2006 for an overall increase of \$2.1 million. The increases are a direct result of the Corporations prior business acquisitions and increases in the depreciable asset base from internal capital build programs. Depreciation and amortization was 9.4% and 11.5% of revenues for the three month periods of 2006 and 2005 respectively. For the nine months ended September 30, 2006 and 2005, depreciation and amortization was 9.2% and 12.3% of revenues respectively demonstrating the immediate effect of increased revenue from new equipment additions.

Interest Expense:

Interest expense increased by \$0.4 million and \$1.0 million for the three and nine months ended September 30, 2006 compared to the same periods in 2005. The increase is due in part to the issue of \$7 million of three year 8% unsecured debentures in the third quarter of fiscal 2005 as well as an increased level of debt being carried in 2006 compared to 2005, arising from the Corporation’s investment in internal capital expenditures and acquisitions during fiscal 2005 and 2006. Interest has also increased as a result of increased interest rates over the past year as much of the debt has variable interest rates tied to the prime rate of interest.

Gain on disposal of Property and Equipment:

For the nine months ended September 30, 2006, the gain on disposal of property and equipment was \$35,679 compared to a gain of \$0.2 million for the prior year period. There were no disposals during the three month period ended September 30, 2006 that resulted in any gains or losses in disposal. The current year gains relate to the sale or disposal of service equipment during the first nine months of 2006.

Income taxes:

The total income tax expense for the nine months ended September 30, 2006 totalled \$1.5 million as compared to \$0.1 million in the corresponding period of 2005. At the expected combined rate of 32.49%, net earnings before income taxes for the nine months ended September 30, 2006 of \$3.7 million would have resulted in an income tax provision of approximately \$1.2 million compared to the actual provision booked of \$1.5 million. There was a reduction of approximately \$0.4 million for announced reductions in the federal and provincial corporate tax rates, offset by a provision of \$0.6 million for non-deductible and other items for income tax purposes. The increase in the future income tax expense year over year for the nine months ended September 30, 2006 is also impacted by the conversion to a partnership structure resulting in the deferral of income tax to future periods. The current income tax expense relates entirely to Canada Tech which is currently taxable and is not included in the partnership structure at this time.

SUMMARY OF QUARTERLY RESULTS

The following table presents the unaudited selected financial data for each of the last eight quarters of the Corporation ended September 30, 2006.

(Expressed in thousands of \$'s, except per share amounts – “Unaudited”)

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	2006	2006	2006	2005	2005	2005	2005	2004
Revenue	\$17,399	\$11,644	\$19,000	\$15,155	\$8,864	\$4,050	\$5,836	\$4,475
Net earnings (loss)	933	(781)	2,048	1,025	992	(428)	564	477
Per share – basic	0.03	(0.02)	0.05	0.03	0.03	(0.01)	0.02	0.02
Per share - diluted	0.03	(0.02)	0.05	0.03	0.03	(0.01)	0.02	0.02

Seasonality and Weather:

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.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2006 the Corporation had negative working capital of \$6.2 million as compared to the positive working capital at December 31, 2005 of \$ 1.8 million. The reason for the reduction in the working capital is a result of the callable features that are attached to the debt facilities. Under Canadian GAAP any debt that contains a demand feature is required to be classified as a current liability. During the nine months ended September 30, 2006 the Corporation utilized its existing credit facilities to acquire capital assets under its previously announced capital budget which has increased the total current liabilities as at September 30, 2006. The entire amount of the callable debt of \$18.4 million is under an interest only payment facility as described below and if not for the demand feature would be reclassified in part as a long-term obligation.

On July 27, 2006, the Corporation executed a \$35 million credit facility agreement. The facility consists of a demand operating credit line of \$10 million, an extendible revolving capital acquisition facility of up to \$20 million to finance corporate and internal growth and a \$5 million lease line. The extendible revolving capital acquisition facility of up to \$20 million requires no principal payments during the term and the facility expires on July 26, 2007 renewable at the lenders option, for an additional 364 day period. If not renewed, the facility is repayable over a period of three years. Upon entering into this agreement all of the outstanding callable term debt at September 30, 2006 was refinanced under the extendible revolving capital facility. This will allow the Corporation more flexibility with its cash flow and to continue to execute its organic growth plans. All covenants of the new banking facility were satisfied at September 30, 2006. The Corporation does not anticipate any covenant issues restricting its future operating, investing or financing activities.

Future cash requirements will be met through funds from operations, bank financing or the issuance of equity as available. The Board of Directors, in conjunction with management, will determine the appropriate course of action as conditions dictate. Management considers the resources available sufficient to fund IROC's existing commitments and working capital requirements for at least the next year

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.

IROC's contractual financial obligations are summarized as follows:

Contractual Obligations	Total	Payments Due by Period			
		Next 12 months	1-3 years	4-5 years	After 5 years
Long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -
Obligations under capital lease	\$ 2,886,958	\$ 880,749	\$ 1,834,535	\$ 171,674	\$ -
Operating leases	\$ 8,740,957	\$ 2,405,875	\$ 4,485,082	\$ 970,000	\$ 880,000
Total Contractual Obligations	\$11,627,915	\$ 3,286,624	\$ 6,319,617	\$1,141,674	\$ 880,000

CAPITAL EXPENDITURES

Capital expenditures for the nine months ended September 30, 2006 were \$14.2 million, which included \$1.4 million for deposits on assets under construction. These expenditures were financed using cash from operations and debt financing with the addition of several small capital leases. The following is summary of the various capital expenditures incurred during the first nine months of 2006:

- \$ 8.9 million for service rigs and related equipment;
 - 1.4 million for rental and fishing services equipment;
 - 0.8 million for heavy equipment in environmental services segment ;
 - 1.1 million for downhole tools manufacturing and development;
 - 0.4 million for safety, communication and monitoring assets; and
 - 1.6 million for other ancillary operating equipment and infrastructure costs.
- \$14.2 million

The largest expenditures were for the continued acquisition and construction of service rigs and related equipment. Capital expenditures were also incurred for the continued development of communication assets in our communications group as demand grows for these services. The start up of Aero Rentals and Fishing Services division continues with assets being purchased during the third quarter of 2006 which is expected to continue through the remainder of the year. Assets in the Aero Rentals and Fishing division were deployed to the field during the third quarter and have began contributing positively to operations and should continue into the fourth quarter of 2006 as activity increases. Additions continue in Canada Tech Corp. for the continuing research and development of their industry leading products and expanded manufacturing capabilities. The remainder of the capital costs incurred was spread over an array of support equipment.

As noted previously, from unanticipated delays by suppliers in the manufacturing of equipment we expect that a portion of our capital build program will be carried over into fiscal 2007 and will form part of a revised internal capital build program as we continue to focus on internal growth initiatives to expand equipment offered in each of our service lines. As a result of our strategy to organically grow our capital asset base, IROC's capital assets, as a whole, are in new or like new condition due to the rapid expansion of the asset base over the recent past. The service rigs being deployed to the field during the past two years are effectively new and represent a large percentage of the Corporation's overall fixed assets.

STRATEGIC ACQUISITIONS

On September 1, 2006, IROC closed the purchase of the operating assets of Fast Oilfield Rentals Ltd. ("Fast"), a business involving oilfield rental assets for approximately \$2.8 million which was paid with cash using the debt facilities entered into during the third quarter. The acquisition is complimentary to the start-up of Aero Rentals and Fishing Services and provides important geographic diversity for our fleet of assets within Northern Alberta as a result of it operating bases in Grande Prairie, AB and Valley View, AB.

OUTSTANDING SHARE DATA

Balance at January 1, 2006	37,389,730
Issued on exercise of options	335,000
Issued on exercise of warrants	292,350
Balance at October 31, 2006	38,017,080

OFF BALANCE SHEET ARRANGEMENTS

IROC has not entered into any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of its operations or its financial condition.

TRANSACTIONS WITH RELATED PARTIES

There were no transactions with related parties during the nine month period ended September 30, 2006.

CRITICAL ACCOUNTING ESTIMATES

In the opinion of management, the material accounting estimates in the financial statements as contained herein involve property and equipment, stock-based compensation, goodwill, intangible assets, the determination of depreciation and amortization expense and allowance for doubtful accounts receivable.

The value of property and equipment, goodwill and intangible assets are subject to market conditions in the oil and gas industry. Depreciation is determined taking into account the estimated useful lives of assets and their residual values. These estimates could change for a variety of reasons, including, but not limited to, abnormal wear and tear conditions and changes in technology and other economic factors that could result in obsolescence. Such changes could have a material effect on future depreciation expense. A schedule of these estimates is contained in the notes to the audited annual consolidated financial statements.

Stock-based compensation expense, associated with stock options at grant date, is subject to changes in risk-free interest rates and unit price volatility. This estimate may vary due to changes in actual share price.

The Corporation performs credit evaluations of its customers and grants credit based on past payment history, financial conditions and anticipated industry conditions. Customer payments are monitored regularly and an allowance for doubtful accounts provision is established based on specific situations. Given the cyclical nature of the oil and gas industry, these credit risks are subject to change.

CHANGES IN ACCOUNTING POLICIES

During the nine months ended September 30, 2006, the Corporation established a new business, Aero Rental and Fishing Services, a division of the IROC Energy Services Partnership. IROC will continue to build out the rental inventories through the end of fiscal 2006 and commenced active operations during the latter part of the third quarter of 2006. Accordingly the Corporation has capitalized the pre-operating expenditures related to the start up of the new business, net of incidental revenues. These expenditures are deferred and amortized over a period of five years upon commencement of commercial operations.

FINANCIAL INSTRUMENTS

IROC's financial instruments consist of accounts receivable, an operating line of credit, long-term debt and accounts payable and accrued liabilities. There are no significant differences between the carrying values of these financial instruments and their estimated fair values. Of IROC's financial instruments, only its accounts receivable represents credit risk. Management views the credit risks with its customers as normal for the industry.

NON-GAAP MEASURES

The financial statements have been prepared in accordance with GAAP. Certain supplementary information and measures not recognized under GAAP are provided where Management believes they assist the reader in understanding IROC's results. These measures include:

1. EBITDA - EBITDA is defined as earnings before interest, taxes, depreciation and amortization, foreign exchange gains and losses and gains or losses on disposal of property and equipment. EBITDA and EBITDA per share are not recognized measures under GAAP. Management believes, however, that EBITDA is provided as a measure of operating performance without reference to financing decisions and income tax impacts, which are not controlled at the operating management level. Accordingly, management believes EBITDA is a useful measure for prospective investors in evaluating the financial performance of the Corporation, and specifically, the ability of the Corporation to service the interest on its indebtedness. Investors should be cautioned, however, that EBITDA should not be construed as an alternative to net income determined in accordance with GAAP as an indicator of the Corporation's performance. IROC's method of calculating EBITDA may differ from those of other companies, and accordingly, EBITDA may not be directly comparable to measures used by other companies.

The following is a reconciliation of EBITDA to net income:

<i>(in thousands of dollars)</i>	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net earnings	\$933	\$992	\$2,201	\$1,128
Add:				
Depreciation and amortization	1,642	1,023	4,398	2,300
Interest on debt	315	181	647	336
Interest and accretion on debentures	236	0	708	0
Foreign exchange (gain) loss	(1)	0	40	0
Gain on disposal of equipment	0	(29)	(36)	(182)
	<u>3,125</u>	<u>2,167</u>	<u>7,958</u>	<u>3,582</u>
Income taxes:				
Current (recovery)	216	(16)	448	0
Future reduction	644	37	1,049	124
EBITDA	3,985	2,188	9,455	3,706

BUSINESS RISKS

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 Corporation'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 Corporation 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 Corporation's products and services. A material decline in oil or gas prices or Canadian industry activity could have a material adverse affect on the Corporation's business, results or operations and prospects.

The Corporation'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 Corporation 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 Corporation could have a material adverse effect on the Corporation's business, results of operation and prospects.

ENVIRONMENT

All phases of IROC's business could be affected by changes to environmental legislation and regulations in the various jurisdictions in which the Corporation operates. While the Corporation expects that environmental legislation is evolving in a manner, which will enhance the value of the Corporation'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.

FOREIGN OPERATIONS

A portion of the Downhole Tools operating segment revenues are to customers with international operations. International sales are subject to inherent risk, including variations in local economies, fluctuating exchange rates, greater difficulty in collection of accounts receivable, changes in tariffs and other trade barriers, adverse foreign talks, tax consequences and burdens of complying with a variety of foreign laws. Canada Tech may also encounter exchange rate risk in the event that international sales are denominated in currency other than Canadian dollars.

The Corporation's financial results are reported in Canadian dollars. A portion of the Downhole Tools segment revenue and accounts receivables are frequently denominated in currencies other than the Canadian dollar. Fluctuations in the exchange rate between these other currencies and the Canadian dollar could reduce the Corporation's reported revenue, increasing the Corporation's costs or give rise to a change related to foreign currency transactions, all of which could materially effect operating results.

DISCLOSURE CONTROLS

In accordance with Multilateral Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Corporation's President and Chief Executive Officer and Chief Financial Officer have designed, or have caused to be designed under their supervision, disclosure controls and procedures. The President and Chief Executive Officer and the Chief Financial Officer, after evaluating the effectiveness of the Corporation's disclosure controls and procedures as at September 30, 2006, have concluded that the Corporation's disclosure controls and procedures provide reasonable assurance that (i) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed summarized and reported within the time periods specified in the provincial and territorial securities legislation; and (ii) material information relating to the Corporation is accumulated and communicated to the Corporation's management, including the President and Chief Executive Officer and the Chief Financial Officer, in a timely manner.

OUTLOOK

IROC has not experienced a slow down in demand for most of its services, outside of normal seasonal factors. Toward the end of the third quarter of 2006 the prices of natural gas decreased sharply over continued concerns in the high North American natural gas storage levels. Oil prices also decreased in the third quarter but remain at high levels. The commodity pricing outlook has changed significantly as we head into the final quarter of 2006. Natural gas, which has been the main driver behind activity, has gone through a period of reduced demand due to a number of factors as noted above. Increasingly, producers are reviewing their gas exploration, drilling and development programs in light of the lower prices. Many are adjusting activities and spending toward deeper natural gas or conventional oil and heavy oil exploration and production. We expect that there will be lower overall industry activity in the near term drilling activities of producers in shallow gas related exploration. However, management feels that drilling activity should recover as the surplus gas storage levels are diminished moving into the latter part of 2007.

Activity so far in the fourth quarter has recovered from the end of the third quarter but has been impacted by normal early winter conditions during which rain and snowfall slows activities and reduces utilization of equipment. For the balance of the fourth quarter management expects that our customers will continue with their planned activities for 2006. Overall, we remain cautious with respect to the level of industry activity for the fourth quarter of 2006 and into early 2007. IROC management is prepared to respond quickly to any prolonged or broader based slowdown in the industry.

Management at IROC intends to continue growing the Corporation organically to reduce the risks associated with the current environment; however, we continue to evaluate opportunities that represent a strategic fit to our current or future product lines. Our capital expenditure plan remains focused on internal growth initiatives and will continue into fiscal 2007 based on continued demand for our products and services. New equipment meets industry standards and regulations, helps attract personnel to our company and leaves us with an operating advantage from a cost perspective during the next few years. We have the benefit of being diversified geographically and across product lines. Management believes this will provide for superior relative performance in the competitive oil and gas service business.

"Tom Alford"
Mr. Thomas M. Alford
President & Chief Executive Officer

"Kevin Howell"
Mr. Kevin W. Howell, CA
Chief Financial Officer

For further information, please contact:

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Consolidated Financial Statements of

IROC SYSTEMS CORP.

Three and nine months ended September 30, 2006 and 2005

IROC SYSTEMS CORP.

Consolidated Balance Sheets

(Unaudited)

	September 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash	\$ 710	\$ 187,624
Accounts receivable	17,308,964	14,113,971
Inventory	4,012,102	1,774,917
Prepaid expenses and deposits	2,117,079	752,739
Income taxes recoverable	—	177,743
	<u>23,438,855</u>	<u>17,006,994</u>
Property and equipment	47,495,934	35,603,936
Intangible assets (note 4)	6,387,114	6,283,771
Goodwill	7,050,484	7,050,484
	<u>\$84,372,387</u>	<u>\$65,945,185</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating line of credit (note 5)	\$ 3,383,518	\$ 1,452,646
Accounts payable and accrued liabilities	6,723,455	5,770,933
Income taxes payable	190,542	—
Callable debt (note 5)	18,440,792	6,945,608
Current portion of long-term debt	880,749	1,012,394
	<u>29,619,056</u>	<u>15,181,581</u>
Long-term debt	2,006,209	3,146,583
Deferred revenue	—	216,276
Debentures	6,265,285	5,977,780
Future income taxes	2,125,454	1,076,134
Shareholders' equity:		
Share capital (note 6)	37,480,668	36,118,511
Warrants (note 6 (e))	828,415	1,150,000
Contributed surplus (note 6 (d))	1,596,203	827,973
Retained earnings	4,451,097	2,250,347
	<u>44,356,383</u>	<u>40,346,831</u>
	<u>\$84,372,387</u>	<u>\$65,945,185</u>

See accompanying notes to the interim consolidated financial statements.

Approved on behalf of the Board:

"Tom Alford" Director

"Brian Neeland" Director

IROC SYSTEMS CORP.

Consolidated Statements of Earnings and Retained Earnings

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Revenue	\$17,398,712	\$ 8,864,479	\$48,042,665	\$18,750,605
Expenses:				
Operating	10,919,040	5,752,380	31,664,431	12,603,413
General and administrative	2,495,205	923,780	6,923,809	2,440,280
Interest on long-term debt	314,974	181,491	646,791	336,148
Interest and accretion on debentures	235,835	—	707,505	—
Depreciation and amortization	1,641,514	1,022,947	4,397,894	2,300,164
Gain on disposal of equipment	—	(29,104)	(35,679)	(182,092)
Foreign exchange (gain) loss	(896)	—	39,844	—
	15,605,672	7,851,494	44,344,595	17,497,913
Earnings before income taxes	1,793,040	1,012,985	3,698,070	1,252,692
Income taxes (recovery):				
Current	216,000	(16,302)	448,000	—
Future	643,882	37,000	1,049,320	124,279
	859,882	20,698	1,497,320	124,279
Net earnings	933,158	992,287	2,200,750	1,128,413
Retained earnings at beginning of period	3,517,939	233,002	2,250,347	96,876
Retained earnings at end of period	\$ 4,451,097	\$ 1,225,289	\$ 4,451,097	\$ 1,225,289
Earnings per share:				
Basic	\$ 0.03	\$ 0.03	0.06	\$ 0.04
Diluted	\$ 0.03	\$ 0.03	0.06	\$ 0.04
Weighted average number of shares outstanding:				
Basic	37,908,819	31,257,483	37,634,643	29,473,165
Diluted	38,192,163	31,830,097	38,168,496	29,928,059

See accompanying notes to the interim consolidated financial statements.

IROC SYSTEMS CORP.

Consolidated Statements of Cash Flow

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Cash provided by (used in):				
Operations:				
Net earnings	\$ 933,158	\$ 992,287	\$ 2,200,750	\$ 1,128,413
Items not affecting cash:				
Depreciation and amortization	1,641,514	1,022,947	4,397,894	2,300,164
Future income taxes	643,882	37,000	1,049,320	124,279
Stock-based compensation	142,730	86,563	806,039	152,944
Non-cash accretion on debentures	95,835	31,945	287,505	35,040
Gain on disposal of property and equipment	—	(29,104)	(35,679)	(182,092)
	3,457,119	2,141,638	8,705,829	3,558,748
Changes in non-cash working capital balances	(3,713,540)	(6,465,669)	(4,270,654)	(8,346,873)
	(256,421)	(4,324,031)	4,435,175	(4,788,125)
Investing:				
Purchase of property and equipment	(4,728,502)	(4,152,500)	(14,185,229)	(10,137,862)
Business acquisitions, net of cash acquired (note 3)	(2,868,400)	—	(2,868,400)	160,521
Intangible asset expenditures (note 4)	(438,014)	—	(770,517)	—
Proceeds on sale of property and equipment	10,348	59,593	120,257	308,724
	(8,024,568)	(4,092,907)	(17,703,889)	(9,668,617)
Financing:				
Issue of callable debt (note 5)	18,440,792	298,214	18,440,792	5,487,832
Operating line of credit	(2,772,324)	816,290	1,930,872	2,167,420
Issue of common shares	183,750	15,933	1,031,541	102,683
Issue of non-convertible debentures	—	6,960,000	—	6,960,000
Proceeds of capital lease obligations	—	787,858	714,331	787,858
Repayment of callable term debt	(6,019,279)	(454,194)	(6,945,608)	(1,010,122)
Repayment of obligations under capital lease	(1,448,172)	(38,822)	(1,986,350)	(88,591)
Deferred financing costs	(75,000)	—	(75,000)	—
Share issue costs	(28,778)	—	(28,778)	—
	8,280,989	8,385,279	13,081,800	14,407,080
Decrease in cash	—	(31,659)	(186,914)	(49,662)
Cash at beginning of period	710	32,568	187,624	50,571
Cash at end of period	\$ 710	\$ 909	\$ 710	\$ 909

See accompanying notes to consolidated financial statements.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three and nine months ended September 30, 2006 and 2005

1. Basis of presentation:

IROC Systems Corp. (the "Corporation") is a Canadian corporation supplying equipment and personnel to oil and gas contractors and producers. The Safety, Monitoring, and Communication Services segment includes the provision of on-site safety and communication personnel and equipment and remote data monitoring using IROC's S.M.A.R.T. system and downwind monitoring technology. The Well Servicing and Rental segment comprises the operations of Eagle Well Servicing which includes the contracting of well servicing equipment and the provision of personnel required to operate the equipment and Aero Rentals and Fishing Services which includes rental equipment focused on surface pressure control and tubular handling equipment. The Environmental Services segment comprises the operations of Envirocore which includes the provision of personnel and equipment in connection with lease construction, remediation, reclamation and abandonment of oil industry related sites. The Downhole tools segment develops, manufactures and markets a wide line of tools and systems that measure pressures and temperatures in the downhole and surface environment of oil and gas wells.

These interim unaudited consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles for interim financial statements and follow the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2005 except as noted below. The disclosures provided below are incremental to those included in the annual consolidated financial statements such that these interim financial statements and the notes thereto should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2005 contained in the Corporation's 2005 annual report.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end and the results of operations for the interim periods shown in these statements are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments necessary to present fairly the consolidated results of the Corporation's operations and cash flows for the three and nine months ended September 30, 2006 and 2005.

Research and development costs:

The Corporation invests resources in the development of improved and new products, which are expensed in the year incurred. These expenditures qualify for research and development investment tax credits. These credits are estimated annually and are reflected as a reduction of product development expenses.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three and nine months ended September 30, 2006 and 2005

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.

3. Acquisitions:

On September 1, 2006, the Corporation purchased substantially all of the operating assets of Fast Oilfield Rentals Ltd., a business involved in oilfield rentals and services. The purchase price of \$2,868,400 was paid by way of \$2,836,400 in cash, plus transaction costs of \$32,000.

The purchase price was allocated to the estimated fair values as follows.

Inventory	\$ 61,933
Property and equipment	2,731,740
Intangible assets	74,727
	<hr/>
	\$2,868,400
	<hr/>
Consideration:	
Cash, including costs	\$2,868,400

The Corporation is in the process of completing the appraisal of the acquired assets.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three and nine months ended September 30, 2006 and 2005

4. Intangible assets:

Intangible assets consist of the following:

			September 30, 2006	December 31, 2005
	Cost	Accumulated amortization	Net book value	Net book value
Intangible assets	\$ 6,559,099	\$ 1,004,268	\$ 5,554,831	\$ 6,261,663
Deferred financing costs	101,552	26,944	74,608	22,108
Pre-operating expenditures	770,517	12,842	757,675	–
	\$ 7,431,168	\$ 1,044,054	\$ 6,387,114	\$ 6,283,771

The intangible assets are comprised primarily of customer lists, patents, trademarks, non-competition agreements and development costs on products which were acquired as part of business acquisitions completed during fiscal 2005 and 2006.

The deferred financing costs consist of a commission paid in connection with the issue of debentures during fiscal 2005 which is being amortized over three years, representing the term of the debentures, and a fee paid in connection with the credit facility agreement entered into in 2006 (note 5) which is being amortized over twelve months, representing the term of the credit facility.

The pre-operating expenditures relate to the start-up of a new business and are recorded at cost, net of incidental revenues. These expenditures will be deferred and amortized over a period of five years upon commencement of commercial operations of the related business venture. The corporation began amortization of the pre-operating expenditures related to the rental and fishing tools division during September 2006 as commercial operations had commenced.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three and nine months ended September 30, 2006 and 2005

5. Operating line of credit and callable debt:

On July 27, 2006, the Corporation executed a \$35 million credit agreement. The facility consists of a demand revolving operating credit line of \$10 million bearing interest at prime plus 0.75%, an extendible demand revolving acquisition facility of up to \$20 million bearing interest at prime plus 1.0%, and a \$5 million lease line bearing interest at various rates depending on the term of the lease entered into. All three facilities are secured by a general assignment of book debts and a general security agreement covering all of the assets of the Corporation and its subsidiaries. The extendible demand revolving acquisition facility of up to \$20 million requires no principal payments during the term and the facility expires on July 26, 2007 renewable at the lenders option, for an additional 364 day period. If not renewed, the facility is repayable over a period of three years.

Upon entering into this agreement all of the outstanding callable term debt was refinanced under the extendible demand revolving acquisition facility.

6. Share capital:

(a) Authorized:

Unlimited number of voting common shares without nominal or par value

(b) Issued:

	Number	Amount
Balance at December 31, 2005	37,389,730	\$36,118,511
Issued on exercise of options	335,000	338,475
Issued on exercise of warrants	292,350	1,052,460
Share issue costs	—	(28,778)
Balance at September 30, 2006	38,017,080	\$37,480,668

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three and nine months ended September 30, 2006 and 2005

6. Share capital (continued):

(c) Stock options:

Changes in the number of common shares under option during the nine month period ended September 30, 2006 are summarized as follows:

	Number of options	Weighted average exercise price
Total options outstanding, December 31, 2005	1,515,666	\$ 1.95
Granted	1,075,000	3.49
Exercised	(335,000)	0.90
Cancelled	(260,000)	2.72
Outstanding, September 30, 2006	1,995,666	\$ 2.85
Exercisable at September 30, 2006	772,332	\$ 2.31

The average fair value of options outstanding at September 30, 2006 was \$2.10 per option using the Black-Scholes option pricing model.

(d) Contributed surplus:

The Corporation recorded stock-based compensation expense and contributed surplus of \$806,039 (2005 - \$152,944) for the nine months ended September 30, 2006. Contributed surplus was reduced and share capital was increased by \$37,809 (2005 - \$1,339) for options that were exercised during the nine months ended September 30, 2006.

(e) Warrants:

At September 30, 2006 there were 757,650 (2005 - 1,050,000) warrants remaining outstanding entitling holders to purchase common shares of the Corporation at an exercise price of \$2.50 per share exercisable until September 12, 2007 and \$2.70 per share thereafter until maturity. The value of the warrants was reduced and share capital was increased by \$321,585 (2005 - \$1,150,000) for warrants converted during the nine months ended September 30, 2006 representing the fair value assigned to the warrants at the date of issue.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three and nine months ended September 30, 2006 and 2005

7. Supplemental cash flow information:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Interest paid	\$ 575,861	\$ 150,662	\$ 1,313,443	\$ 306,100
Income taxes paid	\$ 79,715	\$ -	\$ 79,715	\$ -

8. Segmented information:

As at September 30, 2006 the Corporation operates in four main operating segments, which are substantially in one geographic segment. The Safety, Monitoring, and Communication Services segment includes the provision of on-site safety and communication personnel and equipment and remote data monitoring using IROC's S.M.A.R.T. system and downwind monitoring technology. The Well Servicing and Rentals segment comprises the operations of Eagle Well Servicing and Aero Rentals and Fishing Services 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 Envirocore which includes the provision of personnel and equipment in connection with lease construction, remediation, reclamation and abandonment of oil industry related sites. The Downhole tools segment develops, manufactures and markets a wide line of tools and systems that measure pressures and temperatures in the downhole and surface environment of oil and gas wells.

Three months ended September 30, 2006	Safety Monitoring Communications	Well Servicing and Rentals	Environmental Services	Downhole Tools	Total
Revenue	\$ 2,773,931	\$ 8,660,284	\$ 2,757,082	\$ 3,207,415	\$17,398,712
Earnings (loss) before taxes	281,853	1,254,686	(60,051)	316,552	1,793,040
Depreciation and amortization	284,356	793,575	226,359	337,224	1,641,514
Capital expenditures*	344,004	3,826,516	74,817	483,165	4,728,502
Total assets	8,216,558	46,353,427	10,302,343	19,500,059	84,372,387
Goodwill	431,924	-	1,339,571	5,278,989	7,050,484

* Does not include property and equipment acquired on business acquisitions.

Three months ended September 30, 2005	Safety Monitoring Communications	Well Servicing and Rentals	Environmental Services	Downhole Tools	Total
Revenue	\$ 2,208,987	\$ 4,828,017	\$ 1,827,475	\$ -	\$ 8,864,479
Earnings before taxes	(202,848)	1,166,606	49,227	-	1,012,985
Depreciation and amortization	421,044	452,248	149,655	-	1,022,947
Capital expenditures*	193,211	2,231,922	1,727,367	-	4,152,500
Total assets	9,619,643	25,725,561	5,812,447	-	41,157,651
Goodwill	431,924	-	1,339,571	-	1,771,495

* Does not include property and equipment acquired on business acquisitions.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three and nine months ended September 30, 2006 and 2005

8. Segmented information (continued):

Nine months ended September 30, 2006	Safety Monitoring Communications	Well Servicing and Rentals	Environmental Services	Downhole Tools	Total
Revenue	\$ 7,169,171	\$ 24,327,174	\$ 7,530,605	\$ 9,015,715	\$48,042,665
Earnings (loss) before taxes	(60,060)	4,042,767	(584,732)	300,095	3,698,070
Depreciation and amortization	766,515	1,979,438	623,905	1,028,036	4,397,894
Capital expenditures*	2,099,870	10,260,998	767,308	1,057,053	14,185,229
Total assets	8,216,558	46,353,427	10,302,343	19,500,059	84,372,387
Goodwill	431,924	—	1,339,571	5,278,989	7,050,484

* Does not include property and equipment acquired on business acquisitions.

Nine months ended September 30, 2005	Safety Monitoring Communications	Well Servicing and Rentals	Environmental Services	Downhole Tools	Total
Revenue	\$ 5,614,462	\$ 9,980,625	\$ 3,155,518	\$ —	\$18,750,605
Earnings (loss) before taxes	(282,099)	1,433,427	101,364	—	1,252,692
Depreciation and amortization	869,169	1,256,221	174,774	—	2,300,164
Capital expenditures*	193,211	8,212,387	1,732,264	—	10,137,862
Total assets	9,619,643	25,725,561	5,812,447	—	41,157,651
Goodwill	431,924	—	1,339,571	—	1,771,495

* Does not include property and equipment acquired on business acquisitions.

9. Comparative figures:

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

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Canadian Western Bank
Red Deer, Alberta

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Chartered Accountants
Calgary, Alberta

LEGAL COUNSEL

McCarthy Tetrault LLP
Barristers & Solicitors
Calgary, Alberta

TRANSFER AGENT

Computershare Investor Services
Calgary, Alberta

TRADING INFORMATION

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DIRECTORS

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Director and Chairman of the Board

Thomas M. Alford
Director

Stuart Watson
Director

William Austin
Director

Jamie Biluk
Director

Grant Fagerheim
Director

Newton (Trey) Wilson, III
Director

OFFICERS

Thomas M. Alford
President and Chief Executive Officer

Kevin W. Howell, CA
Chief Financial Officer

Timothy J. Sebastian
Corporate Secretary

