



2007 FIRST QUARTER REPORT

(UNAUDITED)

Report Contents

TSX: ISC

MARCH 31, 2007

Partnerships
in HEALTH and SAFETY

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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 and its wholly-owned subsidiary companies. The Corporation operates in two main segments as follows:

Drilling and Production Services which includes:

- **Eagle Well Servicing** operates a state-of-the-art fleet of mobile, free-standing single and double service rigs from strategic operations centres in Alberta. Our service rigs incorporate the very latest innovations and technology, enabling customers to achieve an exceptional level of functionality and efficiency.
- **Mission Drilling** is the latest member of the IROC group and brings four new, high quality drilling rigs to our operation. These rigs include the latest industry innovations, providing the highest levels of safety, efficiency and reliability for the benefit of our customers and employees.
- **Aero Rental Services** supplies surface pressure control and tubular handling equipment for workover, re-entry and completion operations, as well as for niche under-balanced and deep drilling applications.
- **Envirocore** specializes in lease construction, including general oilfield construction, lease and well site preparation and road construction. Through experience and hard work, Envirocore has built a reputation for getting the job done safely, efficiently and on time.

Technology Services which includes:

- **Canada Tech Corp**, a subsidiary of IROC, is a highly specialized technology company that develops and manufactures a wide range of memory gauges and permanent monitoring systems for use in harsh operating environments around the world.
- **IROC Safety Services** delivers a diverse offering of safety solutions to the oil and gas industry. With the powerful combination of exceptional products, innovative services and highly qualified people, IROC Safety Services is ready to respond to industry’s safety needs.
- **Oricom**’s air quality monitoring, communication products and support services provide real-time communications from even the most remote locations. We minimize customers’ operational and financial risks while maximizing their ability to respond to emergencies and make decisions with up-to-date and accurate information.



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

Dear Shareholders,

Despite having little visibility entering 2007, IROC Systems Corp. was able to capitalize on its relative strengths and report record revenues, cash flows, and earnings in the first three months of the year. The growth reported year over year, and sequentially, is impressive given the deteriorating operating conditions facing the oilfield service business in Western Canada. A downturn in service activity, initially created by reduced pricing for natural gas and accelerated by the new taxation measures imposed on the royalty trust segment of the oil and gas business, was anticipated to continue after becoming evident in the second half of 2006. Strong operational performance in our Eagle Well Servicing division, the addition of our Mission Drilling assets, continued improvement in our Canada Tech operations, improved financial performance in our communications and monitoring group and the continuing build-out of our rental assets all added up to \$26 million in revenues, a 48% increase over the prior year. Our EBITDAS of \$8.4 million represents a 59% increase over the corresponding period last year and our net earnings of \$3.3 million was 6% greater than our entire year in 2006. The results we are seeing now reflect the core strategy that the company adopted to follow a growth model based on internally generated prospects, building equipment and adding personnel as conditions dictated and being left with the most modern equipment in the segments of the industry that we compete in. In short, the benefits of remaining committed to adding new equipment and trained personnel at a price that makes sense are now beginning to show in our financial performance.

Management expects that our growth will continue, despite less than optimum operating conditions, as we make our way through 2007. The capital expenditures in our service rig and rental businesses during the last 12 months, as well as the addition of our drilling rig assets this year, will continue to fuel increases in revenues. Our currently projected capital expenditures for the year are being funded by investing our free cash flow back into the business segments where opportunity exists for the greatest returns to our shareholders, both in the short and longer term. We have taken delivery of our 25th service rig and expect that we will have an additional 5 deployed by the end of the third quarter of 2007. Additionally, we have expanded our credit facility with the Canadian Western Bank by \$15 million to allow additional flexibility in our growth plans as we move forward.

With drilling activity currently at a ten year low, we can certainly expect that there will be hurdles to overcome during the second and third quarters of the year. That said, the downturn which began nine months ago is beginning to show signs of turning in the other direction. Natural gas pricing, weak during the last half of 2006, has shown strength in recent weeks after the storage surplus was reduced by a colder February and March. Royalty Trusts have begun to react to the new taxation rules and are working to increase production internally, given that their ability to grow through acquisition has been limited. The juniors, perhaps hardest hit by the increased cost of capital brought about by the federal government taxation policies, have begun to align their operations with the new environments and set forth plans going forward. There has been some consolidation in the service industry which will bode well for our business in the future. Oil prices have remained strong, production declines continue and the demand for oil and gas in North America continues to increase year after year. While we do not anticipate demand returning to the levels experienced in 2005 and early 2006 any time soon, we do see a number of factors coming together that will allow IROC Systems to continue its growth in 2007, with significant improvements in service activity benefiting the entire industry beginning in 2008.

As indicated in previous reports to our shareholders, the business principles that have built the company to this point will remain in effect, with internal growth opportunity continuing to be created through our various business segments and geographic exposure. Acquisition opportunities, which we expected becoming more realistic over time as the effects of lessened activity worked their way through the system,

have not yet presented themselves in a suitable form or price for IROC to react upon. Management anticipates that consolidation of like businesses will be inevitable at some point in the cycle.

While portions of the service business in Western Canada are struggling under the current operating environment, IROC has continued to execute its plan which is showing revenue growth and increasing profitability. Our entire team remains committed to acting upon opportunities which will generate longer term benefits for our customers, employees and shareholders. As always, time will tell how we do.

Respectfully submitted,

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

Thomas M. Alford
IROC Systems Corp.
President and CEO



MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

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

| | <u>For the 3 months ended March 31,</u> | | |
|--|---|------------|-----------------|
| | <i>(Unaudited)</i> | | |
| | 2007 | 2006 | % Change |
| Revenue - continuing operations | \$25,961 | \$17,577 | 48% |
| Operating costs | 14,671 | 10,604 | 38% |
| Gross margin | 11,290 | 6,973 | 62% |
| Gross margin % | 43% | 40% | 8% |
| General & administrative expenses | 2,934 | 1,690 | 74% |
| EBITDAS - continuing operations ⁽¹⁾ | 8,356 | 5,283 | 58% |
| Per share diluted | 0.20 | 0.14 | 43% |
| Net earnings - continuing operations | 3,178 | 2,001 | 59% |
| Per share diluted | 0.08 | 0.05 | 60% |
| Net earnings | 3,266 | 2,048 | 59% |
| Per share diluted | 0.08 | 0.05 | 60% |
| Number of shares outstanding | | | |
| Basic | 40,979,302 | 37,630,456 | 9% |
| Diluted | 41,100,275 | 38,558,580 | 7% |

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

The 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 months ended March 31, 2007 as compared to the three months ended March 31, 2006, 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 months ended March 31, 2007 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**".

OVERALL PERFORMANCE

The first quarter of 2007 began with a negative outlook toward natural gas pricing as gas storage levels in North America remained above the five year average. The result of these factors has had a dramatic effect on oil and gas producers in Canada leading to customers reducing their activity levels in natural gas exploration and development for fiscal 2007 and shifting plans toward oil related activities as the fundamentals for this commodity have remained constant. Natural gas has historically represented the bulk of activities in Western Canada and as such expectations were for lower year over year operating results from oil and gas service companies. Despite the conditions of the industry IROC was able to report record revenues, cash flows and earnings for the quarter.

IROC's revenue from continuing operations for the first quarter ended March 31, 2007 increased 48%, from \$17.6 million to \$26.0 million compared to the same period in 2006. Net earnings after the effect of discontinued operations for the three months ended March 31, 2007 was \$3.3 million or \$0.08 per share compared to \$2.0 million or \$0.05 per share for comparable period of the prior fiscal year representing an increase of 59% in net earnings overall. The Corporation recorded net earnings from continuing operations of \$3.2 million, or \$0.08 per share, for the three months ended March 31, 2007 compared to net earnings of \$2.0 million, or \$0.05 per share, for the same comparable period of 2006. The increase was achieved by additional equipment capacity from internal growth initiatives in service rigs and rental assets business lines as well as the purchase of drilling rig assets during the first quarter which contributed to the improved first quarter results. IROC experienced higher than industry average utilization of equipment in certain of its divisions. Improvements in overall operating results reflect the impact of strategic growth plans initiated in fiscal 2005 and that continued through 2007 to expand the services offered by IROC. EBITDAS from continuing operations for the three months ended March 31, 2007 was \$8.4 million or \$0.20 per share, a 59% increase as compared to \$5.3 million, or \$0.14 per share, in the same three month period of 2006. The increase in EBITDAS is a result of the substantial growth in revenue as discussed above. EBITDAS as a percentage of revenue was 32.2% for three months ended March 31, 2007 as compared to 30.1% for the same period of 2006.

IROC's operations are reported in two segments. The Drilling and Production Services segment includes well servicing, contract drilling services, oilfield rental equipment and lease building and road construction product lines. The Technology Services segment includes safety, communications, monitoring and downhole tool product lines. The following is a discussion of the reporting segments in which IROC operates.

DRILLING AND PRODUCTION SERVICES

The Drilling and Production Services segment earned revenue from continuing operations for the three months ended March 31, 2007 of \$19.8 million or 76% of total revenue for the quarter as compared to the corresponding period in 2006 of \$11.5 million or 66% of total revenue. The \$8.3 million or 72% increase in revenue over the same period in 2006 was the result of the first quarter addition of drilling rigs which contributed approximately \$3.5 million of the increase with the remainder coming from capital additions during fiscal 2006 in service rigs and rental assets. Although equipment utilization during the first quarter of 2007 was lower than the comparable period of 2006 as a result of reduced demand in activity in the industry as whole we were able to exceed industry averages for utilization particularly in the well servicing portion of this segment. For the three months ended March 31, 2007, the Drilling and Production Services segment generated positive EBITDAS of \$7.8 million compared to \$4.2 million in the same period of 2006 an increase of 87%. The increase year over year comes from the addition of service rigs whereby the first quarter of 2007 began with 23 service rigs compared to 17 rigs in the first quarter of 2006. The increase was further impacted from the addition of the drilling rig assets during the first quarter which contributed positively to the results and the impact of a larger complement of rental assets as we continue to build-out the Aero Rental Services division which did not exist during the first quarter of 2006.

Eagle Well Servicing ("Eagle"), which comprises a significant portion of the Drilling and Production Services segment, finished the first quarter of 2007 with a fleet of 24 service rigs, an increase of 6 service rigs from the end of the first quarter of fiscal 2006. All 24 rigs were actively working during the first quarter of 2007 with the 24th rig delivered in early March. Eagle experienced solid equipment utilization through the first quarter of fiscal 2007 in spite of the lower industry demand brought on by reduced commodity prices. Eagle has recently taken delivery of its 25th service rig and plans to build and deploy 5 additional service rigs by the end of the third quarter of 2007 to bring its total fleet of service rigs to 30 by the end of 2007. To date, Eagle continues to meet

its targeted numbers during the first quarter of 2007 and expects this trend to continue as the additional rigs are deployed to the field throughout the remainder of 2007 and into 2008.

Mission Drilling, the newest division of the IROC group, began operations during the first quarter of fiscal 2007 commensurate with the purchase of four new drilling rigs, three of which were immediately deployed to the field with the fourth rig being scheduled for delivery during the second quarter of 2007. Mission Drilling contributed positively to the results generating approximately 18% of the total revenue for the drilling and production services segment during the quarter ended March 31, 2007. Overall utilization on the three drilling rigs deployed to the field was in line with industry expectations and management continues to develop opportunities for contracts on these rigs. Overall drilling day rates are currently in line with management's expectations but given the reduced utilization in the industry we expect pricing pressure will increase over the next few months before rebounding as we enter the winter drilling season. Lower utilization is expected to persist until the high natural gas storage levels in North America are reduced and oil and gas producers in Western Canada can access the capital required to fund the search for new reserves. There are signs of improvement in each of these areas over recent weeks.

Aero Rental Services commenced commercial operations late in the third quarter of fiscal 2006. Aero Rental Services provides rental equipment for surface pressure control in drilling and workover operations and tubular handling equipment in the workover, re-entry and completion areas. The results of operations for 2006 were considered nominal to the overall growth in 2006. During the first quarter of fiscal 2007 Aero Rental Services contributed 9% of the Drilling and Production Services segment total revenue which was greater than all of the 2006 revenue generated by this segment and is not contributing positively to our operating results. This division should generate a stable revenue and earnings stream and we continue to execute an organic capital growth plan within the Aero Rental Services division for 2007 with approximately \$1.5 million spent of the total \$4.7 million of planned capital expenditures. Management expects that the organic growth model employed by Aero will provide favourable year over year comparisons through fiscal 2007 as much of the infrastructure costs have already been incurred in fiscal 2006.

The Envirocore division continues to focus on internally generated growth initiatives to grow its lease construction business. During the first quarter of fiscal 2007 this division generated approximately 8% of total segment revenue and contributed positively to the EBITDAS for the segment. While this division is small in comparison to our other service divisions it continues to produce consistent positive results. The operations of Envirocore, focused primarily in Northeast British Columbia, have been negatively impacted by the reduced drilling activity in the Western Canadian Sedimentary Basin, and by traditional spring break-up conditions in this area. We are expecting a return to normal activity later in fiscal 2007 and into fiscal 2008, and we continue to look for opportunities to more broadly distribute our commitments in the future in this division.

TECHNOLOGY SERVICES

The Technology Services segment generated revenue of \$6.1 million, or 24% of the Corporation's total revenue, for the three months ended March 31, 2007, compared to \$6.0 million or 34% of total revenue for the comparable period of fiscal 2006. The modest increase of \$0.1 million, or 1% increase, in revenue over the same three month period of 2006 was primarily bolstered by the results of Canada Tech which increased revenue by 21.3%, coupled with improvements in communications and monitoring on a year over year basis but was offset by lower utilization in our safety services brought about by lower industry activity during the quarter. For the three months ended March 31, 2007, the Technology Services segment generated positive EBITDAS of \$1.3 million compared to \$1.7 million in the same period of 2006, a decrease of 22% which was mainly as a result of reduced equipment utilization in our safety services division and lower profitability in Canada Tech due to costs of developing new products and adding the infrastructure required to produce higher volumes of our products. The effect on our cash flows in the short term has been negative but management is confident that these initiatives will begin to add to revenues and EBITDAS in coming months.

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. Canada Tech performed as expected for the first three months of 2007 contributing revenue of approximately \$3.6 million or 59% of the total Technology Services segment revenue for the quarter. Canada Tech does not generally experience the seasonal impact that the other businesses that IROC operate in due to its international operations and therefore has more consistent EBITDAS returns from quarter to quarter. EBITDAS for Canada Tech for the three months ended March 31, 2007 was \$0.5 million compared to \$0.9 million in the same period of 2006

representing a decrease of 52%. Although revenue increased year over year the different mix of products sold during the first quarter of 2007 compared to the same period of 2006 led to a lower profitability. We continue to invest in capital to increase manufacturing capacity and capabilities of Canada Tech and expect to make approximately \$1.0 million in capital expenditures in Canada Tech's business during fiscal 2007.

Oricomm, our communications and monitoring division, continues with the development of its communication technology and infrastructure combined with the advancements and the build out of additional equipment in fiscal 2007 focused on high end remote communications technology. While this division did not perform to our expectations during fiscal 2006, results during the first quarter of 2007 have improved substantially as our products gain acceptance in the market. Oricomm generated approximately 27% of the total revenue for the Technology Services segment for the three months ended March 31, 2007 resulting in a positive EBITDAS of \$0.7 million for the quarter. The continued focus on marketing efforts in these services to develop new revenue sources from additional customers and increase revenues from existing customers is beginning to pay off. Additionally, our expertise in this area has allowed for the advancement of communication related projects in our other operating segments.

IROC Safety provides state-of-the-art safety equipment using certain of the latest technology available to the oil and gas service industry and has inventory that includes safety trailers, personal gas monitors and wireless gas detection devices. IROC Safety performed below our expectations during the first quarter of fiscal 2007 only generating 14% of the total revenue for the Technology Services segment compared to 25% for the comparable period of 2006. The lower industry activity year over year had a direct impact on the financial results of this division. We expect that performance should improve through the remainder of the year as management will be focusing on plant turnaround projects that have historically been stronger revenue generators during slower periods as drilling and completion operations will likely experience a slower improvement as activity is not expected to increase until later in fiscal 2007 and into 2008. The decline in natural gas prices along with high storage level concerns have prompted many oil and gas 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 lines.

CORPORATE SERVICES

IROC's non-operating segment, Corporate Services captures general and administrative expenses associated with supporting each of the reporting segments operations noted above plus costs associated with being a public company. Also included in Corporate Services is interest expense for debt servicing and income tax expense. The impact on EBITDAS from the Corporate Services for the three months ended March 31, 2007 was negative \$0.7 million compared to negative \$0.6 million for the comparable period of 2006. The primary reason for the change is due to additional expenses incurred in corporate services for head count increases through fiscal 2006 to support the growth of the Corporation compared to that in place during the prior year quarter.

RESULTS OF OPERATIONS

Revenue

For the three months ended March 31, 2007, IROC recorded record quarterly revenue from continuing operations of \$26.0 million compared to \$17.6 million in the same period of 2006, an increase of \$8.4 million or 48%. The year over year increase is due to the effect of significant capital expenditures on equipment in the past two years and continuing into fiscal 2007 with the purchase of four new drilling rigs, the addition of two new service rigs and approx. \$1.5 million worth of new rental equipment assets. Despite an overall decrease in industry activity brought about by depressed commodity prices for natural gas and concerns over high natural gas storage levels in North America, revenue from continuing operations increased 48% in the quarter compared to the prior year quarter. The creation of Mission Drilling during the quarter and the contribution of Aero Rental Services, both of which did not exist during the first quarter of fiscal 2006, have improved results significantly, accounting for approximately 64% of the total \$8.4 million increase year over year.

A summary of the Corporation's mix of revenues from our operating segments is shown in the following table and demonstrates the changes that have occurred in revenue sources impacted by the additions of Aero Rental Services and Mission Drilling in the Drilling and Productions Services segment:

| | <u>Three months ended March 31,</u> | |
|----------------------------------|--|-------------|
| | <i>(Unaudited)</i> | |
| | 2007 | 2006 |
| REVENUE SOURCE | | |
| Drilling and Production Services | 76% | 66% |
| Technology Services | 24% | 34% |
| TOTAL | 100% | 100% |

We expect the allocation of revenues for fiscal 2007 will be approximately 70% from Drilling and Production Services and 30% from Technology Services.

Operating Costs and Gross Margin

For the three months ended March 31, 2007 operating costs of continuing operations were \$14.7 million (57% of revenue) as compared to \$10.6 million (60% of revenue) in the comparable period of 2006. Gross margin improved during the first quarter of 2007 moving to 43% versus 40% for the corresponding period in 2006. Historically, the first quarter gross margins are higher than the average for the year as winter pricing is generally higher. We estimate margins for fiscal 2007 in the range of 34% to 35% overall, as a result of pricing pressure from oil and gas producers and competitors.

Significant growth and expansion through the increases in the service rig fleet, addition of contract drilling rig services, the build-out of our fleet of rental equipment and communication equipment and services and the continued growth of downhole tool sales in Canada Tech have resulted in a substantially different mix of revenues, costs and margins for the IROC group of companies as compared to prior period of 2006. Given the increased cost structure overall to conduct business in the oil and gas services industry, IROC has managed to contain costs 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 contributed positively to gross margins during the first quarter of fiscal 2007. The price increase was partially offset by increases in wages commensurate with the increase in pricing. We continue to focus on operating cost efficiencies in all areas of our business.

General and Administrative Expenses

General and administrative expenses ("G&A") for the three month period ended March 31, 2007 were \$2.9 million (11.3% of revenue) compared to \$1.7 million (9.6% of revenue) in the comparable period of 2006. The year over year increase of \$1.2 million is primarily attributable to our continued investment in the overall infrastructure costs 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 late in fiscal 2006, Aero Rental Services and continued expansion of our manufacturing and distribution capabilities in Canada Tech. There has been an overall head count increase consistent with the growth of IROC in the past three years, coupled with higher employee compensation costs to remain competitive in the industry and increased consulting costs to address the immediate demands of our business. All of these increases in G&A negatively impacted the operating results of the Corporation in the immediate term as revenue related to these growth initiatives takes time to develop positive contributions which we are now starting to see the benefit from these investments. Our infrastructure is now at a point that it can handle additional capacity without incurring additional costs, as evidenced by the addition of a new division, Mission Drilling, whereby no additional G&A expenses were added to support the development and startup of this business. Costs for supporting the growth of the Corporation continue to be reviewed in all areas for reductions where appropriate.

Stock-based Compensation Expense

Stock-based compensation expense totaled \$0.2 million for the three months ended March 31, 2007 compared to \$0.3 million in the comparable period of 2006. The Corporation utilizes a stock option plan as part of its

incentive compensation arrangements for key employees. The higher stock-based compensation expense in 2006 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, whereas in fiscal 2007 fewer options have been required as head count in key positions has remained relatively unchanged. The impact of stock-based compensation expense has a non-cash impact on the operating results of the Corporation and 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 March 31, 2007 depreciation expense and amortization of intangible assets from continuing operations totalled \$2.4 million, an overall increase of 76% compared to \$1.4 million of depreciation and amortization in the corresponding period of 2006. The increase is a direct result of the Corporation's prior business acquisitions and increases in the depreciable asset base from internal capital build programs. For the three months ended March 31, 2007 and 2006, depreciation and amortization of continuing operations was 9.3% and 7.8%. The value of assets subject to depreciation and amortization increased 140% year over year, which was primarily from the addition of four new drilling rigs at a cost of approximately \$34.1 million, three of which were subject to depreciation during the quarter.

Interest Expense

Interest expense increased by \$0.6 million for the three months ended March 31, 2007 compared to the same period in 2006. The increase is due to the substantial increase in total debt from \$22.4 million to \$59.5 million arising from the Corporation's investment in internal capital expenditures during fiscal 2006 and the addition of \$20 million in notes payable, bearing interest at 9%, for the purchase of drilling rigs during the first quarter of 2007.

Loss/Gain on disposal of Property and Equipment

For the three months ended March 31, 2007, the loss on disposal of property and equipment was \$9,407 compared to a gain of \$28,244 for the prior year. The current year loss relates to the sale or disposal of service equipment, primarily vehicles, during the first quarter of fiscal 2007.

Income taxes

The total income tax expense for the three months ended March 31, 2006 totalled \$1.6 million as compared to \$1.3 million in the corresponding period of 2006. At the expected combined income tax rate of 32.12%, net earnings before income taxes from continuing operations for the three ended December 31, 2006 of \$4.7 million would have resulted in an income tax provision of approximately \$1.5 million compared to the actual provision booked of \$1.6 million. There was a reduction of approximately \$0.1 million for non-deductible items for income tax purposes. 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 March 31, 2007.

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

| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
|--|---------------|---------------|---------------|---------------|-------------|-------------|-------------|-------------|
| | 2007 | 2006 | 2006 | 2006 | 2006 | 2005 | 2005 | 2005 |
| Revenue-continuing operations | 25,961 | 17,173 | 16,359 | 11,203 | 17,577 | 13,493 | 7,350 | 3,356 |
| Net earnings (loss) from continuing operations | 3,178 | 672 | 972 | (539) | 2,001 | 1,064 | 542 | (627) |
| Per share – basic | 0.08 | 0.02 | 0.03 | (0.02) | 0.05 | 0.03 | 0.02 | (0.02) |
| Per share - diluted | 0.08 | 0.02 | 0.03 | (0.02) | 0.05 | 0.03 | 0.02 | (0.02) |
| Net earnings (loss) | 3,266 | (111) | 934 | (781) | 2,048 | 1,025 | 992 | (428) |
| Per share – basic | 0.08 | (0.01) | 0.03 | (0.02) | 0.05 | 0.03 | 0.03 | (0.01) |
| Per share - diluted | 0.08 | (0.01) | 0.03 | (0.02) | 0.05 | 0.03 | 0.03 | (0.01) |

Seasonality and Weather

The majority of 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 March 31, 2007 the Corporation had positive working capital of \$6.9 million as compared to the positive working capital at March 31, 2006 of \$3.0 million. The reason for the increase in the working capital is a result of the removal of the demand features that were previously attached to the debt facilities. Under Canadian GAAP any debt that contains a demand feature is required to be classified as a current liability. On March 30, 2007, the Corporation amended its current credit facility agreement with the Canadian Western Bank and removed the demand feature attached to its revolving capital asset acquisition facility and as such reclassified a portion of the debt as a long-term obligation. During the three months ended March 31, 2007 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 March 31, 2007.

On March 30, 2007, the Corporation amended its credit facility agreement with Canadian Western Bank increasing its total credit available by \$15 million to \$50 million. The amended facility consists of a demand operating credit line of \$12.5 million, an extendible revolving capital asset acquisition facility of up to \$35 million to finance corporate and internal growth and a \$2.5 million lease line. The extendible revolving capital asset acquisition facility of up to \$35 million requires no principal payments during the term, expires on July 20, 2007 and is renewable at the lenders option, for an additional 364 day period. If not renewed, the facility is repayable over a period of three years. This revised credit facility also gives IROC the benefit of reclassifying the debt, in part, as a long-term debt, thereby allowing for a clear indication of our true working capital position. This has allowed the Corporation more flexibility with its cash flow and to continue to execute its organic growth plans. All covenants of the credit facility were satisfied at March 31, 2007. 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, additional 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. 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 | Payments Due by Period | | | | |
|--------------------------------------|-------------------------------|-----------------------|---------------------|---------------------|----------------------|
| | Total | Next 12 months | 1-3 years | 4-5 years | After 5 years |
| Long-term debt | \$46,456,955 | \$ 4,444,444 | \$29,790,289 | \$ 7,222,222 | \$ 5,000,000 |
| Obligations under capital lease | \$ 2,433,527 | \$ 863,999 | \$ 1,446,793 | \$ 122,735 | |
| Operating leases(1) | \$ 6,891,557 | \$ 1,972,120 | \$ 2,472,720 | \$ 1,319,217 | \$ 1,127,500 |
| Total contractual obligations | \$55,782,039 | \$ 7,280,563 | \$33,709,802 | \$ 8,664,174 | \$ 6,127,500 |

(1) Operating leases relate primarily to buildings and lands leased in operations and service vehicles used in day to day operating activities.

CAPITAL EXPENDITURES

Capital expenditures of continuing operations for the three months ended March 31, 2007 were \$39.5 million, which includes property and equipment purchases related to acquisition of the four drilling rigs during the first quarter of \$34.1 million. These capital expenditures were financed using cash generated from operations, debt financing and issue of common shares. The following is a summary of the various capital expenditures incurred during the first quarter of fiscal 2007:

- \$34.1 million for drilling rigs and related equipment;
- 2.2 million for service rigs and related equipment;
- 1.5 million for rental services equipment;
- 0.4 million for heavy equipment in lease construction services segment ;
- 0.1 million for downhole tools manufacturing capacity expansion and development;
- 0.2 million for safety, communication and monitoring assets; and
- 1.0 million for other ancillary operating equipment and infrastructure costs.
\$39.5 million

The largest expenditures were for the purchase of four drilling rigs and the start-up of a new contract drilling division during the first quarter, as well as the continued purchase and construction of service rigs and related equipment. The Aero Rental Services division continued growing its equipment offering with assets being purchased during the first quarter of fiscal 2007 totaling \$1.5 million. The remainder of the capital costs incurred were spread over an array of support equipment.

As a result of our strategy to organically grow our capital asset base where possible, IROC's capital assets, as a whole, are in new or like new condition. Our new drilling rigs and service rigs represent the largest percentage of the Corporation's overall fixed assets.

The vast majority of the Corporation's capital budget relates to growth capital driven by the continued demand for the Corporation services as well as the strategy of developing its services through internal growth. The remainder of the 2007 capital expenditure program will be financed from internally generated funds from operations and additional credit facilities or equity financing as required. It should be noted that management has the ability to adjust this plan quickly depending on conditions of the industry and equipment utilization levels.

The remaining 2007 capital expenditures are expected to include:

- \$13.8 million for service rigs and related equipment;
- 3.2 million for continued build out of rental services equipment;
- 1.5 million for drilling rig support equipment;
- 0.9 million for downhole tools manufacturing capacity expansion and development;
- 0.3 million for communication and monitoring equipment; and
- 0.1 million for other ancillary operating equipment and infrastructure costs.
\$19.8 million

SUBSEQUENT EVENT

On May 9, 2007 the shareholders voted to approve the change of name of the Corporation to IROC Energy Services Corp. from IROC Systems Corp. The final name change is subject to the completion of certain legal regulatory approvals.

OUTSTANDING SHARE DATA

| | |
|---|------------|
| Balance at January 1, 2007 | 38,017,080 |
| Issued on acquisition of drilling rig equipment | 6,200,000 |
| Balance at May 9, 2007 | 44,217,080 |

OFF BALANCE SHEET ARRANGEMENTS

IROC has not entered into any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

There were no significant or material transactions with related parties during the three months ended March 31, 2007.

CHANGES IN ACCOUNTING POLICIES

The Corporation prepares its financial statements in accordance with GAAP. Except as disclosed below, accounting policies have been applied consistently during all periods included in the financial statements. Certain information of the previous period has been reclassified to conform to the presentation adopted in the current year.

ACCOUNTING PRONOUNCEMENTS

The CICA has issued two new accounting standards: Section 3855, Financial Instruments – Recognition and Measurement; and Section 1530 – Comprehensive Income. The Corporation adopted these standards effective January 1, 2007, which are summarized below:

On adoption of the new standards, the Corporation elected to recognize, as separate assets and liabilities, only for those embedded derivatives in hybrid instruments issued, acquired or substantially modified after January 1, 2003. The Corporation did not identify any material embedded derivatives, which required separate recognition and measurement. The new standards require a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income which may report the changes in fair value in, derivatives designated as cash flow hedges and available-for-sale investments and foreign currency translation. The Corporation has no “other comprehensive income or loss” transactions during the three months ended March 31, 2007 and no opening or closing balances for the accumulated other comprehensive income or loss.

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. EBITDAS - EBITDAS is defined as earnings before interest, taxes, depreciation and amortization, stock-based compensation expense, foreign exchange gains and losses and gains or losses on disposal of property and equipment. EBITDAS and EBITDAS per share are not recognized measures under GAAP. Management believes that EBITDAS is provided as a measure of operating performance without reference to financing decisions, income tax impacts and non-cash expenses, which are not controlled at the operating management level. Accordingly, management believes EBITDAS 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 that EBITDAS 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 EBITDAS may differ from those of other companies, and accordingly, EBITDAS may not be directly comparable to measures used by other companies.

The following is a reconciliation of EBITDAS to net income from continuing operations:

| | <u>Three months ended March 31,</u> | |
|--|--|--------------|
| | <i>("Unaudited")</i> | |
| <i>(in thousands of dollars)</i> | 2007 | 2006 |
| Net earnings - continuing operations | \$3,178 | \$2,001 |
| Add: | | |
| Depreciation and amortization | 2,414 | 1,368 |
| Other interest | 254 | 38 |
| Interest on long-term debt | 506 | 165 |
| Interest and accretion on debentures | 235 | 235 |
| Stock based compensation expense | 185 | 263 |
| Foreign exchange loss (gain) | 8 | (19) |
| Loss (gain) on disposal of equipment | 9 | (28) |
| | 6,789 | 4,023 |
| Income taxes: | | |
| Current (recovery) | 85 | 336 |
| Future reduction | 1,482 | 924 |
| EBITDAS - continuing operations | 8,356 | 5,283 |

BUSINESS RISKS

Certain activities of the Corporation are affected by factors that are beyond its control or influence. Additional risks and uncertainties that management may be unaware of, or that they determine to be immaterial may also become important factors which affect the Corporation. A complete discussion on business risks faced by the Corporation may be found under "Risk Factors" in the Corporation's Annual Information Form dated March 30, 2007 which is available under the Corporation's profile at www.sedar.com.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the design of the Corporation's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting during the quarter ending March 31, 2007.

OUTLOOK

IROC's financial results of the first quarter of fiscal 2007 set records, with the success being driven by the Corporation's significant capital expenditure plans over the past three years, which should continue to drive positive results for IROC into the future. Despite the success, we remain cautious with respect to the level of industry activity for 2007. We expect weakness to continue in the industry activity in Western Canada through much of 2007. Many oil and gas producers are adjusting activities and focusing capital expenditures toward deeper natural gas or conventional oil and heavy oil exploration and production. Management feels that drilling activity should recover as the surplus gas storage levels are diminished moving into the latter part of 2007. Storage levels for natural gas are lower year over year and commodity prices have shown recent strengthening. Although there are indications of improvement, management is aware that the next two fiscal quarters will present difficult operating conditions with continued lower activity levels year over year which will put pressure on pricing and utilization of equipment. Management at IROC is prepared to respond quickly to any prolonged or broader based slowdown in the industry. While the industry forecasts for the remainder of 2007 activity levels are pessimistic overall, management feels there are opportunities for IROC to grow its business in this challenging environment.

Management at IROC intends to continue growing the Corporation organically to reduce the risks associated with the current environment and will continue to evaluate opportunities that present themselves and represent a strategic fit to our current or future product lines. Our capital expenditure plan remains focused on internal growth initiatives and will continue through 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.

For further information, please contact:

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E-mail: investorrelations@iroccorp.com

Consolidated Financial Statements of

IROC SYSTEMS CORP.

Three months ended March 31, 2007 and 2006

IROC SYSTEMS CORP.

Consolidated Balance Sheets

(Unaudited)

| | March 31, 2007 | December 31, 2006 |
|--|-------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 700 | \$ 700 |
| Accounts receivable | 23,295,723 | 16,941,616 |
| Inventory | 5,043,464 | 4,026,716 |
| Prepaid expenses and deposits | 1,816,557 | 1,026,082 |
| Assets of discontinued operations (note 9) | 509,615 | 905,326 |
| | 30,666,059 | 22,900,440 |
| Property and equipment (note 3) | 89,214,445 | 51,866,949 |
| Intangible assets (note 4) | 6,162,804 | 6,314,468 |
| Goodwill | 7,621,211 | 7,621,211 |
| Assets of discontinued operations (note 9) | — | 923,718 |
| | \$ 133,664,519 | \$ 89,626,786 |

Liabilities and Shareholders' Equity

| | | |
|---|---------------|--------------|
| Current liabilities: | | |
| Operating line of credit (note 5) | \$ 10,591,203 | \$ 6,094,515 |
| Accounts payable and accrued liabilities | 7,324,431 | 6,511,023 |
| Income taxes payable | 518,957 | 434,653 |
| Callable debt (note 5) | — | 19,915,042 |
| Current portion of long-term debt (note 5) | 5,308,443 | 851,103 |
| Liabilities of discontinued operations (note 9) | — | 130,470 |
| | 23,743,034 | 33,936,806 |
| Long-term debt (note 5) | 37,125,084 | 1,791,666 |
| Non-convertible debentures (note 5) | 6,456,955 | 6,361,120 |
| Future income taxes | 4,371,477 | 2,960,148 |
| Shareholders' equity: | | |
| Share capital (note 6) | 51,534,718 | 37,584,718 |
| Warrants | 828,415 | 828,415 |
| Contributed surplus (note 6) | 2,009,314 | 1,823,781 |
| Retained earnings | 7,595,522 | 4,340,132 |
| | 61,967,969 | 44,577,046 |

Subsequent event (note 1)

| | | |
|--|---------------|--------------|
| | \$133,664,519 | \$89,626,786 |
|--|---------------|--------------|

See accompanying notes to the interim consolidated financial statements.

Approved on behalf of the Board:

| | |
|------------------------|----------|
| <u>"Tom Alford"</u> | Director |
| <u>"Brian Neeland"</u> | Director |

IROC SYSTEMS CORP.

Consolidated Statements of Earnings and Retained Earnings

(Unaudited)

| | Three months ended | |
|---|--------------------|--------------|
| | March 31, | |
| | 2007 | 2006 |
| Revenue | \$25,961,386 | \$17,577,375 |
| Expenses: | | |
| Operating | 14,671,287 | 10,603,860 |
| General and administrative | 2,933,540 | 1,689,799 |
| Stock-based compensation | 185,533 | 262,533 |
| Depreciation and amortization | 2,413,647 | 1,367,886 |
| Interest and accretion on debentures | 235,835 | 235,835 |
| Interest on long-term debt and notes payable | 505,846 | 165,413 |
| Other interest | 253,714 | 38,330 |
| Loss (gain) on disposal of equipment | 9,407 | (28,244) |
| Foreign exchange loss (gain) | 7,937 | (19,284) |
| | 21,216,746 | 14,316,128 |
| Earnings before income taxes from continuing operations | 4,744,640 | 3,261,247 |
| Income taxes: | | |
| Current | 84,662 | 336,095 |
| Future | 1,482,192 | 923,781 |
| | 1,566,854 | 1,259,876 |
| Net earnings from continuing operations | 3,177,786 | 2,001,371 |
| Net earnings from discontinued operations (note 9) | 77,604 | 46,736 |
| Net earnings | 3,255,390 | 2,048,107 |
| Retained earnings, beginning of period | 4,340,132 | 2,250,347 |
| Retained earnings, end of period | \$ 7,595,522 | \$ 4,298,454 |
| Earnings per share from continuing operations: | | |
| Basic | \$ 0.08 | \$ 0.05 |
| Diluted | \$ 0.08 | \$ 0.05 |
| Earnings per share from discontinued operations: | | |
| Basic | \$ 0.00 | \$ 0.00 |
| Diluted | \$ 0.00 | \$ 0.00 |
| Earnings per share: | | |
| Basic | \$ 0.08 | \$ 0.05 |
| Diluted | \$ 0.08 | \$ 0.05 |
| Weighted average number of shares | | |
| outstanding: | | |
| Basic | 40,979,302 | 37,630,456 |
| Diluted | 41,100,275 | 38,558,580 |

See accompanying notes to the interim consolidated financial statements.

IROC SYSTEMS CORP.

Consolidated Statements of Cash Flows

(Unaudited)

| | Three months ended | |
|---|--------------------|--------------------|
| | March 31, | |
| | 2007 | 2006 |
| Cash provided by (used in): | | |
| Operations: | | |
| Net earnings from continuing operations | \$ 3,177,786 | \$ 2,001,371 |
| Items not affecting cash: | | |
| Depreciation and amortization | 2,413,647 | 1,367,886 |
| Future income taxes | 1,482,192 | 923,781 |
| Stock-based compensation | 185,533 | 262,533 |
| Non-cash accretion on debentures | 95,835 | 95,835 |
| Deferred revenue received | — | (216,276) |
| Loss (gain) on disposal of equipment | 9,407 | (28,244) |
| | <u>7,364,400</u> | <u>4,406,886</u> |
| Changes in non-cash working capital balances (note 7) | (5,272,193) | (4,031,584) |
| | <u>2,092,207</u> | <u>375,302</u> |
| Discontinued operations (note 9): | | |
| Funds provided by discontinued operations | 27,889 | 92,927 |
| Changes in non-cash working capital balances of discontinued operations | 265,241 | (379,292) |
| | <u>2,385,337</u> | <u>88,937</u> |
| Investing: | | |
| Purchase of property and equipment - continuing operations | (5,574,467) | (3,553,959) |
| Proceeds on disposal of property and equipment from discontinued operations | 902,570 | - |
| Proceeds on disposal of property and equipment from continuing operations | 105,581 | 79,908 |
| Intangible asset expenditures | — | (298,322) |
| Change in non-cash working capital balances (note 7) | (1,991,425) | (884,550) |
| | <u>(6,557,741)</u> | <u>(4,656,923)</u> |
| Financing: | | |
| Issue of common shares | — | 634,917 |
| Operating loan advances | 4,496,688 | 4,445,892 |
| Repayment of long-term debt | (209,242) | (291,315) |
| Deferred financing costs | (200,000) | — |
| Issue of long-term debt | 84,958 | 56,480 |
| Repayment of callable term debt | — | (464,902) |
| | <u>4,172,404</u> | <u>4,381,072</u> |
| Decrease in cash | — | (186,914) |
| Cash at beginning of period | 700 | 187,624 |
| Cash at end of period | <u>\$ 700</u> | <u>\$ 710</u> |

See accompanying notes to the interim consolidated financial statements.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three month period ended March 31, 2007 and 2006

1. Basis of presentation:

IROC Systems Corp. (the "Corporation") is a Canadian corporation supplying equipment and personnel to oil and gas contractors and producers. On May 9, 2007 the shareholders voted to approve the change of name of the Corporation to IROC Energy Services Corp. from IROC Systems Corp. The final name change is subject to the completion of certain regulatory approvals. The Corporation's common stock is traded on the TSX.

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, 2006 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, 2006 contained in the Corporation's 2006 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 months ended March 31, 2007 and 2006.

a) Financial instruments:

On January 1, 2007 the Corporation adopted the new accounting standards regarding the recognition, measurement, disclosure and presentation of financial instruments. The financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. The new standard requires all financial instruments within its scope, including all derivatives, to be recognized on the balance sheet initially at fair market value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

On adoption of the new standards, the Corporation elected to recognize, as separate assets and liabilities, only for those embedded derivatives in hybrid instruments issued, acquired or substantially modified after January 1, 2003. The Corporation did not identify any material embedded derivatives, which required separate recognition and measurement.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three month period ended March 31, 2007 and 2006

1. Basis of presentation (continued):

a) Financial instruments (continued):

The new standards require a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income which may report the changes in fair value in, derivatives designated as cash flow hedges and available-for-sale investments and foreign currency translation. The Corporation had no "other comprehensive income or loss" transactions during the three months ended March 31, 2007 and no opening or closing balances for the accumulated other comprehensive income or loss.

Two new Canadian accounting standards have been issued which will require additional disclosure in the Company's financial statements commencing January 1, 2008 about the Company's financial instruments as well as its capital and how it is managed.

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. Property and equipment:

| | | | March 31, 2007 | December 31, 2006 |
|---------------------------|----------------|-----------------------------|-------------------|----------------------|
| | Cost | Accumulated depreciation | Net book value | Net book value |
| Service rig equipment | \$ 43,287,309 | \$ 5,586,341 | \$ 37,700,968 | \$ 36,529,857 |
| Drilling rig equipment | 24,505,953 | 348,828 | 24,157,125 | — |
| Heavy equipment | 7,712,931 | 883,507 | 6,829,424 | 4,965,881 |
| Rental equipment | 6,147,295 | 416,070 | 5,731,225 | 4,307,520 |
| Field equipment | 6,677,858 | 3,576,450 | 3,101,408 | 3,645,375 |
| Other equipment | 1,939,460 | 1,066,061 | 873,399 | 898,907 |
| Building | 850,000 | 2,833 | 847,167 | — |
| Trailers | 1,870,825 | 1,042,060 | 828,765 | 861,055 |
| Leasehold improvements | 737,705 | 175,295 | 562,410 | 513,560 |
| Data acquisition centre | 353,500 | 215,946 | 137,554 | 144,794 |
| Assets under construction | 8,445,000 | — | 8,445,000 | — |
| | \$ 102,527,836 | \$13,313,391 | \$ 89,214,445 | \$ 51,866,949 |

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three month period ended March 31, 2007 and 2006

3. Property and equipment (continued):

On February 16, 2007 the Corporation completed the purchase of four drilling rigs from JMAC Drilling Ltd. ("JMAC") for total consideration of approximately \$33,950,000 plus transaction costs of \$170,953. The Corporation is in the process of completing the final accounting for the assets purchased. The consideration for the assets consisted of 6,200,000 common shares of the Corporation issued at a price of \$2.25 per share and five year secured promissory notes in the amount of \$20,000,000. The promissory notes will bear interest at a rate of 9% per annum for the first year and will increase to 10% thereafter. Security for the promissory notes has been granted in the specific assets purchased until the notes are repaid in full. The Corporation will pay interest on a quarterly basis until March 31, 2008. On March 31, 2008, the Corporation will begin making equal quarterly principal payments plus interest until December 31, 2011. Three drilling rigs were delivered on closing, with the fourth scheduled for delivery during the second quarter of 2007.

4. Intangible assets:

Intangible assets consist of the following:

| | | | March 31, 2007 | December 31, 2006 |
|----------------------------|--------------|-----------------------------|-------------------|----------------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Intangible assets | \$ 6,699,605 | \$ 1,417,424 | \$ 5,282,181 | \$ 5,529,347 |
| Pre-operating expenditures | 770,516 | 89,893 | 680,623 | 719,149 |
| Deferred financing costs | 275,000 | 75,000 | 200,000 | 65,972 |
| | \$ 7,745,121 | \$ 1,582,317 | \$ 6,162,804 | \$ 6,314,468 |

The deferred financing costs represent a fee paid in connection with the amendment of the credit facility agreement entered into in 2006 which is being amortized over the term of the credit facility.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three month period ended March 31, 2007 and 2006

5. Long-term debt and debentures:

| | March 31, 2007 | December 31, 2006 |
|---|-------------------|----------------------|
| Extendible revolving capital asset acquisition facility of up to \$35,000,000 requiring no principal payments during the term, secured by a general assignment of book debts and a security arrangement covering all assets of the Corporation. Drawings bear interest at the bank's prime rate plus 1.0%. The effective interest rate at March 31, 2007 was 7.0%. The facility expires on July 20, 2007 and is renewable at the lenders option for an additional 364 day period. If not renewed, the facility is repayable over a period of three years. | 20,000,000 | — |
| Notes payable, interest at 9%, payable quarterly until March 31, 2008 and 10% thereafter. Repayment terms are interest only until March 31, 2008 and then sixteen equal quarterly principal payments plus interest beginning on March 31, 2008. See Note 3. | 20,000,000 | — |
| Unsecured non-convertible debentures, interest at 8% payable quarterly, principal repayable on September 12, 2008 The debentures are non-transferable. | 6,456,955 | 6,361,120 |
| Obligations under capital leases, repayable in monthly installments totaling \$83,832 plus interest at rates varying from 3.8% to 12.2%, secured by the specific equipment. | 2,433,527 | 2,642,769 |
| | 48,890,482 | 9,003,889 |
| Less current portion | 5,308,443 | 851,103 |
| | \$43,582,039 | \$ 8,152,786 |

On March 30, 2007, the Corporation executed an amendment to its credit facility with Canadian Western Bank. The credit facility was increased to a maximum of \$50 million. The facility consists of a demand revolving operating credit line of \$12.5 million bearing interest at the bank's prime rate plus 0.75%, an extendible revolving capital asset acquisition facility of up to \$35 million bearing interest at the bank's prime rate plus 1.0%, and a \$2.5 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. Upon entering into this agreement all of the previously outstanding callable debt was reclassified to long-term debt on the balance sheet except for the current portion of the obligation.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three month period ended March 31, 2007 and 2006

6. Share capital:

(a) Authorized:

Unlimited number of voting common shares without nominal or par value

(b) Issued:

| | Number | Amount |
|---|------------|--------------|
| Balance at December 31, 2006 | 38,017,080 | \$37,584,718 |
| Issued on purchase of drilling rig equipment (note 3) | 6,200,000 | 13,950,000 |
| Balance at March 31, 2007 | 44,217,080 | \$51,534,718 |

(c) Stock options:

Changes in the number of common shares under option during the three month period ended March 31, 2007 are summarized as follows:

| | Number of options | Weighted average price |
|--|-------------------|------------------------|
| Total options outstanding, December 31, 2006 | 1,804,833 | \$ 2.75 |
| Granted | 395,000 | 2.09 |
| Forfeited | (80,000) | 3.06 |
| Outstanding, March 31, 2007 | 2,119,833 | \$ 2.62 |
| Exercisable at March 31, 2007 | 979,829 | \$ 2.54 |

The average fair value of options issued during the three months ended March 31, 2007 was \$1.11 per option using the Black-Scholes option pricing model.

(d) Contributed surplus:

The Corporation recorded stock-based compensation expense and contributed surplus of \$185,533 (2006 - \$262,533) for the three months ended March 31, 2007. Contributed surplus was reduced and share capital was increased by \$nil (2006 - \$18,469) for options that were exercised during the three months ended March 31, 2007.

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three month period ended March 31, 2007 and 2006

7. Supplemental cash flow information:

| | Three months ended | |
|--|--------------------|---------------|
| | March 31, | |
| | 2007 | 2006 |
| Interest paid | \$ 899,560 | \$ 305,413 |
| Income taxes paid | \$ 358 | \$ - |
| Changes in non-cash working capital components of continuing operations: | | |
| Accounts receivable | \$(6,354,107) | \$(4,494,314) |
| Inventory | (1,016,748) | (204,825) |
| Prepaid expenses | (2,925) | 488,672 |
| Accounts payable and accrued liabilities | 2,017,283 | (157,212) |
| Income taxes payable | 84,304 | 336,095 |
| | (5,272,193) | (4,031,584) |
| Changes in non-cash working capital items in investing activities: | | |
| Deposits on capital assets | (787,550) | (884,550) |
| Accounts payable on capital assets | (1,203,875) | - |
| Changes in non-cash working capital items | \$(1,991,425) | \$ (884,550) |

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three month period ended March 31, 2007 and 2006

8. Segmented information:

As at March 31, 2007 the Corporation operates in two main segments, which are substantially in one geographic region. Drilling and production services includes service rigs and related equipment, oilfield rental equipment and services, contract drilling rigs and related equipment and lease construction and road building services all of which assist oil and gas companies and contractors in drilling and production activities in oil and gas wells. Technology services includes remote communications products and services, safety and air monitoring services and equipment, and manufacturing and distribution of downhole pressure and temperature measurement tools all of which provide technology based solutions to assist oil and gas companies in the production of oil and gas.

| Three months ended March 31, 2007 | Drilling and Production Services | Technology Services | Corporate | Total |
|---|--|------------------------|-------------|---------------|
| Revenue | \$ 19,839,331 | \$ 6,122,055 | \$ — | \$ 25,961,386 |
| Depreciation and amortization | 1,592,841 | 657,739 | 163,067 | 2,413,647 |
| Interest on callable and long-term debt | — | — | 505,846 | 505,846 |
| Interest and accretion on debentures | — | — | 235,835 | 235,835 |
| Other interest | — | — | 253,714 | 253,714 |
| Net earnings (loss) – continuing operations | 6,242,322 | 666,582 | (3,731,118) | 3,177,786 |
| Intangible assets | 944,201 | 5,018,603 | 200,000 | 6,162,804 |
| Goodwill | 1,339,571 | 6,281,640 | — | 7,621,211 |
| Property and equipment | 82,385,190 | 5,710,990 | 1,118,265 | 89,214,445 |
| Capital expenditures* | 39,118,663 | 360,656 | 45,148 | 39,524,467 |

* Excludes property and equipment acquired on business acquisitions

| Three months ended March 31, 2006 | Drilling and Production Services | Technology Services | Corporate | Total |
|---|--|------------------------|-------------|---------------|
| Revenue | \$ 11,535,903 | \$ 6,041,472 | \$ — | \$ 17,577,375 |
| Depreciation and amortization | 705,437 | 633,283 | 29,166 | 1,367,886 |
| Interest on callable and long-term debt | — | — | 165,413 | 165,413 |
| Interest and accretion on debentures | — | — | 235,835 | 235,835 |
| Other interest | — | — | 38,330 | 38,330 |
| Net earnings (loss) – continuing operations | 3,477,815 | 1,067,483 | (2,543,927) | 2,001,371 |
| Intangible assets | 69,515 | 6,153,076 | 18,775 | 6,241,366 |
| Goodwill | 1,339,571 | 5,710,913 | — | 7,050,484 |
| Property and equipment | 31,167,765 | 5,349,926 | 625,410 | 37,143,101 |
| Capital expenditures* | 2,883,264 | 578,868 | 91,827 | 3,553,959 |

* Excludes property and equipment acquired on business acquisitions

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three month period ended March 31, 2007 and 2006

9. Discontinued operations:

During the fiscal year ended December 31, 2006, management identified the remediation and consulting operations, included in the Drilling and Production Services segment, to be disposed of and shut down as a result of financial and operational performance and the need to focus on the continuing operations of the Corporation. The disposal group consisted of certain fixed assets consisting of trucks and trailers used in remediation work and certain inventory utilized in the provision of environmental consulting services. On February 22, 2007 the Corporation entered into a letter of intent to sell the property and equipment of the remediation business and completed this sale during the first quarter of fiscal 2007. The inventory related to the environmental consulting services was written down to a net realizable value of \$nil at December 31, 2006 as management determined there is no foreseeable market for the disposal of this inventory.

| | Three months ended | |
|---|--------------------|--------------|
| | March 31, | |
| | 2007 | 2006 |
| Revenue from discontinued operations | \$ 272,090 | \$ 1,422,656 |
| Earnings from discontinued operations before income taxes | 27,889 | 57,821 |
| Income taxes – future (recovery) | (70,863) | 11,085 |
| Earnings from discontinued operations before the following | 98,752 | 46,736 |
| Loss on disposal of net assets from discontinued operations | 21,148 | – |
| Net earnings from discontinued operations | \$ 77,604 | \$ 46,736 |

IROC SYSTEMS CORP.

Notes to Consolidated Financial Statements

Three month period ended March 31, 2007 and 2006

9. Discontinued operations (continued):

The following table provides additional information with respect to amounts included in the balance sheet as assets and liabilities of discontinued operations:

| | March 31, 2007 | December 31, 2006 |
|---|-------------------|----------------------|
| Inventory | \$ – | \$ – |
| Accounts receivable | 509,615 | 905,326 |
| | 509,615 | 905,326 |
| Property and equipment | – | 923,718 |
| Total assets of discontinued operations | \$ 509,615 | \$ 1,829,044 |
| Liabilities of discontinued operations | \$ – | \$ 130,470 |

The following table provides additional information with respect to amounts included in the statement of cash flows related to discontinued operations:

| | Three months ended March 31, | |
|--|---------------------------------|--------------|
| | 2007 | 2006 |
| Net earnings from discontinued operations | \$ 88,594 | \$ 46,736 |
| Items not affecting cash: | | |
| Depreciation and amortization | – | 35,106 |
| Loss on disposal of net assets from discontinued operations | 10,158 | – |
| Future income taxes (recovery) | (70,863) | 11,085 |
| Funds provided by discontinued operations | \$ 27,889 | \$ 92,927 |
| Components of change in non-cash working capital balance of discontinued operations: | | |
| Accounts receivable | \$ 395,711 | \$ (108,907) |
| Accounts payable and accrued liabilities | (130,470) | (270,385) |
| | \$ 265,241 | \$ (379,292) |

10. Comparative figures:

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

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Chartered Accountants
Calgary, Alberta

LEGAL COUNSEL

McCarthy Tetrault LLP
Barristers & Solicitors
Calgary, Alberta

TRANSFER AGENT

Computershare Investor Services
Calgary, Alberta

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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

