



## 2007 SECOND QUARTER REPORT (UNAUDITED)

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**TSX: ISC**

**JUNE 30, 2007**

*Partnerships*  
in HEALTH and SAFETY

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## P R O F I L E

IROC Energy Services 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 subsidiary companies. The Corporation operates in two main segments as follows:

### **Drilling and Production Services** which includes:

- **Eagle Well Servicing** division which 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** division which is the newest 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** division which 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** division specializes in lease construction, including general oilfield construction, lease and well site preparation and road construction. 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** division which 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.
- **Oricomm** which provides air quality monitoring, communication products and support services provide real-time communications from even the most remote locations. Our communication products and services minimize our 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,

The activity slowdown that emerged during the second half of 2006 and continued in Q1 2007, accelerated as the industry made its way through the spring breakup period in Western Canada. Reduced capital expenditures brought about by a number of factors began to take a toll on service activity on a wider scale during the quarter. Lower natural gas pricing, tight capital markets, the rising Canadian dollar, wet weather and the lingering effects of the taxation on royalty trusts all combined to create an environment where the lowest quarterly drilling activity in the past decade was experienced.

IROC Energy Services Corp. was not immune to the slowdown but unlike many other service providers was able to increase revenues and EBITDAS as compared to year earlier results. Revenues increased 5% to \$11.8 million while EBITDAS of \$1.1 million represented a 3% increase over the previous year. Continued strong performance by our Eagle Well Servicing division and increasing international revenues in our Canada Tech subsidiary offset weakness in our drilling and rental divisions during the quarter. Our financial performance during the quarter continues to underscore the benefits of our core strategy of growing the company organically, by adding equipment and personnel to the areas of our operation that demonstrate the ability to utilize it in a manner which provides the greatest economic benefit to our shareholders. We continue to believe that the premium equipment that we deploy to the field differentiates our company from our competitors, and allows for stronger relative performance in difficult operating conditions, with the second quarter being ample evidence.

As predicted in our last report, our revenues continued to grow despite less than optimum operating conditions. We have made significant investments in our well servicing, drilling and rental operations during the past twelve months with the increased asset base providing increasing revenues for IROC, and certain divisions of our company performed extremely well.

Eagle Well Servicing finished the quarter with 25 service rigs operational, with an additional 2 to be added in the first month of the third quarter. It is expected that our existing capital build program for 2007 will be completed with the delivery of 3 additional service rigs in the next two months, allowing Eagle to offer 30 service rigs by the end of the third quarter. And, in continuing with our tradition, the new service rigs will continue to offer our customers access to the highest quality equipment and personnel in Western Canada. This division has significant leverage to the oil driven activity and has not seen the drastic reductions encountered by other sectors in the business which are more dependent upon natural gas.

Canada Tech has begun to deliver increasing revenues as its products and services gain greater market awareness and acceptance in Canada and around the world. We would expect that the efforts undertaken at Canada Tech to allow for greater efficiencies in our production process will begin to effect the last half of 2007 and will be reflected in increased margins in this segment of our business.

The concept of cyclicity and seasonality in our business is not lost on management. Tight cost controls offset reduced revenues in Envirocore, Oricomm and IROC Safety allowing for financial performance in line with expectations during the quarter. Our administrative costs are trending lower despite operating a larger fleet of equipment with more field personnel employed in the company. Investment in our infrastructure over the recent past and utilization of in house technology will allow us to continue to increase our efficiency in this area in the coming quarters.

From a pure financial performance perspective, Mission Drilling and Aero Rentals represent the biggest near term challenges for management as these divisions are leveraged to the areas hardest hit by the downturn in activity. These business segments represent the most recent of our investments and as such face additional issues in achieving expected revenues and cash flows. Mission Drilling is competing in the market without benefit of longer term contracts while Aero Rentals continues to build the inventory required to meet the needs of its customers and does not yet benefit from the size and scale that will eventually be present to sustain its business.

The slowdown has had a significant effect on the labor situation in our industry, but not in the way one would anticipate. Labor remains in tight supply despite reduced activity levels in the field suggesting that much of the field personnel that have been developed over the past years have left the industry. This will be a major obstacle to overcome as the service business responds to the inevitable increase in activity in the winter months and in future quarters as companies respond to improved operating conditions.

As we move into the second half of the year we do not expect any rapid recovery in activity. Key factors driving the turnaround will be access to capital and higher commodity prices, something that only time will allow for. During this time management will continue to execute upon its strategy of reacting to opportunities by building new assets, training personnel and meeting the demands of our customers. We continue to see the benefits of building the company in the manner that we have to date, allowing for profitable operations in both up and down markets.

At any single point in time markets rarely reflect the true value of a company and its prospects. The management and employees of IROC Energy Services Corp. are confident that this is one of those times when the market has for a number of reasons placed a value on the company far below its actual value. We appreciate your patience as we continue to build our company while we ride out the current market environment.

Respectfully submitted,



Thomas M. Alford  
IROC Energy Services 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 June 30,</u>			<u>For the 6 months ended June 30,</u>		
	<i>(Unaudited)</i>			<i>(Unaudited)</i>		
	2007	2006	% Change	2007	2006	% Change
Revenue - continuing operations	<b>\$11,815</b>	\$11,202	5%	<b>\$37,777</b>	\$28,780	31%
Operating costs	<b>8,402</b>	8,173	3%	<b>23,074</b>	18,778	23%
Gross margin	<b>3,413</b>	3,029	13%	<b>14,703</b>	10,002	47%
Gross margin %	<b>29%</b>	27%	7%	<b>39%</b>	35%	12%
General and administrative expenses	<b>2,304</b>	1,955	18%	<b>5,238</b>	3,639	44%
EBITDAS - continuing operations <sup>(1)</sup>	<b>1,109</b>	1,074	3%	<b>9,465</b>	6,363	49%
Per share diluted	<b>0.03</b>	0.03	0%	<b>0.22</b>	0.16	38%
Net earnings - continuing operations	<b>(1,682)</b>	(538)	213%	<b>1,496</b>	1,463	2%
Per share diluted	<b>(0.04)</b>	(0.01)	300%	<b>0.04</b>	0.04	0%
Net earnings	<b>(1,681)</b>	(780)	116%	<b>1,575</b>	1,268	24%
Per share diluted	<b>(0.04)</b>	(0.02)	100%	<b>0.04</b>	0.03	33%
Number of shares outstanding						
Basic	<b>44,226,794</b>	37,850,981	17%	<b>42,612,019</b>	37,704,318	13%
Diluted	<b>44,343,450</b>	38,634,645	15%	<b>42,731,012</b>	38,666,179	11%

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

The Management's Discussion and Analysis (MD&A) focuses on key statistics from the consolidated financial statements of IROC Energy Services Corp. ("IROC" or the "Corporation") for the three and six months ended June 30, 2007 as compared to the three and six months ended June 30, 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 and six months ended June 30, 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 "Business Risks".

## **OVERALL PERFORMANCE**

The second quarter of 2007 has proved to be a very difficult period for most oilfield service companies as many experienced some of the lowest rates of utilization of equipment in a decade as excessive wet weather in some areas and, more notably, the continuing uncertainty of natural gas pricing has led many Canadian oil and gas producers to limit spending and curtail drilling and completion programs. Gas storage levels in North America remain above the five year average which has impacted pricing of the commodity. By reducing their activity levels in natural gas exploration and development for fiscal 2007, some customers are attempting to shift 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 modest increases in both revenues and EBITDAS for the three months ended June 30, 2007 and has reported increases in revenues, EBITDAS, cash flows and net earnings for the six months ended June 30, 2007 as compared to the prior year period.

Revenue for the six months ended June 30, 2007 was \$37.8 million compared to \$28.8 million, representing an increase of 31%. IROC's revenue from continuing operations for the three months ended June 30, 2007 increased 5%, from \$11.2 million to \$11.8 million compared to the same period in 2006. Revenue increased year over year for both the three and six months primarily as a result of additional equipment capacity from internal growth initiatives in service rigs and rental assets, manufacturing capacity increases in downhole tools coupled with the purchase of drilling rig assets during the first quarter of 2007 which contributed positively to the year to date results. IROC experienced higher than industry average utilization of service rig equipment during the quarter, although lower in comparison to the prior year period. Offsetting this IROC experienced significantly lower utilization levels of equipment in all others service lines during the quarter. The Corporation recorded net earnings from continuing operations of \$1.5 million, or \$0.04 per share, for both the six months ended June 30, 2007 and 2006 comparative period. For the three months ended June 30, 2007 IROC incurred a net loss from continuing operations of \$1.7 million or (\$0.04) loss per share compared to \$0.5 million or (\$0.01) loss per share in the comparable period of 2006. The increase in the net loss for the three months ended June 30 2007 compared to 2006 is due to higher depreciation and amortization expense in the current year as a result of significant additions to equipment in the past year, which increased 127% since June 30, 2006, as well as higher interest costs for debt servicing due to higher debt brought about by the growth over the past two of years. Net earnings after the effect of discontinued operations for the six months ended June 30, 2007 was \$1.6 million or \$0.04 per share compared to \$1.3 million or \$0.03 per share for comparable period of the prior fiscal year representing an increase of 24%.

EBITDAS from continuing operations for the three months ended June 30, 2007 was \$1.1 million or \$0.03 per share compared to \$1.1 million, or \$0.03 per share, in the same three month period of 2006. For the six months ended June 30, 2007 EBITDAS was \$9.5 million or \$0.22 per share compared to \$6.4 million or \$0.16 per share in the same period of 2006, an increase of 49%. The increase in EBITDAS, despite a very difficult operating environment for the first half of 2007, particularly in the second quarter, is as a result of the continuing growth in revenue as discussed above coupled with gross margin improvements driven by cost containment across all divisions and above industry average utilization on service rigs. EBITDAS as a percentage of revenue was 25.1% for six months ended June 30, 2007 as compared to 22.1% 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 June 30, 2007 of \$6.9 million or 58% of total revenue for the quarter as compared to the corresponding period in 2006 of \$7.0 million or 63% of total revenue. For the six months ended June 30, 2007 revenue from Drilling and Production Services segment was \$26.7 million or 71% of total revenue as compared to the same period of 2006 of \$18.6 million or 65% of total revenue. The \$8.1 million or 44% increase in revenue for the six months ended June 30, 2007 over the same period in 2006 was the result of the first quarter addition of drilling rigs which contributed approximately \$4.1 million of the increase with the remainder coming from capital additions during fiscal 2006 and 2007 in service rigs and rental assets. Although equipment utilization during the second 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. During the six months month ended June 30, 2007 the Drilling and Production Services segment generated \$8.8 million of EBITDAS compared to \$6.1 million in the same period of 2006. For the three months ended June 30, 2007, the Drilling and Production Services segment generated positive EBITDAS of \$1.0 million compared to \$1.9 million in the same period of 2006 a decrease of 47%. The decrease in EBITDAS for the three month period was primarily from low equipment utilization during the quarter in rental assets and drilling rigs as well as with a portion of the costs for our rental asset service line being fixed in nature. The six month increase year over year comes from the addition of service rigs whereby the second quarter of 2007 began with 24 service rigs compared to 19 rigs in the second 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 six months of 2006.

Eagle Well Servicing (“Eagle”), which comprises a significant portion of the Drilling and Production Services segment, finished the second quarter of 2007 with a fleet of 26 service rigs of which 25 were actively working, an increase of 7 service rigs from the end of the second quarter of fiscal 2006. Eagle has experienced solid equipment utilization through the first half of fiscal 2007 in spite of the lower industry demand brought on by reduced commodity prices. Eagle plans to build and deploy 4 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. Revenue generated from Eagle during the second quarter was \$5.4 million compared to \$5.8 million in the same period of 2006. EBITDAS from Eagle was \$1.4 million compared to \$0.7 million for the comparable period of 2006, representing an increase of 100%. Despite the decreased in revenue the EBITDAS improved as a result of focus on cost containment during the traditional spring breakup and limited pressure in pricing. Revenue for the six months ended June 30, 2007 was \$18.3 million compared to \$15.7 million in 2006 an increase of 17%. Eagle generated EBITDAS of \$6.3 million compared to \$4.4 million in the same period of 2006 leading to an increase of 43%. To date, Eagle continues to meet its targeted numbers during the first half 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 delivered in early June and was deployed to the field. Mission Drilling, like many other drilling contractors, is subject to the usual seasonal declines in activity during the second quarter and this was further affected by excessive wet weather later in the quarter in some areas and below normal rig demand brought about by declining natural gas prices which has delayed many oil and gas producers drilling programs. Drilling rig industry activity during the second quarter of 2007 reached lows not seen in a decade. 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. Mission Drilling has contributed positively to the results generating approximately 15% of the total revenue for the Drilling and Production Services segment during the six months ended June 30, 2007. EBITDAS was \$1.2 million for the six months ended June 30, 2007.

Aero Rental Services (“Aero”) commenced commercial operations late in the third quarter of fiscal 2006. Aero provides rental equipment for surface pressure control in drilling and workover operations and tubular handling equipment in the workover, re-entry and completion areas. During the first half of fiscal 2007 Aero contributed \$2.1 million or 8% of the Drilling and Production Services segment total revenue, however, resulted in negative EBITDAS of \$0.4 million for the six month period. Aero was significantly affected by the slower activity during the second quarter with equipment utilization at very low levels. The costs in this division are somewhat fixed in nature and as such has led to negative EBITDAS during the second quarter of 2007. That being said with increased activity levels and expanded equipment inventories, Aero should generate higher gross margins as activity ramps up leading to better performance. Activity has improved in the early part of the third quarter as drilling activity has improved slightly. Management’s focus in Aero is to generate stable revenue and earnings streams as we continue to focus on sales and marketing efforts in this division. In order to be competitive and gain market share we must have an appropriate equipment base to offer customers and as such we expect to continue with internal capital growth within Aero through the end of fiscal 2007. Through the first half of fiscal 2007 we have \$3.0 million spent of the total \$4.7 million of planned capital expenditures for Aero. 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.

Envirocore continues to focus on internally generated growth initiatives to grow its lease and road construction business. While this division is small in comparison to our other service divisions in Drilling and Production Services segment 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. During the first half of fiscal 2007 this division generated approximately 9% of total segment revenue and contributed positively to the EBITDAS for the segment of approximately \$0.4 million.

### **TECHNOLOGY SERVICES**

The Technology Services segment generated revenue of \$4.9 million, or 42% of the Corporation's total revenue, for the three months ended June 30, 2007, compared to \$4.2 million or 37% of total revenue for the comparable period of fiscal 2006. For the six months ended June 30, 2007 revenue from Technology Services segment was \$11.1 million or 29% of total revenue as compared to the same period of 2006 of \$10.2 million or 35% of total revenue. The revenue increases of \$0.7 million or 19% and \$0.9 million or 8% for the three and six month period respectively, over the same three month period of 2006 was primarily bolstered by the results of Canada Tech which increased revenue by 34% and 28% in the three and six month periods. For the three months ended June 30, 2007, the Technology Services segment generated positive EBITDAS of \$0.9 million compared to \$0.1 million in the same period of 2006. This significant improvement was mainly as a result of strong performance from Canada Tech during the second quarter as this business is not as significantly impacted by seasonal weakness as a result of its exposure to international markets, however, profitability was partially offset by seasonal weakness and lower than normal industry activity levels in both Oricomm and IROC Safety Services during the quarter. EBITDAS for the six months ended June 30, 2007 was \$2.2 million compared to \$1.8 million during the same period of 2006, an increase of 26%. We are beginning to see the positive effect of the investment Canada Tech has made in 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 had been negative but management is confident that past initiatives are beginning to add to revenues and EBITDAS and should continue to do so in the 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 half of 2007 contributing revenue of approximately \$7.4 million or 64% of the total Technology Services segment revenue for the first half of 2007. Canada Tech does not generally experience the seasonal impact that the other businesses that IROC operate in due to its international operations exposure and therefore has more consistent EBITDAS returns from quarter to quarter. EBITDAS for Canada Tech for the three months ended June 30, 2007 was \$0.7 million compared to negative EBITDAS of \$0.3 million in the same period of 2006 representing an increase of 374%. For the six months ended June 30, 2007, EBITDAS was \$1.1 million compared to \$0.7 million in the same period of 2006, representing an increase of 63%. Both revenue and EBITDAS have improved year over year in the three and six month periods as a result of sales and marketing efforts into international markets supported by further manufacturing and production enhancements that focus on improved quality control and cost effective manufacturing. The rise in the Canadian dollar against most other major currencies has begun to put pressure on gross margins as a result of Canada Tech's exposure to international markets and we monitor pricing to ensure we are competitive and able to achieve appropriate margins. 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. Oricomm performed marginally below our expectations for the second quarter. Results during the first half of 2007 were above our expectations bolstered by a strong first quarter, as our products gain acceptance in the market. Oricomm generated approximately 21% of the total revenue for the Technology Services segment for the six months ended June 30, 2007 resulting in a positive EBITDAS of \$0.4 million for the six month period. For the three months ended June 30, 2007 results were below expectations for Oricomm generating \$0.6 million in revenue and negative EBITDAS of \$0.3 million. A significant portion of Oricomm's operating costs are fixed in nature and as such with the reduction in activity levels from seasonal weakness and low industry activity levels led to the decrease in profitability. The continued focus on marketing efforts in these services to develop new revenue sources

from additional customers and increase revenues from existing customers should continue to have positive impacts on the results for the remainder of the year. Additionally, our expertise in this area has allowed for the advancement of communication related projects in our other operating segments, particularly with Canada Tech and Eagle Well Servicing where pilot projects are underway.

IROC Safety provides safety equipment using 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 has performed below our expectations during the first half of fiscal 2007 generating 13% of the total revenue for the Technology Services segment. The lower industry activity year over year continues to have 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 six months ended June 30, 2007 was negative \$1.6 million compared to negative \$1.5 million for the comparable period of 2006.

### **RESULTS OF OPERATIONS**

#### **Revenue**

For the three months ended June 30, 2007, IROC recorded quarterly revenue from continuing operations of \$11.8 million compared to \$11.2 million in the same period of 2006, an increase of \$0.6 million or 5%. Revenue increased from \$37.8 million to \$28.8 million, an increase of 31%, for the six months ended June 30, 2007 compared to the same period in 2006. The year over year increases are due to the effect of capital expenditures on equipment in the past two years and continuing through fiscal 2007 with the purchase of four new drilling rigs, the addition of three new service rigs and approx. \$3.0 million worth of new rental equipment assets to date. The effect of 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 was felt during the second quarter as revenue from continuing operations increased marginally by 5% compared to the prior year quarter with equipment utilization lower year over year. While the demand for services continues to be low, we have increased revenue 31% year over year for the six month period. This was achieved from continued strong demand for our service rigs, the creation of Mission Drilling during the first quarter and exposure to international markets within Canada Tech not subject to the broad based slowdown in Canada.

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:

	<b><u>Three months ended June 30,</u></b>		<b><u>Six months ended June 30,</u></b>	
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
	<b>2007</b>	2006	<b>2007</b>	2006
<b>REVENUE SOURCE</b>				
Drilling and Production Services	<b>58%</b>	63%	<b>71%</b>	65%
Technology Services	<b>42%</b>	37%	<b>29%</b>	35%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

We expect the allocation of revenues for fiscal 2007 will be approximately 69% from Drilling and Production Services and 31% from Technology Services.

### Operating Costs and Gross Margin

For the three months ended June 30, 2007 operating costs of continuing operations were \$8.4 million (71% of revenue) as compared to \$8.2 million (73% of revenue) in the comparable period of 2006. Operating costs for the six months ended June 30, 2007 were \$23.1 million (61% of revenue) compared to \$18.8 million (65.2% of revenue) for the same period in 2006. Gross margin improved during the second quarter of 2007 moving to 29% versus 27% for the corresponding period in 2006 and was 39% compared to 35% for the six months ended June 30, 2007 and 2006 respectively. Historically, the second quarter gross margins are weaker than the average for the year as lower equipment utilization and fixed costs impact the overall margins during seasonally weaker periods. We estimate margins for fiscal 2007 in the range of 35% overall, as a result of lower industry activity levels and 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. 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 June 30, 2007 were \$2.3 million (19.5% of revenue) compared to \$2.0 million (17.5% of revenue) in the comparable period of 2006. For the six months ended June 30, 2007 G&A expenses were \$5.2 million (13.9% of revenue) compared to \$3.6 million (12.6% of revenue) for the same period in 2006. The year over year increases of \$0.3 million and \$1.6 million for the three and six month periods, respectively, are primarily attributable to our investment in the overall infrastructure costs in the past year to appropriately support and manage the growth of our businesses. 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 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 significant additional costs. While there are year over year increases it is worth noting that our G&A expenses have reduced from the previous quarter from \$2.9 million to \$2.3 million as we continue to implement cost reductions where possible. An overall focus is being made on efforts to reduce G&A in all areas to address the slowing market conditions and contain costs during these periods.

### Stock-based Compensation Expense

Stock-based compensation expense totaled \$0.2 million for the three months ended June 30, 2007 compared to \$0.4 million in the comparable period of 2006. For the six months ended June 30, 2007 stock-based compensation expense was \$0.4 million compared to \$0.7 million in the same 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 affected by conditions existing at the time of granting of the related stock options.

## Depreciation and Amortization

For the three months ended June 30, 2007 depreciation and amortization expense of continuing operations totalled \$2.3 million, an overall increase of 77% compared to \$1.3 million of depreciation and amortization in the corresponding period of 2006. Depreciation and amortization expense was \$4.7 million for the six months ended June 30, 2007 or 76% higher than the comparable six month period of 2006. The increase is a direct result of the Corporation's increases in the depreciable asset base from internal capital build programs and prior business acquisitions. For the six months ended June 30, 2007 and 2006, depreciation and amortization expense of continuing operations as a percentage of revenue was 12.5% and 9.3%, respectively. The value of assets subject to depreciation and amortization increased 127% year over year, which was primarily from the addition of 7 new service rigs since June 30, 2006 and four new drilling rigs at a cost of approximately \$34.1 million.

## Interest Expense

Interest expense increased by \$0.6 million for the three months ended June 30, 2007 compared to the same period in 2006. For the six months ended June 30, 2007 interest expense increased by \$1.2 million from the comparable period of 2006. The increase is due to the substantial increase in total debt from \$22.8 million to \$61 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. Net debt at June 30, 2006 was \$44.2 million compared to \$19.2 million at December 31, 2006, an increase of \$25 million, of which \$20 million arose from the purchase of drilling rigs and the remainder from additional capital expenditures primarily in service rigs and rental assets.

## Loss/Gain on disposal of Property and Equipment

For the three and six months ended June 30, 2007 the Corporation realized a gain on disposal of property and equipment of \$0.2 million. The current year gain relates primarily to the sale of a building during the second quarter coupled with disposal of service equipment, primarily services vehicles, during the first half of fiscal 2007.

## Income taxes

The total income tax expense for the six months ended June 30, 2006 totalled \$0.8 million as compared to \$0.6 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 months ended June 30, 2006 of \$2.3 million would have resulted in an income tax provision of approximately \$0.7 million compared to the actual provision booked of \$0.8 million. There was a reduction of approximately \$0.2 million for non-deductible items for income tax purposes offset by a reduction for current income tax expense for research and development tax credits claimed for 2006 and realized the current fiscal year. 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 June 30, 2007.

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

	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>	2006	2006	2005	2005
Revenue-continuing operations	<b>11,815</b>	<b>25,961</b>	<b>17,173</b>	<b>16,359</b>	11,203	17,577	13,493	7,350
Net earnings (loss) from continuing operations	<b>(1,682)</b>	<b>3,178</b>	<b>672</b>	<b>972</b>	(539)	2,001	1,064	542
Per share – basic	<b>(0.04)</b>	<b>0.08</b>	<b>0.02</b>	<b>0.03</b>	(0.02)	0.05	0.03	0.02
Per share - diluted	<b>(0.04)</b>	<b>0.08</b>	<b>0.02</b>	<b>0.03</b>	(0.02)	0.05	0.03	0.02
Net earnings (loss)	<b>(1,681)</b>	<b>3,256</b>	<b>(111)</b>	<b>934</b>	(781)	2,048	1,025	992
Per share – basic	<b>(0.04)</b>	<b>0.08</b>	<b>(0.01)</b>	<b>0.03</b>	(0.02)	0.05	0.03	0.03
Per share - diluted	<b>(0.04)</b>	<b>0.08</b>	<b>(0.01)</b>	<b>0.03</b>	(0.02)	0.05	0.03	0.03

## 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 June 30, 2007 the Corporation had positive working capital of \$7.0 million as compared to the negative working capital at June 30, 2006 of \$0.5 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 June 30, 2007 the Corporation utilized its existing credit facilities to acquire capital assets under its previously announced capital budget which has increased the total liabilities as at June 30, 2007.

As noted above on March 30, 2007, the Corporation amended its credit facility agreement with Canadian Western Bank increasing its total credit available 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. The original agreement expired on July 26, 2007 and was renewed for a period of 364 days to July 25, 2008. If not renewed on July 25, 2008, the facility is repayable over a period of three years. This revised credit facility also gives the Corporation 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 June 30, 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:

<b>Contractual Obligations</b>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Next 12 months</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Long-term debt	\$ 51,776	\$ 1,951	\$ 46,076	\$ 3,749	
Obligations under capital lease	\$ 2,223	\$ 881	\$ 1,342		
Operating leases(1)	\$ 5,938	\$ 1,647	\$ 2,804	\$ 854	\$ 633
<b>Total contractual obligations</b>	<b>\$ 59,937</b>	<b>\$ 4,479</b>	<b>\$ 50,222</b>	<b>\$ 4,603</b>	<b>\$ 633</b>

(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 June 30, 2007 were \$7.7 million, which included the addition of two new service rigs, drilling rig support equipment and various pressure control rental assets. For the six months ended June 30, 2006 capital expenditures of continuing operations were \$47.2 million which includes property and equipment purchases related to the purchase of the four drilling rigs during the first quarter for costs of approximately \$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 capital expenditures incurred during the first half of fiscal 2007:

- \$35.7 million for drilling rigs and related equipment;
- 6.5 million for service rigs and related equipment;
- 3.0 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
- 1.3 million for other ancillary operating equipment and infrastructure costs.  
\$47.2 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, followed by 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 half of fiscal 2007 totaling \$3.0 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:

- \$ 9.5 million for service rigs and related equipment;
- 1.7 million for continued build out of rental services equipment;
- 0.5 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.  
\$13.0 million

## **OUTSTANDING SHARE DATA**

Balance at January 1, 2007	38,017,080
Issued on acquisition of drilling rig equipment	6,200,000
Issued on exercise of stock options	34,000
<hr/>	
Balance at June 30, 2007	44,251,080

## **OFF BALANCE SHEET ARRANGEMENTS**

IROC has not entered into any off-balance sheet arrangements, except for various operating leases.

## **TRANSACTIONS WITH RELATED PARTIES**

There were no significant or material transactions with related parties during the three and six months ended June 30, 2007.

## **CHANGES IN ACCOUNTING POLICIES**

The Corporation prepares its financial statements in accordance with Canadian 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.

During the year the Corporation acquired drilling rig assets and is being amortized on a unit of production basis over on an estimated useful life of 3,650 days.

## **ACCOUNTING PRONOUNCEMENTS**

The CICA has issued two new accounting standards. 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 and six months ended June 30, 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:

<i>(in thousands of dollars)</i>	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<i>("Unaudited")</i>		<i>("Unaudited")</i>	
	2007	2006	2007	2006
Net earnings (loss) - continuing operations	(\$1,682)	(\$538)	\$1,496	\$1,463
Add:				
Depreciation and amortization	2,324	1,308	4,737	2,684
Other interest	245	90	449	126
Interest on long-term debt	631	166	1,186	332
Interest and accretion on debentures	236	236	472	472
Stock based compensation expense	201	401	387	663
Foreign exchange loss	84	60	92	40
Gain on disposal of equipment	(160)	(7)	(151)	(35)
	<u>1,879</u>	<u>1,716</u>	<u>8,668</u>	<u>5,745</u>
Income taxes:				
Current (recovery)	(49)	(104)	36	232
Future (recovery)	(721)	(538)	761	386
<b>EBITDAS - continuing operations</b>	<b>1,109</b>	<b>1,074</b>	<b>9,465</b>	<b>6,363</b>

## 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](http://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 June 30, 2007 since the annual report dated March 22, 2007.

## **OUTLOOK**

The first half of the year appears to have provided all the appropriate indicators for continued lower activity levels during the remainder of 2007. Demand for oilfield services has fallen significantly from levels seen in recent years. The recent build of underground natural gas storage levels and record industry equipment capacity are expected to keep equipment utilization levels at low levels with continued price competition. The increases in the North American natural gas supply has been driven by strong onshore drilling activity in the United States which has offset the anticipated production decrease of lower natural gas drilling in the Canadian market thought to help restore more normal gas storage levels. Further, the weakening of the U.S. dollar relative to the Canadian dollar has created an additional level of uncertainty for Canadian producers, further impacting near term prospects for improving demand for services. IROC expects that these conditions will persist until natural gas inventory levels fall to more normal levels and near term natural gas prices strengthen.

The above conditions are expected to continue into 2008. IROC expects that continued lower drilling activity to eventually help restore balance to North American gas storage levels and stimulate Canadian drilling and well servicing demand. Some of the factors that will impact this include lower initial well production, steep first-year production decline rates, lower service company pricing and rising natural gas consumption from North American economic growth.

Additionally, the ongoing negative effects of the decision by the federal government to alter the taxation on royalty trusts provide obstacles to the return of increased activity. The service activity from the royalty trusts themselves has not diminished, in fact in many cases have increased, but the effect on the field activity generated by the junior oil and gas companies has been very significant. The cost of capital has risen appreciably for junior oil and gas companies with the reduction in valuations brought about by the taxation change. The existence of a vibrant junior sector was due in large part to the ability of these companies to have an exit strategy, something that the trusts provided. This situation has contributed significantly to the changed operating landscape that has unfolded over the past nine months and will continue to have a negative effect in the foreseeable future.

**For further information, please contact:**

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Consolidated Financial Statements of

**IROC ENERGY SERVICES CORP.**

Three and six months ended June 30, 2007 and 2006

# IROC ENERGY SERVICES CORP.

## Consolidated Balance Sheets

Expressed in thousands of dollars  
(Unaudited)

	June 30, 2007	December 31, 2006
<b>Assets</b>		
Current assets:		
Cash	\$ 1	\$ 1
Accounts receivable	14,583	16,942
Inventory	5,306	4,027
Prepaid expenses and deposits	1,401	1,026
Assets of discontinued operations (note 10)	193	905
	<u>21,484</u>	<u>22,901</u>
Property and equipment (note 3)	93,953	51,867
Intangible assets (note 4)	5,727	6,314
Goodwill (note 5)	8,621	7,621
Assets of discontinued operations (note 10)	-	924
	<u>\$ 129,785</u>	<u>\$ 89,627</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Operating line of credit (note 6)	\$ 7,047	\$ 6,095
Accounts payable and accrued liabilities	4,223	6,511
Income taxes payable	366	435
Callable debt (note 6)	-	19,915
Current portion of long-term debt (note 6)	2,832	851
Liabilities of discontinued operations (note 10)	-	130
	<u>14,468</u>	<u>33,937</u>
Long-term debt (note 6)	44,614	1,792
Non-convertible debentures (note 6)	6,553	6,361
Future income taxes	3,650	2,960
Shareholders' equity:		
Share capital (note 7)	51,547	37,585
Warrants	828	828
Contributed surplus (note 7)	2,210	1,824
Retained earnings	5,915	4,340
	<u>60,500</u>	<u>44,577</u>
	<u>\$ 129,785</u>	<u>\$ 89,627</u>

See accompanying notes to the interim consolidated financial statements.

Approved on behalf of the Board:

"Tom Alford" Director  
"Brian Neeland" Director

# IROC ENERGY SERVICES CORP.

## Consolidated Statements of Earnings and Retained Earnings

Expressed in thousands of dollars except share and per share amounts  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenue	\$ 11,815	\$ 11,202	\$ 37,777	\$ 28,780
Expenses:				
Operating	8,402	8,173	23,074	18,778
General and administrative	2,304	1,954	5,238	3,639
Stock-based compensation	201	401	387	663
Depreciation and amortization	2,324	1,308	4,737	2,684
Interest and accretion on debentures	236	236	472	472
Interest on long-term debt	631	166	1,186	332
Other interest	245	90	449	126
Gain on disposal of equipment	(160)	(7)	(151)	(35)
Foreign exchange loss	84	60	92	40
	14,267	12,381	35,484	26,699
Earnings (loss) before income taxes from continuing operations	(2,452)	(1,179)	2,293	2,081
Income taxes (recovery):				
Current	(49)	(104)	36	232
Future	(721)	(537)	761	386
Net earnings (loss) from continuing operations	(1,682)	(538)	1,496	1,463
Net earnings (loss) from discontinued operations (note 10)	1	(242)	79	(195)
Net earnings (loss)	(1,681)	(780)	1,575	1,268
Retained earnings, beginning of period	7,596	4,298	4,340	2,250
Retained earnings, end of period	\$ 5,915	\$ 3,518	\$ 5,915	\$ 3,518
Earnings (loss) per share from continuing operations:				
Basic	\$ (0.04)	\$ (0.01)	\$ 0.04	\$ 0.04
Diluted	\$ (0.04)	\$ (0.01)	\$ 0.04	\$ 0.04
Earnings (loss) per share from discontinued operations:				
Basic	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.01)
Diluted	\$ 0.00	\$ (0.01)	\$ 0.00	\$ (0.01)
Earnings (loss) per share:				
Basic	\$ (0.04)	\$ (0.02)	\$ 0.04	\$ 0.03
Diluted	\$ (0.04)	\$ (0.02)	\$ 0.04	\$ 0.03
Weighted average number of shares outstanding:				
Basic	44,226,794	37,850,981	42,612,019	37,704,318
Diluted	44,343,450	38,634,645	42,731,012	38,666,179

See accompanying notes to the interim consolidated financial statements.

# IROC ENERGY SERVICES CORP.

Consolidated Statements of Cash Flows  
Expressed in thousands of dollars  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Cash provided by (used in):				
Operations:				
Net earnings (loss) from continuing operations	\$ (1,682)	\$ (538)	\$ 1,496	\$ 1,463
Items not affecting cash:				
Depreciation and amortization	2,324	1,308	4,737	2,684
Future income taxes	(721)	(537)	761	386
Stock-based compensation	201	401	387	663
Non-cash accretion on debentures	96	96	192	192
Gain on disposal of property and equipment	(160)	(7)	(151)	(35)
	58	723	7,422	5,353
Changes in non-cash working capital balances (note 8)	4,987	3,193	(285)	(1,055)
	5,045	3,916	7,137	4,298
Discontinued operations (note 10):				
Funds provided by (used in) discontinued operations	1	(198)	29	(103)
Changes in non-cash working capital balances of discontinued operations	317	877	582	498
	5,363	4,595	7,748	4,693
Investing:				
Purchase of property and equipment of continuing operations	(7,709)	(4,429)	(13,284)	(7,982)
Proceeds on disposal of equipment from discontinued operations	-	-	903	-
Proceeds on disposal of property and equipment from continuing operations	1,242	30	1,348	109
Business acquisitions (note 5)	(1,000)	-	(1,000)	-
Intangible asset expenditures	-	(263)	-	(332)
Change in non-cash working capital balances (note 8)	624	(352)	(1,367)	(1,474)
	(6,843)	(5,014)	(13,400)	(9,679)
Financing:				
Issue of common shares	12	213	12	847
Operating loan advances	(3,544)	257	953	4,703
Repayment of long-term debt	(211)	(247)	(420)	(538)
Deferred financing costs	-	-	(200)	-
Issue of long-term debt	5,223	657	5,307	714
Repayment of callable term debt	-	(461)	-	(926)
	1,480	419	5,652	4,800
Decrease in cash	-	-	-	(186)
Cash at beginning of period	1	1	1	187
Cash at end of period	\$ 1	\$ 1	\$ 1	\$ 1

See accompanying notes to consolidated financial statements.

# IROC ENERGY SERVICES CORP.

Notes to Consolidated Financial Statements

Expressed in thousands of dollars except share and per share amounts  
Three and six months ended June 30, 2007 and 2006  
(Unaudited)

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## 1. Basis of presentation:

On May 9, 2007 the shareholders voted to approve the change of the name of the Corporation to IROC Energy Services Corp. from IROC Systems Corp. IROC Energy Services Corp. (the "Corporation") is a Canadian corporation supplying equipment and personnel to oil and gas contractors and producers. 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 and six months ended June 30, 2007 and 2006.

### 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 ENERGY SERVICES CORP.

Notes to Consolidated Financial Statements

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## 1. Basis of presentation (continued):

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 and six months ended June 30, 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 Corporation's financial statements commencing January 1, 2008 about the Corporation's financial instruments and the Corporation's capital with a description as to how it is managed. In addition there is a new standard related to the measurement and disclosure of inventory which will be applied retrospectively effective January 1, 2008. Management is assessing the impact of these changes.

## 2. Seasonality:

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

# IROC ENERGY SERVICES CORP.

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### 3. Property and equipment:

	Cost	Accumulated depreciation	June 30, 2007 Net book value	December 31, 2006 Net book value
Service rig equipment	\$ 47,696	\$ 6,544	\$ 41,152	\$ 36,530
Drilling rig equipment	34,490	447	34,043	—
Rental equipment	7,469	615	6,854	4,307
Heavy equipment	7,745	1,838	5,907	4,966
Field equipment	6,768	3,240	3,528	3,645
Other equipment	2,120	1,163	957	899
Trailers	1,838	1,028	810	861
Leasehold improvements	765	193	572	514
Data acquisition centre	353	223	130	145
	\$ 109,244	\$ 15,291	\$ 93,953	\$ 51,867

On February 16, 2007 the Corporation completed the purchase of four drilling rigs from JMAC Drilling Ltd. ("JMAC") for total consideration of \$33,950 plus transaction costs of \$171. 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. The promissory notes 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 only 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. The drilling rig equipment is being amortized on a unit of production basis over an estimated useful life of 3,650 days.

# IROC ENERGY SERVICES CORP.

Notes to Consolidated Financial Statements

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## 4. Intangible assets:

Intangible assets consist of the following:

			June 30, 2007	December 31, 2006
	Cost	Accumulated amortization	Net book value	Net book value
Intangible assets	\$ 6,699	\$ 1,664	\$ 5,035	\$ 5,529
Pre-operating expenditures	770	128	642	719
Deferred financing costs	275	225	50	66
	\$ 7,744	\$ 2,017	\$ 5,727	\$ 6,314

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

## 5. Goodwill:

On October 31, 2005, the Corporation acquired all of the issued and outstanding shares of Canada Tech Corp. for \$5,418 in cash and 2,328,452 common shares of the Corporation at the fair value of \$2.827 per share. Included in the purchase agreement was additional contingent consideration of up to \$8,000 due in the event Canada Tech met certain revenue and earnings targets for a 24 month period following the acquisition. During the current fiscal year, the Corporation has recorded an increase in goodwill to reflect the payment of an additional \$1,000 to the former shareholders of Canada Tech as a result of certain revenue targets being met.

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### 6. Long term debt:

	June 30, 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 June 30, 2007 was 7.25%. The facility expires on April 30, 2008 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	25,223	—
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	—
Unsecured non-convertible debentures, interest at 8% payable quarterly, principal repayable on September 12, 2008 The debentures are non-transferable.	6,553	6,361
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	2,223	2,643
	53,999	9,004
Less current portion	2,832	851
	\$ 51,167	\$ 8,153

On March 30, 2007, the Corporation executed an amendment to its credit facility with Canadian Western Bank. The credit facility was increased to a total availability 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.

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## 7. 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	\$ 37,585
Issued on purchase of drilling rig equipment (note 3)	6,200,000	13,950
Issued on exercise of options	34,000	12
Balance at June 30, 2007	44,251,080	\$ 51,547

(c) Stock options:

Changes in the number of common shares under option during the six month period ended June 30, 2007 are summarized as follows:

	Number of options	Weighted average price
Total options outstanding, December 31, 2006	1,804,833	\$ 2.75
Granted	490,000	2.03
Exercised	(34,000)	0.35
Forfeited	(80,000)	3.06
Outstanding, June 30, 2007	2,180,833	\$ 2.62
Exercisable at June 30, 2007	1,107,492	\$ 2.67

The average fair value of options issued during the six months ended June 30, 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 \$387 (2006 - \$663) for the six months ended June 30, 2007. Contributed surplus was reduced and share capital was increased by \$nil (2006 - \$18) for options that were exercised during the six months ended June 30, 2007.

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## 8. Supplemental cash flow information:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Interest paid	\$ 1,012	\$ 415	\$ 1,912	\$ 720
Income taxes paid	\$ 90	\$ -	\$ 91	\$ -
Changes in non-cash working capital components of continuing operations:				
Accounts receivable	\$ 8,713	\$ 4,894	\$ 2,359	\$ 400
Inventory	(264)	(986)	(1,279)	(1,191)
Prepaid expenses	94	(633)	90	(145)
Accounts payable and accrued liabilities	(3,403)	22	(1,386)	(351)
Income taxes payable	(153)	(104)	(69)	232
	\$ 4,987	\$ 3,193	\$ (285)	\$ (1,055)
Changes in non-cash working capital items in investing activities:				
Deposits on capital assets	\$ 323	\$ (590)	\$ (465)	\$ (1,474)
Deferred development costs	-	238	-	-
Accounts payable on capital assets	301	-	(902)	-
	\$ 624	\$ (352)	\$ (1,367)	\$ (1,474)

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### 9. Segmented information:

As at June 30, 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 June 30, 2007	Drilling and Production Services	Technology Services	Corporate	Total
Revenue	\$ 6,873	\$ 4,942	\$ -	\$ 11,815
Depreciation and amortization	1,261	833	230	2,324
Interest on callable and long-term debt	-	-	876	876
Interest and accretion on debentures	-	-	236	236
Net earnings (loss) – continuing operations	(274)	76	(1,484)	(1,682)
Intangible assets	891	4,786	50	5,727
Goodwill	1,340	7,281	-	8,621
Property and equipment	86,858	5,872	1,223	93,953
Capital expenditures*	7,296	273	140	7,709

\* Excludes property and equipment acquired on business acquisitions

Three months ended June 30, 2006	Drilling and Production Services	Technology Services	Corporate	Total
Revenue	\$ 7,043	\$ 4,159	\$ -	\$ 11,202
Depreciation and amortization	753	508	47	1,308
Interest on callable and long-term debt	-	-	256	256
Interest and accretion on debentures	-	-	236	236
Net earnings (loss) – continuing operations	1,122	(444)	(1,216)	(538)
Intangible assets	333	5,713	15	6,061
Goodwill	1,340	5,710	-	7,050
Property and equipment	34,290	5,231	785	40,306
Capital expenditures*	4,010	270	149	4,429

\* Excludes property and equipment acquired on business acquisitions

# IROC ENERGY SERVICES CORP.

## Notes to Consolidated Financial Statements

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### 9. Segmented information (continued):

Six months ended June 30, 2007	Drilling and Production Services	Technology Services	Corporate	Total
Revenue	\$ 26,712	\$ 11,065	\$ -	\$ 37,777
Depreciation and amortization	2,803	1,573	361	4,737
Interest on callable and long-term debt			1,635	1,635
Interest and accretion on debentures			472	472
Net earnings (loss) – continuing operations	6,017	662	(5,183)	1,496
Intangible assets	891	4,786	50	5,727
Goodwill	1,340	7,281	-	8,621
Property and equipment	86,858	5,872	1,223	93,953
Capital expenditures*	46,414	634	186	47,234

\* Excludes property and equipment acquired on business acquisitions

Six months ended June 30, 2006	Drilling and Production Services	Technology Services	Corporate	Total
Revenue	\$ 18,579	\$ 10,201	\$ -	\$ 28,780
Depreciation and amortization	1,458	1,146	80	2,684
Interest on callable and long-term debt	-	-	458	458
Interest and accretion on debentures	-	-	472	472
Net earnings (loss) – continuing operations	4,599	624	(3,760)	1,463
Intangible assets	333	5,713	15	6,061
Goodwill	1,340	5,710	-	7,050
Property and equipment	34,290	5,231	785	40,306
Capital expenditures*	6,893	848	241	7,982

\* Excludes property and equipment acquired on business acquisitions

Approximately 10.3 % (2006 - 12.2%) of the Corporation's total sales for the period were derived from one customer. This accounts for 14.6% (2006 - 19.5%) of revenue in the Drilling and Production Services division and 0.4% (2006 - 0.0%) of the Technology Services division.

### 10. 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.

# IROC ENERGY SERVICES CORP.

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## 10. Discontinued operations (continued):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenue from discontinued operations	\$ 4	\$ 441	\$ 277	\$ 1,864
Earnings (loss) from discontinued operations before income taxes	1	(234)	29	(175)
Income taxes – future (recovery)	-	8	(71)	20
Earnings (loss) from discontinued operations before the following:	1	(242)	100	(195)
Loss on disposal of net assets from discontinued operations	-	-	(21)	-
Net earnings (loss) from discontinued operations	\$ 1	\$ (242)	\$ 79	\$ (195)

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

	June 30, 2007	December 31, 2006
Inventory	\$ -	\$ -
Accounts receivable	193	905
	193	905
Property and equipment	-	924
Liabilities of discontinued operations	\$ -	\$ 130

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## 10. Discontinued operations (continued):

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net earnings (loss) from discontinued operations	\$ 1	\$ (242)	\$ 79	\$ (195)
Items not affecting cash:				
Depreciation and amortization	-	36	-	72
Loss on disposal of net asset from discontinued operations	-	-	21	-
Future taxes (recovery)	-	8	(71)	20
Funds provided by (used in) discontinued operations	\$ 1	\$ (198)	\$ 29	\$ (103)
Components of change in non -cash working capital balance of discontinued operations:				
Accounts receivable	\$ 317	\$ 1,179	\$ 712	\$ 1,070
Accounts payable and accrued liabilities	-	(302)	(130)	(572)
	\$ 317	\$ 877	\$ 582	\$ 498

## 11. Comparative figures:

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

# CORPORATE DIRECTORY

## CORPORATE HEADQUARTERS

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Fax: 403-346-9770

## EXECUTIVE OFFICE

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Calgary, Alberta T2P 2X6

Phone: 403-263-1110  
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## PRINCIPAL BANK

Canadian Western Bank  
Red Deer, Alberta

## AUDITORS

KPMG LLP  
Chartered Accountants  
Calgary, Alberta

## LEGAL COUNSEL

McCarthy Tetrault LLP  
Barristers & Solicitors  
Calgary, Alberta

## TRANSFER AGENT

Computershare Investor Services  
Calgary, Alberta

## TRADING INFORMATION

Symbol: ISC

TSX  
Calgary, Alberta

Website: [www.iroccorp.com](http://www.iroccorp.com)  
E-mail: [investorrelations@iroccorp.com](mailto:investorrelations@iroccorp.com)

## DIRECTORS

Brian D. Neeland  
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

