



## 2008 SECOND QUARTER REPORT (UNAUDITED)

### Report Contents

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**TSX: ISC**

**JUNE 30, 2008**

*Partnerships*  
in HEALTH and SAFETY

<i>Profile</i>	2
<i>President's Message</i>	3 - 4
<i>Management's Discussion &amp; Analysis</i>	5 - 16
<i>Balance Sheet</i>	18
<i>Statement of Earnings</i>	19
<i>Statement of Cash Flows</i>	20
<i>Notes to the Statements</i>	21 - 33
<i>Corporate Directory</i>	34



## 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 wholly-owned subsidiary companies. We remain committed to the principle that has driven our business from day one: to consistently address the complex and ever changing needs of the oilfield service business by providing innovative, industry leading solutions through innovative thinking, quality equipment and highly trained personnel. The Corporation operates in two main segments as follows:

**Drilling and Production Services** which includes:

- Well servicing rigs and equipment
- Oilfield rental equipment and services
- Drilling rigs and equipment
- Lease building and road construction

**Technology Services** which includes:

- Manufacture of downhole pressure and temperature measurement tools
- Safety and air monitoring services
- Remote communication products and services



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

Dear Shareholders,

Despite significant reductions in revenues as are normally experienced every year during the breakup period, the industry began to see some signs of increasing future activity this year as the second quarter unfolded. Continuing high oil prices, tighter gas supplies and developing new resource plays in Saskatchewan and British Columbia have all contributed to a general optimism for the second half of 2008 and into 2009. While IROC has seen continued strength in some of its businesses, some of the operations that were more directly affected by the slowdown are beginning to rebound as E&P budgets are increased. The second quarter of 2008 might well be looked back on as the turning point in the fortunes of the oil and gas services industry in Western Canada after two years of reduced activity.

The second quarter started strong due to the industry catching up on a late winter surge in drilling activity, but the full quarter results were tempered somewhat by an extended break-up with wet weather becoming the norm during May and much of June. IROC was able to increase revenues during the quarter but saw EBITDA drop on a year over year basis as higher operating costs, a weak US dollar and a changing sales mix all having an effect on the EBITDA. Revenues of \$13.4 million were recorded during the quarter, an increase of 13% as compared to Q2 2007, providing confidence that activity in Canada will be increasing during the coming months and we believe the return of higher activity levels in the Canadian market will help each of our divisions post better returns.

Demand in our Eagle Well Servicing division continues to be strong with utilization of 36% during the quarter, again at the top of our peer group. The service rig operation continues to prove its value to customers across the WCSB, with new equipment, efficient operations and competent personnel. The establishment of a new base in SE Saskatchewan and sufficient demand to initiate a build of six additional free standing double service rigs were two of the highlights of the division during the second quarter. We expect that two rigs will be deployed near the end of the third quarter, two in Q4 and the final rig in early 2009.

Mission Drilling performed beyond expectations during the quarter, posting revenues of \$1.7 million on utilization of 29%. Steps were taken to mobilize the fourth rig back into the field with modifications converting it to a 3400 meter telescopic double in anticipation of increased activity levels through the remainder of the year. With four of the newest drilling rigs in the Western Canadian fleet, deeper depth capacity and continued migration of equipment out of Canada, management is confident that our drilling operations will achieve increasing returns as the year unfolds.

Canada Tech endured a difficult second quarter, especially when compared to the strong performance posted in 2007. The effect of the stronger Canadian dollar continues to significantly affect our international operations while our customer base in the Canadian market, mainly other service providers, continue to suffer the effects of the prolonged downturn in activity. However, there have been significant efforts put into new products, increased support for our marketing efforts and continued cost management initiatives put in place during the first half of 2008 are expected to help the division achieve better results during the remainder of the year.

Aero Rentals earned revenues of \$0.6 million during the second quarter as compared to \$0.3 million during the corresponding period in 2007. Increased drilling activity toward the end of Q1 spilled into Q2 and contributed to the better results and provided increased expectations for the remainder of the year. The base for a successful business has been established with strong management and quality equipment. The addition of more equipment to the Aero rental fleet is a priority and will be undertaken as capital funds become available.

Envirocore, operating only in NE British Columbia, has been a beneficiary of the changing operating environment of the past few months. Increased activity in the area fueled by higher natural gas prices and new capital injection into the area, due to favorable operating economics relatively, have contributed to this division's continued momentum that began during 2007. Revenues during the second quarter were hampered

somewhat by wet weather but significant amounts of work has been identified that should provide the division to meet or exceed expectations for the remainder of 2008.

Oricomm is another benefactor of the increasing price of natural gas and increased activity in specific parts of the WCSB. As discussed previously Oricomm has defined its niche, with the bulk of its operations in areas where technically advanced communications, flare management expertise and quality equipment are required. With the increasing environmental concerns facing the industry we anticipate being able to meet expectations over the coming months in this area of our business.

I would also like to specifically address the Company's need to negotiate a waiver of one of the financial covenants contained in the Company's Credit Facility and put the breach into context for our shareholders. Expansion of our capital asset base through the past two years has been accomplished mostly through the use of conventional bank debt. IROC has built new service rigs, added new drilling rigs and continued to expand our other businesses with the introduction of new equipment and technologies. Despite the fact that we have reduced debt substantially over the first half of the year, with the prolonged downturn in activity we came to a point where our EBITDA to Debt ratio did not meet the target at the end of Q2. Essentially this was simply a technical breach and while only marginally off the target, a waiver of the ratio was required which was obtained from our bank. Management is working diligently on a number of options to rectify the situation, with a combination of increasing cash flow from a larger fleet of equipment and debt reduction through a number of means being central to the strategy. Given the renewal of our capital expansion plans it is evident that there is a great deal of confidence in our operations and ability to work our way through the current situation. As cash flow remains very strong on a comparative basis, our business continues to grow and the options to remedy our situation are numerous.

Also, management and the Board of Directors of IROC remain concerned about the lagging share price of the Company. While some of the factors contributing to this situation can be attributed to factors outside our control, we believe that the market continues to price the stock well below actual value. Accordingly, a Special Committee of the Board has been struck to investigate any and all options that may be available to the Company to provide the best return possible for our shareholders. An appropriate valuation of our business is important as we capitalize on our growth opportunities; especially given the optimism that is beginning to become evident as we enter the second half of 2008. The process will be carried out over a period of time and has no predetermined or preconceived outcome.

In summary, the Q2 2008 revenues beat the previous years Q2 revenue by a significant margin, providing the change in momentum required to reach our targeted goals for the year. The increase in activity continues as we enter Q3 but the entire industry is waiting for confirmation with substantial increases expected during the winter months. The additional equipment expected to come on line, along with expected increases in utilization will show the capability of IROC Energy Services to deliver stronger returns in the coming quarters. Our balance sheet continues to be a focus and steps will be taken during the coming months to ensure that we can continue to take advantage of the opportunities that are available to us while also balancing our capital structure requirements. The impending changes in the operating environment in Western Canada will allow for management to focus our efforts on the areas providing the greatest returns, both in the short and long run, and set the Company up to continue to participate in the oil and gas services business in a meaningful way in the coming years.

We thank our shareholders for their continued support.

Respectfully submitted,



Thomas M. Alford  
IROC Energy Services Corp.  
President and CEO



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

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

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

	<u>For the 3 months ended June 30,</u>			<u>For the 6 months ended June 30,</u>		
	<i>(Unaudited)</i>			<i>(Unaudited)</i>		
	2008	2007	% Change	2008	2007	% Change
Revenue - continuing operations	<b>\$13,359</b>	\$11,815	<b>13%</b>	<b>\$38,970</b>	\$37,777	<b>3%</b>
Operating costs	<b>10,205</b>	8,402	<b>21%</b>	<b>25,975</b>	23,074	<b>13%</b>
Gross margin	<b>3,154</b>	3,413	<b>-8%</b>	<b>12,995</b>	14,703	<b>-12%</b>
Gross margin %	<b>24%</b>	29%	<b>-17%</b>	<b>33%</b>	39%	<b>-15%</b>
General and administrative expenses	<b>2,395</b>	2,304	<b>4%</b>	<b>4,770</b>	5,238	<b>-9%</b>
EBITDAS - continuing operations <sup>(1)</sup>	<b>759</b>	1,109	<b>-32%</b>	<b>8,225</b>	9,465	<b>-13%</b>
Per share diluted	<b>0.02</b>	0.03	<b>-33%</b>	<b>0.19</b>	0.22	<b>-14%</b>
Net earnings (loss) - continuing operations	<b>(2,170)</b>	(1,682)	<b>-29%</b>	<b>540</b>	1,496	<b>-64%</b>
Per share diluted	<b>(0.05)</b>	(0.04)	<b>-25%</b>	<b>0.01</b>	0.04	<b>-38%</b>
Net earnings (loss)	<b>(2,170)</b>	(1,681)	<b>-29%</b>	<b>540</b>	1,575	<b>-66%</b>
Per share diluted	<b>(0.05)</b>	(0.04)	<b>-25%</b>	<b>0.01</b>	0.04	<b>0%</b>
Number of shares outstanding						
Basic	<b>44,301,080</b>	44,226,794	<b>0%</b>	<b>44,276,080</b>	42,612,019	<b>4%</b>
Diluted	<b>44,321,531</b>	44,343,450	<b>0%</b>	<b>44,304,325</b>	42,731,012	<b>4%</b>

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

This Management's Discussion and Analysis (MD&A), dated August 6, 2008, 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, 2008 as compared to the three and six months ended June 30, 2007, 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, 2008 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**

As expected, the seasonal weakness of spring break-up during the second quarter led to varied results in the industry and IROC was not immune to this in certain of its divisions. Strengthening fundamentals driven by higher commodity pricing, particularly natural gas beginning early in the quarter, created strong demand through April, however, the demand was muted as wet weather played a significant factor through much of the remainder of the quarter. Natural gas prices and the development of unconventional resource properties by operators needing to address reserve replacement have generated renewed optimism among oilfield service providers in Western Canada in demand for its equipment and the corresponding pricing trends. Natural gas activities have historically represented the bulk of activities in Western Canada and this trend will continue and in order for producers to increase activity, in any meaningful way, they will be looking for sustained pricing of the commodity. With the improved fundamentals, many oil and gas producers appear to be accelerating their plans for drilling which will positively impact the industry.

Revenue for the six months ended June 30, 2008 was \$39 million compared to \$37.8 million, representing an increase of 3%. IROC's revenue from continuing operations for the three months ended June 30, 2008 increased 13%, from \$11.8 million to \$13.4 million compared to the same period in 2007. Revenue increased year over year for both the three and six months as a result of additional equipment capacity from internal growth initiatives. Although IROC had additional equipment capacity year over year from the organic build program completed in fiscal 2007, additional revenue growth was hampered as a result of lower utilization in most of its service lines consistent with the seasonal slowdown during the second quarter break-up period. Demand for our service rigs continues to be strong with utilization remaining consistent with the prior year while pricing decreased slightly over the prior year as a result of increased competition. The revenue mix year over year changed with an unexpected strong quarter being posted from our drilling division.

EBITDAS from continuing operations for the three months ended June 30, 2008 was \$0.8 million or \$0.02 per share compared to \$1.1 million, or \$0.03 per share, in the same three month period of 2007. For the six months ended June 30, 2008 EBITDAS was \$8.2 million or \$0.19 per share compared to \$9.5 million or \$0.22 per share in the same period of 2007, a decrease of 13%. The decrease in EBITDAS is a result of competitive pricing for our services and products and lower activity levels in some divisions. Additionally, operating costs were higher as recruitment of skilled personnel remains a challenge, fuel costs are at record highs and general overall costs associated with field activities have not moved directionally with lower demand. EBITDAS as a percentage of revenue was 21.1% for six months ended June 30, 2008 as compared to 25.1% for the same period of 2007.

The Corporation recorded net earnings from continuing operations of \$0.5 million, or \$0.01 per share, for the six months ended June 30, 2008 compared to net earnings of \$1.5 million, or \$0.04 per share for the comparable period in 2007. For the three months ended June 30, 2008 IROC incurred a net loss from continuing operations of \$2.2 million or (\$0.05) loss per share compared to \$1.7 million or (\$0.04) loss per share in the comparable period of 2007. The decrease in the net earnings for 2008 compared to 2007 is due to higher depreciation and amortization expense in the current year as a result of significant additions to equipment in the past year, higher interest costs for debt servicing due to higher debt incurred to support the growth over the past two years and lower margins in most of our services and products as a result of lower utilization, higher operating costs and lower prices in some cases.

We are confident that our financial performance will continue to improve as the efficiencies associated with more equipment reaching the field are realized. Our capital expenditure program from 2007, which focused primarily on the expansion of Eagle Well Servicing and Aero Rentals based upon the continued demand for the products and services offered by these divisions, should lead to further benefits in the coming months. In response to the improved fundamentals for the industry, our Board of Directors have approved an additional expansion of our service rig fleet with the construction of 6 new freestanding double service rigs at a total cost of approximately \$12.6 million. It is anticipated that delivery of these rigs will commence early in the fourth quarter of 2008 with the last rig to likely be deployed in early January of 2009. Further, IROC is in the process of converting its fourth drilling rig from a single to a double with depth capacity to 3400 meters in order to address the growing demand in this particular segment of the market.

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, 2008 of \$9.8 million or 73% of total revenue for the quarter as compared to the corresponding period in 2007 of \$6.9 million or 58% of total revenue. For the six months ended June 30, 2008 revenue from Drilling and Production Services segment was \$29.5 million or 76% of total revenue as compared to the same period of 2007 of \$26.7 million or 71% of total revenue. The \$2.8 million or 11% increase in revenue for the six months ended June 30, 2008 over the same period in 2007 comes from additional equipment capacity being available during the current year as compared to the same periods of the prior year. Although equipment utilization during the first quarter of 2008 was lower than the comparable period of 2007 as a result of reduced demand in activity in the industry as whole we were able to exceed industry averages for utilization in both the well servicing and drilling rig portions of this segment during the second quarter in comparison to the same quarter in 2007. During the six months ended June 30, 2008 the Drilling and Production Services segment generated \$9.2 million of EBITDAS compared to \$8.8 million in the same period of 2007. For the three months ended June 30, 2008, the Drilling and Production Services segment generated positive EBITDAS of \$1.8 million compared to \$1.0 million in the same period of 2007 an increase of 82%. The increase in EBITDAS for the three month period and the six month period was from higher equipment utilization in drilling rigs, additional equipment capacity in Aero and Eagle. Profitability was partially offset by lower margins as a result of higher operating costs, particularly with record high fuel prices and increased repairs and maintenance costs.

Eagle Well Servicing (“Eagle”), which comprises a significant portion of the Drilling and Production Services segment, finished the second quarter of 2008 with a fleet of 30 service rigs, an increase of 4 service rigs from the end of the second quarter of fiscal 2007. Eagle experienced solid equipment utilization of 50% through the first half of fiscal 2008, 63% in the first quarter and 36% during the second quarter, in spite of the lower industry demand. Management believes the higher utilization is driven from having one of the newest fleets of equipment in the industry which translates into higher efficiency for producers. Eagle plans to build and deploy six additional service rigs during the second half of 2008 to bring its total fleet of service rigs to 36 by the end of January of 2009. Revenue generated from Eagle during the second quarter was \$6.9 million compared to \$5.4 million in the same period of 2007, an increase of 26%. EBITDAS in the second quarter from Eagle was essentially flat year over year at \$1.8 million. Revenue increased as a result of the additional equipment capacity. Despite the increased in revenue, profitability remained flat. Pricing during the second quarter of 2008 was down only slightly by 1.4% compared to the same period in 2007. EBITDAS during the second quarter and the year to date have been affected by higher variable operating costs in fuel prices, repairs and maintenance costs, higher field wage costs and travel and mileage expenses. Eagle has implemented pricing adjustments to attempt to address the soaring costs of fuel and to improve margins. Also, during the second quarter of 2008 Eagle opened a new field office in Estevan, Saskatchewan and moved two of its existing rigs into the region, with a third rig now moved in to the region and working in July. Costs associated with the decision to start-up operations in this region were absorbed during the second quarter and we should see positive contributions from this area in the coming quarters coupled with additional equipment capacity as new equipment being constructed is planned for deployment in this region. Eagle continues to be one of our best performing businesses in terms of revenue, profitability and return on capital employed and we expect this trend to continue in fiscal 2008. While utilization is lower than anticipated during the quarter and year to date, we are optimistic about the remainder of fiscal 2008 as customer demand for our premium equipment and services and improved industry fundamental for producers are suggesting potential improved results for the remainder of 2008 and into 2009.

Mission Drilling (“Mission”), like many other drilling contractors, is subject to the usual seasonal declines in activity during the second quarter. Industry activity levels were impacted by an extended spring break-up with wet weather through much of May and June. However, Mission’s utilization for the second quarter of fiscal 2008 was approximately 29% which was a significant improvement from the prior year and well above the industry average. As management was in the initial stages of developing a market for its newly created drilling division in 2007 we are now seeing the effects of our marketing efforts as well as the customers demand for high quality rigs. Utilization was 41% for the six month period compared to 32% in the same period of 2007 and slightly above industry average utilization for the six month period. Drilling rig day rates appear to have stabilized where pricing pressure was created from low demand and high rig capacity. Revenue for the second quarter was \$1.7 million compared to \$0.5 million in the comparable period of the prior year. EBITDAS was

positive \$0.4 million for the three months ended June 30, 2008 compared to negative \$0.2 million in the same period of 2007. Revenue for the six months ended June 30, 2008 increased approximately 20% to \$4.8 million compared to \$4.1 million in the same period of 2007. EBITDAS for the six months ended June 30, 2008 was \$1.3 million compared to \$1.4 million in 2007. The increase in EBITDAS during the second quarter is primarily a result of improved utilization of equipment and the year to date decrease is minimal as a result of better utilization and management of costs. Lower drilling rig day rates has reduced profitability as costs of operating, which consist predominantly of wages and benefits, have not reduced in the same way. The ability to source qualified personnel has become increasingly difficult even though overall industry activity levels are down as more people have permanently migrated away from the industry. The second half of fiscal 2008 appears to have improved opportunity for contract drilling services given the improved fundamentals in natural gas markets and greater certainty in royalty structures as operators are looking toward winter programs and securing rigs into contracts to ensure access to equipment and more specifically crewed rigs.

Aero Rental Services (“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. Aero’s results are affected by the level of drilling activity in the industry and as such the low activity during the spring break-up period result in lower revenue and profitability in this division. During the second quarter of fiscal 2008 Aero contributed revenue of \$0.6 million compared to \$0.3 million in the prior year period. EBITDAS was negative \$0.4 million for the quarter compared to negative \$0.6 million in the same quarter of 2007. Aero has been significantly affected by the slower industry activity during 2007 and persisting into 2008 with equipment utilization at lower levels than expected. The costs in this division are somewhat fixed in nature and as such has led to negative EBITDAS for the periods of low activity. That being said with increased activity levels expected and expanded equipment inventories, Aero should generate higher gross margins as activity ramps up leading to better performance. Aero’s goal is to generate stable revenue and earnings streams as we 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. Management is currently evaluating its capital needs for this division for the remainder of the year and expects that the organic growth model employed by Aero should provide favourable year over year results going forward as the business begins to gain traction with customers. It is anticipated that with increased activity levels and expanded equipment inventories, Aero should generate higher gross margins as activity ramps up leading to better performance.

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 divisions in the Drilling and Production Services segment it continues to produce consistent positive results. The operations of Envirocore, focused primarily in Northeast British Columbia, have not been as negatively impacted by the reduced drilling activity in the Western Canadian Sedimentary Basin although it was hampered by the traditional spring break-up conditions in the area. For the three months ended June 30, 2008, this division generated revenue of \$0.7 million compared to \$0.6 million for the same period in 2007. EBITDAS from Envirocore was essentially at a breakeven for both three month periods in 2008 and 2007. Revenues were 16% less at \$2 million during the six months ended June 30, 2008 compared to \$2.4 million in the same period of 2007. EBITDAS was \$0.4 million for the six months ended June 30, 2008 compared to \$0.5 million in 2007. Higher variable costs have affected profitability to date specifically in fuel costs. Beginning in the third quarter the division has implemented pricing changes to address the record high fuel costs and mitigate a portion of the margin erosion that has occurred to date. This division continued to generate above average return on capital employed and significant levels of work have been identified for the remainder of 2008 that will allow this division to continue to perform well.

### **TECHNOLOGY SERVICES**

The Technology Services segment generated revenue of \$3.6 million, or 27% of the Corporation’s total revenue, for the three months ended June 30, 2008, compared to \$4.9 million or 42% of total revenue for the comparable period of fiscal 2007. For the six months ended June 30, 2008 revenue from Technology Services segment was \$9.4 million or 24% of total revenue as compared to the same period of 2007 of \$11.1 million or 29% of total revenue. The revenue decreases of \$1.3 million or 28% and \$1.7 million or 15% for the three and six month period respectively, over the same three month period of 2007, was affected by lower activity levels in our Oricomm division and a drop in product sales within Canada Tech during the second quarter compared to the same period in 2007. For the three months ended June 30, 2008, the Technology Services segment generated positive EBITDAS of \$0.1 million compared to \$0.9 million in the same period of 2007. EBITDAS for the six months ended June 30, 2008 was \$1.1 million compared to \$2.2 million in the same period of 2007.

The decrease in EBITDAS was affected by lower year over year product sales in Canada Tech coupled with lower margins from the strength of the Canadian dollar (revenues in Canada Tech are predominately based in US currency on its international sales) and difficulty increasing pricing in competitive markets to offset this. Oricomm also had lower activity levels during the quarter and through the first half of the year coupled with higher variable operating costs, most notably in fuel costs.

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. Revenue decreased by 28% to \$2.8 million in the second quarter of 2008 compared to the same period of 2007 while revenue decreased 6% for the six months ended June 30, 2008 compared to 2007. Product sales decreased substantially year over year as domestic market demand in Canada and the United States have slowed substantially in the past year and international market penetration has longer lead times to complete as the sales process is more complex in terms of logistics of delivery and ensuring collection of receivables. We do expect that the amount of revenue derived from international sales will continue to be a larger proportion of our total revenue. During the first half of 2008 sales derived from international markets, all markets outside of Canada, was approximately 76% of total revenue for Canada Tech compared to 63% in 2007. EBITDAS for the three months ended June 30, 2008 was \$0.3 million compared to \$1.1 million in the comparable period of 2007. For the six months ended June 30, 2008 EBITDAS was \$1.0 million compared to \$1.6 million in the same period of 2007. The primary result of lower EBITDAS is attributable to the drop in revenue year over year in the second quarter which is magnified by the fact that a good portion of Canada Tech's operating costs are fixed in nature and as such impacted the overall margins and as such the profitability. Profitability was also partially affected from the rise in the Canadian dollar against most other major currencies since the prior year which has put pressure on gross margins. We evaluated our pricing to ensure we are competitive and able to achieve appropriate margins and in some cases have already moved pricing forward to attempt to mitigate the effects of the strong Canadian dollar on gross margins.

During the first quarter of 2008 we merged Oricomm and IROC Safety divisions into one operating division, Oricomm, our communications, monitoring and safety division. This was done to address some of the redundant costs in the two divisions and better position the division in terms of operations deployment and sales and marketing efforts. Oricomm generated revenue of \$0.8 million approximately 23% of the total revenue for the Technology Services segment for the three months ended June 30, 2008 resulting in a negative EBITDAS of \$0.2 million for the quarter. Revenue for the six months ended June 30, 2008 was \$2.4 million compared to \$3.7 million in the same period of 2007. EBITDAS year to date was \$0.1 million compared to \$0.6 million in 2007. Low industry activity levels in this segment persisted through much of the first quarter and was further affected by the spring break-up period with wet weather affecting deployment of equipment. The continued focus on marketing efforts in these services to develop new revenue sources from additional customers and increase revenues from existing customers will improve results in the second half of 2008. Additionally, our expertise in this area has allowed for the advancement of communication related projects in our other operating segments. The lower industry activity year over year continues to have a direct impact on the financial results of this division. As fundamentals for natural gas pricing have improved we expect results will improve through 2008 in this division as this division should benefit from increased natural gas drilling activities.

### **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. 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, 2008 was a negative \$2.1 million compared to negative \$1.6 million for the comparable period of 2007. The reduction in EBITDAS is primarily from lower personnel costs and reduced professional fees.

### **RESULTS OF OPERATIONS**

#### **Revenue**

For the three months ended June, 2008, IROC recorded quarterly revenue from continuing operations of \$13.4 million compared to \$11.8 million in the same period of 2007, an increase of \$1.6 million or 13%. Revenue increased to \$39 million from \$37.8 million, an increase of 3%, for the six months ended June 30, 2008

compared to the same period in 2007. Despite an overall decrease in industry activity brought about by depressed commodity prices for natural gas, revenue from continuing operations continues to grow year over year. The revenue growth is driven primarily from two divisions, Eagle Well Servicing and Mission Drilling. Eagle Well Servicing had additional equipment capacity which contributed to the increase while Mission's utilization has improved substantially compared to the same period in 2007. Overall utilization was lower in most of our service divisions for the quarter compared to the prior year but generally consistent with the seasonal weakness. Pricing in our well servicing division remained intact and was consistent year over year. Results were offset by lower revenue in Canada Tech's 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:

	<u>For the 3 months ended June 30,</u>		<u>For the 6 months ended June 30,</u>	
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
<b>REVENUE SOURCE</b>				
Drilling and Production Services	<b>73%</b>	58%	<b>76%</b>	71%
Technology Services	<b>27%</b>	42%	<b>24%</b>	29%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

We expect the allocation of revenues for fiscal 2008 will be approximately 70% from Drilling and Production Services and 30% from Technology Services.

#### Operating Costs and Gross Margin

For the three months ended June 30, 2008 operating costs of continuing operations were \$10.2 million (76% of revenue) as compared to \$8.4 million (71% of revenue) in the comparable period of 2007. Operating costs for the six months ended June 30, 2008 were \$26 million (67% of revenue) compared to \$23.1 million (61% of revenue) for the same period in 2007. Gross margins decreased in the second quarter of 2008 moving to 24% versus 29% for the corresponding period in 2007 and gross margins were 33% compared to 39% for the six months ended June 30, 2008 and 2007 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 2008 in the range of 35% overall. IROC experienced lower gross margins in most of its operating divisions in the current quarter as compared to the prior year. While a large portion of our costs are variable in nature the lower utilization in most divisions' year over year affected efficiencies in our operations in both fixed and variable operating cost leverage. Variable operating costs have also increased year over year, specifically in fuel costs, repairs and maintenance and wages costs at the field and administrative levels. We continue to focus on operating cost efficiencies in all areas of our business and in some cases have implemented pricing increases to offset some of the higher operating costs with fuel surcharges implemented at the beginning of the third quarter.

#### General and Administrative Expenses

General and administrative expenses ("G&A") for the three month period ended June 30, 2008 were \$2.4 million (17.9% of revenue) compared to \$2.3 million (19.5% of revenue) in the comparable period of 2007, which remained essentially flat year over year. For the six months ended June 30, 2008 G&A expenses were \$4.8 million (12.2% of revenue) compared to \$5.2 million (13.9% of revenue) for the same period in 2007. The year over year decrease of \$0.4 million is primarily attributable to reduced head count in various mid-level management positions leading to lower salaries expense and related personnel expenses. The slow down in the oilfield services industry in 2007 lead to lower headcount both through attrition and reductions in staffing levels. Management evaluated certain positions and in some cases determined not to replace these within its current infrastructure. In addition to lower costs coming from reduced headcount there were various one time project related costs incurred in 2007 that were either suspended during 2008 or did not require further costs in 2008 coupled with lower professional fees compared to the prior year period. Our infrastructure is capable of handling additional capacity without incurring additional costs. 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 \$0.1 million for the three months ended June 30, 2008 compared to \$0.2 million in the comparable period of 2007. For the six months ended June 30, 2008 stock-based compensation expense was \$0.2 million compared to \$0.4 million in the same period of 2007. The Corporation utilizes a stock option plan as part of its incentive compensation arrangements for key employees. 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. The lower stock-based compensation expense is from a reduction in the underlying stock price used in calculating the expense.

### Depreciation and Amortization

For the three months ended June 30, 2008 depreciation expense and amortization of intangible assets from continuing operations totalled \$2.5 million, an overall increase of 8% compared to \$2.3 million of depreciation and amortization in the corresponding period of 2007. Depreciation and amortization expense was \$5.2 million for the six months ended June 30, 2008 or 9% higher than the comparable six month period of 2007. The increase is a direct result of the Corporation's increases in the depreciable asset base from internal capital build programs. For the six months ended June 30, 2008 and 2007, depreciation and amortization of continuing operations as a percentage of revenue was 13.2% and 12.5%. The value of fixed assets subject to depreciation and amortization increased 3% year over year, which was primarily from the addition of new service rigs and rental equipment.

### Interest Expense

Interest expense decreased by \$0.3 million for the three months ended June 30, 2008 compared to the same period in 2007. The decrease is from the Corporation carrying minimal balances on its operating line through the quarter as well as lower interest rates on the debt carried during the current quarter compared to the same period of 2007. For the six months ended June 30, 2008 interest expense increased by \$0.3 million from the comparable period of 2007. The increase is due to the higher debt levels arising from the Corporation's investment in internal capital expenditures during fiscal 2007 to support its growth. The Corporation continued to use cash flow from operations to reduce its current debt obligations.

### Loss/Gain on disposal of Property and Equipment

For the three months ended June 30, 2008, the gain on disposal of property and equipment was \$0.1 million compared to a loss in the prior year of \$0.2. The current year gain relates to the sale or disposal of minor non-core service equipment during the first half of fiscal 2008.

### Income taxes

The total income tax expense for the three months ended June 30, 2008 was a recovery of \$0.8 million as compared to a recovery of \$0.8 million in the same period of 2007. The recovery is a result of a loss in the second quarter consistent with the seasonal reduction in activity. The total income tax expense for the six months ended June 30, 2008 was a recovery of \$2 thousand as compared to \$0.8 million in the corresponding period of 2007. At the expected combined income tax rate of 29.5%, net earnings before income taxes from continuing operations for the six months ended June 30, 2008 of \$0.5 million would have resulted in an income tax provision of approximately \$0.2 million compared to the actual provision booked of a \$2 thousand recovery. There was a reduction of approximately \$0.2 million for announced reductions in the federal corporate tax rates, a reduction for differences between the prior year income tax provision and the actual tax returns filed for fiscal 2007 totalling \$0.4 million offset by \$0.5 million for non-deductible items for income tax purposes. The Corporation had no current income tax expense in the current quarter as a result of restructuring its operations which now includes Canada Tech in the partnership structure which has allowed for a reduction of current income taxes as this entity made up the entire current tax expense in the prior year.

## 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, 2008:

(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>2008</b>	<b>2008</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>
Revenue-continuing operations	<b>13,359</b>	<b>25,611</b>	<b>20,641</b>	<b>18,899</b>	11,815	25,961	17,174	16,359
Net earnings (loss) from continuing operations	<b>(2,170)</b>	<b>2,710</b>	<b>194</b>	<b>369</b>	(1,682)	3,178	672	972
Per share – basic	<b>(0.05)</b>	<b>0.06</b>	<b>0.00</b>	<b>0.01</b>	(0.04)	0.08	0.02	0.03
Per share - diluted	<b>(0.05)</b>	<b>0.06</b>	<b>0.00</b>	<b>0.01</b>	(0.04)	0.08	0.02	0.03
Net earnings (loss)	<b>(2,170)</b>	<b>2,710</b>	<b>194</b>	<b>370</b>	(1,681)	3,256	(111)	934
Per share – basic	<b>(0.05)</b>	<b>0.06</b>	<b>0.00</b>	<b>0.01</b>	(0.04)	0.08	(0.01)	0.03
Per share - diluted	<b>(0.05)</b>	<b>0.06</b>	<b>0.00</b>	<b>0.01</b>	(0.04)	0.08	(0.01)	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

The Corporation has a \$75.5 million credit facility with a syndicate of lenders including National Bank of Canada, Canadian Western Bank, and Alberta Treasury Branches. The credit facility consists of an extendible revolving operating credit facility of \$12.5 million and an extendible revolving term facility of up to \$63 million available to finance equipment purchases for organic growth and potential acquisitions. The credit facilities currently bear interest at the bank's prime rate plus 1.25% with the interest rate varying depending on specific levels of the Corporation's financial ratios. The extendible revolving operating credit facility and the extendible revolving term facility require interest payments only during the term of the facility. To the extent that the revolving term facility is not renewed, debt repayments on the facility would be amortized and repaid over a three-year period. On March 24, 2008, the credit facility was amended and renewed extending the facility to May 30, 2009.

At June 30, 2008, the Corporation was not compliant with one of the financial covenants under the credit facility. The Corporation is required to maintain compliance with certain financial covenants on its debt which are measured quarterly. Subsequent to June 30, 2008 the lenders have provided the Corporation with a waiver of the covenant until September 30, 2008 and thus have not demanded repayment of the facility. Based on future estimated cash flows from operations it is likely that the Corporation will violate the covenant requirement at the next compliance date of September 30, 2008 and as such this expected non-compliance would give lenders the ability to demand repayment of the facility. As a result, the entire amount of the credit facility has been reclassified as a current liability as at June 30, 2008 in accordance with generally accepted accounting principles. The Corporation is continuing to work with the lenders to remedy the situation. Based on discussions with the lenders, the Corporation believes it will have the continued support of the lenders necessary for the Corporation to continue its operations. Management believes that options are available to it to remedy the anticipated covenant violation prior to September 30, 2008. In the meantime, the Corporation will continue to use surplus cash flows to pay down existing debt.

At June 30, 2008 the Corporation had positive working capital, excluding current portion of long-term debt, of \$13 million as compared to \$9.8 million at June 30, 2007. The primary reason for the increase in the working capital is a result of a decrease in the outstanding balance of our operating line of credit from \$7 million at the

end of June 30, 2007 to \$0.03 million at the end of June 30, 2008. IROC has used its available cash flow generated from operations to continue to reduce its outstanding debt levels through the first half of fiscal 2008.

Future cash requirements will be met through, but not limited to, funds from operations, additional bank financing, issue of equity as available, and potential sale of assets. The Board of Directors, in conjunction with management, will determine the appropriate course of action as conditions dictate. As a result of the need for the Corporation to address its compliance with bank covenants on a permanent basis and address the capital structure of the Corporation, a Special Committee of the Board of Directors was formed to undertake a strategic review process to assess all alternatives available to the Corporation in addressing these matters. As such, the Special Committee has retained an external third party as its advisor to assist in this process. The Special Committee is proceeding with the strategic review currently and as information becomes available we will update accordingly.

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 incur 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	\$ 58,586	\$ 58,586	\$ -	\$ -	\$ -
Obligations under capital lease	\$ 90	\$ 53	\$ 37	\$ -	\$ -
Operating leases(1)	\$ 4,686	\$ 1,421	\$ 2,285	\$ 677	\$ 303
<b>Total contractual obligations</b>	<b>\$ 63,362</b>	<b>\$ 60,060</b>	<b>\$ 2,322</b>	<b>\$ 677</b>	<b>\$ 303</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, 2008 were \$2.4 million, predominantly related to deposits paid on the construction of 6 new service rigs to be delivered in the fourth quarter of 2008, the upgrade of the fourth drilling rig from a single to a double and some miscellaneous maintenance capital expenditures and infrastructure support equipment. For the six months ended June 30, 2008 capital expenditures of continuing operations were \$3.1 million. These capital expenditures were financed using cash generated from operations and available credit facilities.

Industry conditions during the second half of fiscal 2007 lead management to suspend future capital growth for fiscal 2008 plans until industry indicators improved to support additional growth. As such minimal capital had been planned for fiscal 2008 targeted primarily for maintenance capital expenditures. In light of improved fundamentals in the industry as a whole and significant demand from our customers, the board of directors has approved capital spending for the second half of fiscal 2008 for the construction of 6 new service rigs and the upgrade of our single drilling rig to a double. Our strategy to organically grow our capital asset base has resulted in IROC having capital assets, as a whole, 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 following is a summary of the capital expenditures incurred during the first half of fiscal 2008:

- \$1.7 million for service rigs and related equipment, including deposits;
  - 0.4 million for drilling rigs and related equipment, including deposits;
  - 0.4 million for rental services equipment;
  - 0.3 million for heavy equipment in lease construction services segment ;
  - 0.1 million for downhole tools manufacturing capacity expansion and development;
  - 0.2 million for other ancillary operating equipment and infrastructure costs.
- \$3.1 million

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.

### **OUTSTANDING SHARE DATA**

Balance at January 1, 2008	44,251,080
Issued on exercise of stock options	50,000
Balance at July 31, 2008	44,301,080

### **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 and six months ended June 30, 2008.

### **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 annual financial statements. Certain information of the previous period has been reclassified to conform to the presentation adopted in the current year.

#### **ACCOUNTING PRONOUNCEMENTS**

##### *Financial Instruments and Financial Risk Management*

On January 1, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3862 "Financial Instruments - Disclosures", Section 3863 "Financial Instruments - Presentation" and Section 1535 "Capital Disclosures". Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation" replace Section 3861 "Financial Instruments - Disclosures and Presentation", revising disclosures related to financial instruments, including hedging instruments, and carrying forward unchanged presentation requirements. Section 1535 "Capital Disclosures" requires the Corporation to provide disclosures about the Corporation's capital and how it is managed. The adoption of these new accounting standards did not impact the amounts reported in the Corporation's financial statements; however, it did result in expanded note disclosure in the financial statements.

##### *Inventories*

On January 1, 2008, the Corporation adopted the CICA Handbook Section 3031 "Inventories". Section 3031 "Inventories" provides guidance on the method of determining the cost of the Corporation's materials and supplies. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The standard requires the reversal of previously recorded write downs to realizable value when there is clear evidence that the net realizable value has increased. The adoption of Section 3031 "Inventories" did not impact the Corporation's financial statements.

##### *Goodwill and intangible assets*

Effective January 1, 2009, the Corporation is required to adopt new Canadian accounting standards related to goodwill and intangible assets (Section 3064). This standard replaces Section 3062 "Goodwill and other intangible assets" and Section 3450 "Research and development costs". The new Section establishes standards

for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Corporation is evaluating the impact of this new Section on its consolidated financial statements.

#### *International Financial Reporting Standards*

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards (IFRS) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Corporation is currently evaluating the impact of adopting IFRS.

### **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>	<b><u>For the 3 months ended June 30,</u></b>		<b><u>For the 6 months ended June 30,</u></b>	
	<i>("Unaudited")</i>		<i>("Unaudited")</i>	
	<b>2008</b>	2007	<b>2008</b>	2007
Net earnings (loss) - continuing operations	<b>(\$2,170)</b>	(\$1,682)	<b>\$540</b>	\$1,496
Add:				
Depreciation and amortization	<b>2,503</b>	2,324	<b>5,154</b>	4,737
Other interest	<b>24</b>	245	<b>159</b>	449
Interest on long-term debt	<b>827</b>	631	<b>1,801</b>	1,186
Interest and accretion on debentures	<b>236</b>	236	<b>472</b>	472
Stock based compensation expense	<b>70</b>	201	<b>163</b>	387
Foreign exchange loss (gain)	<b>6</b>	84	<b>(57)</b>	92
Loss (gain) on disposal of equipment	<b>52</b>	(160)	<b>(5)</b>	(151)
	<b>1,548</b>	1,879	<b>8,227</b>	8,668
Income taxes:				
Current (recovery)	<b>0</b>	(49)	<b>0</b>	36
Future (recovery)	<b>(789)</b>	(721)	<b>(2)</b>	761
<b>EBITDAS - continuing operations</b>	<b>759</b>	1,109	<b>8,225</b>	9,465

### **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. Along with risks discussed in this MD&A, other business risks faced by the Corporation may be found under "Risk Factors" in the Corporation's Annual Information Form dated March 28, 2008 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 six months ended June 30, 2008.

## **OUTLOOK**

The outlook for fiscal 2008 appears to have improved with substantially higher natural gas prices and continued strong oil prices. These factors have positively impacted producers' cash flows and provide a step towards increased spending and greater activity at the field level in the industry. The increased spending by producers has already begun in some cases and we expect this will develop further as the producers look for sustained periods of higher natural gas prices and adjust their budgets for 2008 and into 2009. Activities on a year over year basis in Saskatchewan and B.C. are increasing already providing opportunity in these areas. While Alberta activity remains flat at this time, which is likely partially due to the Alberta government announcement on royalties, this is expected to change as plans to address unintended consequences of the proposed royalty structure by offering certain deep drilling incentives have been introduced by the government. It is expected that this, along with improved commodity prices, should make more economic sense for producers to consider developing resources in natural gas in Alberta.

IROC's growth strategy is focused on organic growth through new service rig construction and increased capacity in its other services that generate a reasonable return on the capital employed. Customers have clearly indicated their desire for technically advanced, highly mobile, well designed rigs with availability to high-performing crews and personnel. In response to this demand the construction of 6 new service rigs in the second half of 2008 was approved. With the imminent increase in activity, access to field personnel will be a challenge for all oilfield service providers. We are able to offer our customers, and our personnel, the newest equipment in each of our services offered and have strength in terms of technology providing a competitive advantage for our customers. We have the benefit of being diversified geographically and across product lines. We believe these factors will provide for superior relative performance in the competitive oil and gas service business.

**For further information, please contact:**

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Consolidated Financial Statements of

**IROC ENERGY SERVICES CORP.**

Three and six months ended June 30, 2008 and 2007

# IROC ENERGY SERVICES CORP.

## Consolidated Balance Sheets

Expressed in thousands of dollars  
(Unaudited)

	June 30, 2008	December 31, 2007
<b>Assets</b>		
Current assets:		
Cash	\$ 1	\$ 1
Accounts receivable	12,822	18,383
Inventory	4,547	5,442
Prepaid expenses and deposits	497	359
	<u>17,867</u>	<u>24,185</u>
Property and equipment (note 3)	97,459	99,471
Intangible assets (note 4)	5,101	5,376
Goodwill	8,621	8,621
	<u>\$ 129,048</u>	<u>\$ 137,653</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Operating line of credit	\$ 25	\$ 3,421
Accounts payable and accrued liabilities	4,838	6,010
Income taxes payable	46	190
Current portion of long-term debt (note 5)	58,640	6,831
	<u>63,549</u>	<u>16,452</u>
Long-term debt (note 5)	37	56,457
Future income taxes	3,479	3,481
Shareholders' equity:		
Share capital (note 6)	51,564	51,547
Warrants	828	828
Contributed surplus (note 6)	2,572	2,409
Retained earnings	7,019	6,479
	<u>61,983</u>	<u>61,263</u>
Basis of presentation and going concern (note 1)		
	<u>\$ 129,048</u>	<u>\$ 137,653</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 (Loss) and Retained Earnings

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Revenue	\$ 13,359	\$ 11,815	\$ 38,970	\$ 37,777
Expenses:				
Operating	10,205	8,402	25,975	23,074
General and administrative	2,395	2,304	4,770	5,238
Stock-based compensation	70	201	163	387
Depreciation and amortization	2,503	2,324	5,154	4,737
Interest and accretion on debentures	236	236	472	472
Interest on long-term debt	827	631	1,801	1,186
Other interest	24	245	159	449
Loss (gain) on disposal of equipment	52	(160)	(5)	(151)
Foreign exchange (gain) loss	6	84	(57)	92
	16,318	14,267	38,432	35,484
Earnings (loss) before income taxes from continuing operations	(2,959)	(2,452)	538	2,293
Income taxes (recovery):				
Current	-	(49)	-	36
Future	(789)	(721)	(2)	761
Net earnings (loss) from continuing operations	(2,170)	(1,682)	540	1,496
Net earnings from discontinued operations (note 9)	-	1	-	79
Net earnings (loss)	(2,170)	(1,681)	540	1,575
Retained earnings, beginning of period	9,189	7,596	6,479	4,340
Retained earnings, end of period	\$ 7,019	\$ 5,915	\$ 7,019	\$ 5,915
Earnings (loss) per share from continuing operations:				
Basic	\$ (0.05)	\$ (0.04)	\$ 0.01	\$ 0.04
Diluted	\$ (0.05)	\$ (0.04)	\$ 0.01	\$ 0.04
Earnings per share from discontinued operations:				
Basic	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Earnings (loss) per share:				
Basic	\$ (0.05)	\$ (0.04)	\$ 0.01	\$ 0.04
Diluted	\$ (0.05)	\$ (0.04)	\$ 0.01	\$ 0.04
Weighted average number of shares outstanding:				
Basic	44,301,080	44,226,794	44,276,080	42,612,019
Diluted	44,321,531	44,343,450	44,304,325	42,731,012

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,	
	2008	2007	2008	2007
Cash provided by (used in):				
Operations:				
Net earnings (loss) from continuing operations	\$ (2,170)	\$ (1,682)	\$ 540	\$ 1,496
Items not affecting cash:				
Depreciation and amortization	2,503	2,324	5,154	4,737
Future income taxes (recovery)	(789)	(721)	(2)	761
Stock-based compensation	70	201	163	387
Non-cash accretion on debentures	96	96	192	192
Gain on disposal of property and equipment	52	(160)	(5)	(151)
	(238)	58	6,042	7,422
Changes in non-cash working capital balances (note 7)	7,551	4,987	5,002	(285)
	7,313	5,045	11,044	7,137
Discontinued operations (note 9):				
Funds provided by (used in) discontinued operations	—	1	—	29
Changes in non-cash working capital balances of discontinued operations	—	317	—	582
	7,313	5,363	11,044	7,748
Investing:				
Purchase of property and equipment of continuing operations	(2,403)	(7,709)	(3,086)	(13,284)
Proceeds on disposal of property and equipment from continuing operations	334	1,242	564	1,348
Proceeds on disposal of equipment from discontinued operations	—	—	—	903
Business acquisitions	—	(1,000)	—	(1,000)
Change in non-cash working capital balances (note 7)	—	624	—	(1,367)
	(2,069)	(6,843)	(2,522)	(13,400)
Financing:				
Repayment of long-term debt	(4,777)	(211)	(4,803)	(420)
Operating loan advances (repayments)	(467)	(3,544)	(3,396)	953
Issue of long-term debt	—	5,223	—	5,307
Issue of common shares	—	12	17	12
Loan commitment fees	—	—	(340)	(200)
	(5,244)	1,480	(8,522)	5,652
Increase (decrease) in cash	—	—	—	—
Cash at beginning of period	1	1	1	1
Cash at end of period	\$ 1	\$ 1	\$ 1	\$ 1

See accompanying notes to the interim consolidated financial statements.

# IROC ENERGY SERVICES CORP.

Notes to the Interim Consolidated Financial Statements

Expressed in thousands of dollars except share and per share amounts  
Three and six months ended June 30, 2008 and 2007  
(Unaudited)

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## 1. Basis of presentation and going concern:

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 under the symbol ISC.

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, 2007 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, 2007 contained in the Corporation's 2007 annual report.

These interim unaudited consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of operations. At June 30, 2008, the Corporation was not in compliance with one of its financial covenants under its credit facility as described in Note 5.

Subsequent to June 30, 2008, the lenders have provided the Corporation with a waiver of the covenant until September 30, 2008 and thus have not demanded repayment of the facility. Based on future estimated cash flows from operations it is likely that the Corporation will violate the covenant requirement at the next compliance date of September 30, 2008 and as such this expected non-compliance would give the lenders the ability to demand repayment of the facility, therefore, the entire amount of the credit facility has been classified as a current liability as at June 30, 2008. The Corporation is continuing to work with the lenders to remedy the situation. In this context, the Corporation will continue to use surplus cash flows to pay down existing debt. The continued support of the lenders, or an ability to re-finance the existing credit facility, is necessary for the Corporation to continue its operations. These financial statements do not reflect any adjustments relating to carrying values of the Corporation's assets and liabilities and the balance sheet classifications used, that might be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

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, 2008 and 2007.

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Notes to the Interim Consolidated Financial Statements

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## 1. Basis of presentation and going concern (continued):

### a) Changes in accounting policies:

#### i) Financial Instruments and Capital Disclosures

On January 1, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3862 "Financial Instruments - Disclosures", Section 3863 "Financial Instruments - Presentation" and Section 1535 "Capital Disclosures".

Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation" replace Section 3861 "Financial Instruments - Disclosures and Presentation", revising disclosures related to financial instruments, including hedging instruments, and carrying forward unchanged presentation requirements. Section 1535 "Capital Disclosures" requires the Corporation to provide disclosures about the Corporation's capital and how it is managed.

The adoption of these new accounting standards did not impact the amounts reported in the Corporation's financial statements; however, it did result in expanded note disclosure (see Note 10).

#### ii) Inventories

On January 1, 2008, the Corporation adopted the CICA Handbook Section 3031 "Inventories". Section 3031 "Inventories" provides guidance on the method of determining the cost of the Corporation's materials and supplies. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value which is consistent with the Corporation's current accounting policy. The standard requires the reversal of previously recorded write downs to realizable value when there is clear evidence that the net realizable value has increased. The adoption of Section 3031 "Inventories" did not significantly impact the Corporation's financial statements.

### b) Future accounting pronouncements

#### i) Goodwill and intangible assets

Effective January 1, 2009, the Corporation is required to adopt new Canadian accounting standards related to goodwill and intangible assets (Section 3064). This standard replaces Section 3062 "Goodwill and other intangible assets" and Section 3450 "Research and development costs". The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Corporation is evaluating the impact of this new Section on its consolidated financial statements.

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## 1. Basis of presentation and going concern (continued):

### ii) International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards (IFRS) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Corporation is currently evaluating the impact of adopting IFRS.

### c) Comparative figures

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

## 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.

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Notes to the Interim Consolidated Financial Statements

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### 3. Property and equipment:

			June 30, 2008	December 31, 2007
	Cost	Accumulated depreciation	Net book value	Net book value
Service rig equipment	\$ 56,076	\$ 11,150	\$ 44,926	\$ 47,236
Drilling rig equipment	34,759	1,628	33,131	33,600
Rental equipment	8,869	1,492	7,377	7,779
Heavy equipment	7,869	2,725	5,144	5,321
Field equipment	6,789	4,000	2,789	3,203
Other equipment	2,553	1,653	900	916
Trailers	1,675	1,013	662	753
Leasehold improvements	783	265	518	536
Data acquisition centre	365	250	115	127
Assets under construction	1,897	—	1,897	—
	\$ 121,635	\$ 24,176	\$ 97,459	\$ 99,471

### 4. Intangible assets:

Intangible assets consist of the following:

			June 30, 2008	December 31, 2007
	Cost	Accumulated amortization	Net book value	Net book value
Intangible assets	\$ 6,700	\$ 2,623	\$ 4,077	\$ 4,542
Pre-operating expenditures	771	283	488	565
Loan commitment fees	609	73	536	269
	\$ 8,080	\$ 2,979	\$ 5,101	\$ 5,376

The loan commitment fees are related to the Corporation's revolving credit facility entered into in December of 2007 and are being amortized over the term of the facility.

# IROC ENERGY SERVICES CORP.

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Expressed in thousands of dollars except share and per share amounts  
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## 5. Long-term debt and debentures:

	June 30, 2008	December 31, 2007
Extendible revolving capital equipment acquisition facility of up to \$63,000 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 1.25%. The effective interest rate at June 30, 2008 was 6.00%. The facility expires on May 30, 2009 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.	\$ 51,650	\$ 56,400
Unsecured non-convertible and non-transferable debentures, interest at 8% payable quarterly, principal repayable on September 12, 2008.	6,936	6,744
Obligations under capital leases, repayable in monthly installments totaling \$9 plus interest at rates varying from 3.8% to 12.2%, secured by the specific equipment.	91	144
	58,677	63,288
Less current portion	58,640	6,831
	\$ 37	\$ 56,457

The Corporation is required to maintain compliance with certain financial covenants on its debt which are measured quarterly. At June 30, 2008, the Corporation was not compliant with one of the financial covenants under the credit facility. Subsequent to June 30, 2008 the lenders have provided the Corporation with a waiver of the covenant until September 30, 2008 and thus have not demanded repayment of the facility. Based on future estimated cash flows from operations it is likely that the Corporation will violate the covenant requirement at the next compliance date of September 30, 2008 and as such this expected non-compliance would give lenders the ability to demand repayment of the facility, therefore, the entire amount of the credit facility has been classified as a current liability as at June 30, 2008.

The Corporation is continuing to work with the lenders to remedy the situation. Based on discussions with the lenders, the Corporation believes it will have the continued support of the lenders necessary for the Corporation to continue its operations. Management believes that options are available to it to remedy the anticipated covenant violation prior to September 30, 2008. In the meantime, the Corporation will continue to use surplus cash flows to pay down existing debt.

# IROC ENERGY SERVICES CORP.

Notes to the Interim Consolidated Financial Statements

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## 6. Share capital:

### (a) Authorized:

Unlimited number of voting common shares without nominal or par value

### (b) Issued:

	Number	Amount
Balance at December 31, 2007	44,251,080	\$ 51,547
Issued on exercise of options	50,000	17
Balance at June 30, 2008	44,301,080	\$ 51,564

### (c) Stock options:

Changes in the number of common shares under option during the six month period ended June 30, 2008 are summarized as follows:

	Number of options	Weighted average price
Total options outstanding, December 31, 2007	1,727,083	\$ 2.33
Granted	902,500	0.83
Forfeited	(664,375)	2.25
Exercised	(50,000)	0.35
Outstanding, June 30, 2008	1,915,208	\$ 1.71
Exercisable at June 30, 2008	852,497	\$ 2.50

The average fair value of options issued during the six months ended June 30, 2008 was \$0.62 per option using the Black-Scholes option pricing model.

### (d) Contributed surplus:

The Corporation recorded stock-based compensation expense and contributed surplus of \$163 (2007 - \$387) for the six months ended June 30, 2008. Contributed surplus was reduced and share capital was increased by \$nil (2007 - \$nil) for options that were exercised during the six months ended June 30, 2008.

# IROC ENERGY SERVICES CORP.

Notes to the Interim Consolidated Financial Statements

Expressed in thousands of dollars except share and per share amounts

Three and six months ended June 30, 2008 and 2007

(Unaudited)

## 7. Supplemental cash flow information:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Interest paid	\$ 991	\$ 1,012	\$ 2,240	\$ 1,912
Income taxes paid	\$ 144	\$ 90	\$ 144	\$ 91
Changes in non-cash working capital components of continuing operations:				
Accounts receivable	\$ 9,626	\$ 8,713	\$ 5,561	\$ 2,359
Inventory	267	(264)	895	(1,279)
Prepaid expenses	(20)	94	(138)	90
Accounts payable and accrued liabilities	(2,178)	(3,403)	(1,172)	(1,386)
Income taxes payable	(144)	(153)	(144)	(69)
	\$ 7,551	\$ 4,987	\$ 5,002	\$ (285)
Changes in non-cash working capital items in investing activities:				
Deposits on capital assets	\$ -	\$ 323	\$ -	\$ (465)
Accounts payable on capital assets	-	301	-	(902)
	\$ -	\$ 624	\$ -	\$ (1,367)

# IROC ENERGY SERVICES CORP.

Notes to the Interim Consolidated Financial Statements

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 Three and six months ended June 30, 2008 and 2007  
 (Unaudited)

## 8. Segmented information:

As at June 30, 2008 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, 2008	Drilling and Production Services	Technology Services	Corporate	Total
Revenue	\$ 9,793	\$ 3,566	\$ -	\$ 13,359
Depreciation and amortization	1,900	480	123	2,503
Interest on long-term debt	-	-	827	827
Interest and accretion on debentures	-	-	236	236
Other interest	-	-	24	24
Net earnings (loss) – continuing operations	(101)	(454)	(1,615)	(2,170)
Intangible assets	677	3,888	536	5,101
Goodwill	1,339	7,282	-	8,621
Property and equipment	92,080	4,607	772	97,459
Capital expenditures	2,346	36	21	2,403

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 long-term debt	-	-	631	631
Interest and accretion on debentures	-	-	236	236
Other interest	-	-	245	245
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

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## 8. Segmented information (continued):

Six months ended June 30, 2008	Drilling and Production Services	Technology Services	Corporate	Total
Revenue	\$ 29,537	\$ 9,433	\$ -	\$ 38,970
Depreciation and amortization	3,954	989	211	5,154
Interest on long-term debt	-	-	1,801	1,801
Interest and accretion on debentures	-	-	472	472
Other interest	-	-	159	159
Net earnings (loss) – continuing operations	5,203	164	(4,827)	540
Intangible assets	677	3,888	536	5,101
Goodwill	1,340	7,281	-	8,621
Property and equipment	92,080	4,607	772	97,459
Capital expenditures	2,880	102	104	3,086

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 long-term debt	-	-	1,186	1,186
Interest and accretion on debentures	-	-	472	472
Other interest	-	-	449	449
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

Approximately 10.3 % (2007 - 10.5%) of the Corporation's total sales for the period were derived from one customer. This accounts for 13.6% (2007 - 14.6%) of revenue in the Drilling and Production Services division.

## 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.

# IROC ENERGY SERVICES CORP.

Notes to the Interim Consolidated Financial Statements

Expressed in thousands of dollars except share and per share amounts  
 Three and six months ended June 30, 2008 and 2007  
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## 9. Discontinued operations (continued):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenue from discontinued operations	\$ -	\$ 4	\$ -	\$ 277
Earnings from discontinued operations before income taxes	-	1	-	29
Income taxes – future (recovery)	-	-	-	(71)
Earnings from discontinued operations before the following:	-	1	-	100
Loss on disposal of net assets from discontinued operations	-	-	-	(21)
Net earnings from discontinued operations	\$ -	\$ 1	\$ -	\$ 79

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,	
	2008	2007	2008	2007
Net earnings from discontinued operations	\$ -	\$ 1	\$ -	\$ 79
Items not affecting cash:				
Loss on disposal of net asset from discontinued operations	-	-	-	21
Future taxes (recovery)	-	-	-	(71)
Funds provided by discontinued operations	\$ -	\$ 1	\$ -	\$ 29



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## 10. Financial instruments and financial risk management (continued)

### b) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from customers.

Accounts receivable includes balances from a large number of customers primarily operating in the oil and gas industry. The Corporation assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Corporation views the credit risk on these amounts as normal for the industry.

For the six months ended June 30, 2008, sales generated from the Corporation's three largest customers totaled 22.7% (2007 – 16.6%) of its total sales. The amounts receivable from these customers as at June 30, 2008 was \$2,313 (December 31, 2007 - \$2,498). As at March 31, 2008, the Corporation has made a provision for doubtful accounts receivable in the amount of \$297 representing 2.2% of its total accounts receivable.

### c) Interest rate risk

Interest rate risk is the risk that future cash flow will fluctuate as a result of change in market interest rates.

The Corporation is exposed to interest rate fluctuations on its most significant debt item recognized in its financial statement which bears a floating market interest rate. For the six months ended June 30, 2008, if the prime interest rate increased/decreased by 1%, with all other variables held constant, net earnings would have been \$276 lower/higher. The Corporation has not entered into any interest rate swaps or other financial arrangements that mitigate the Corporation's exposure to interest rate fluctuations.

### d) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

The Corporation has an operating loan which has a maximum available balance of the lesser of 75% of its trade accounts receivable or \$12,500. As at June 30, 2008, the balance on the operating loan was \$25.

# IROC ENERGY SERVICES CORP.

Notes to the Interim Consolidated Financial Statements

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## 10. Financial instruments and financial risk management (continued):

### e) Capital disclosures:

The Corporation's objectives when managing capital are: i) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk while providing an appropriate return to its shareholders; ii) to manage capital in a manner which balances the interests of equity and debt holders; iii) to manage capital in a manner that will maintain compliance with its financial covenants; iv) to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Corporation manages its capital structure and makes adjustments to it in accordance with the aforementioned objectives, as well as in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Corporation may, but is not limited to, issue new shares, issue new debt, issue new debt replacing existing debt with different characteristics, or purchase shares for cancellation pursuant to normal course issuer bids.

The Corporation monitors capital using a key financial metric of debt-to-capitalization, which is not a recognized measure under generally accepted accounting principles ("GAAP") and, therefore, is unlikely to be comparable to similar measures of other companies. For the purpose of this calculation, debt includes operating loans, current portion of long-term debt, long-term debt and debentures, and capitalization is calculated as the total debt, as described above, and shareholders' equity less goodwill and intangible assets. The Corporation's strategy is to maintain this ratio within the limit of its financial covenants on its credit facilities given its current operating structure. The Corporation may be required to increase this from time to time as a result of expansion activities.

The debt-to-capitalization ratios at June 30, 2008 and December 31, 2007 are as follows:

	June 30, 2008	December 31, 2007
Debt	\$ 58,702	\$ 66,709
Equity (net of intangible assets and goodwill)	48,259	47,266
Capitalization	\$ 106,961	\$ 113,975
Debt-to-capitalization ratio	0.55	0.59

As disclosed in Notes 1 and 5, as at June 30, 2008 the Corporation was in violation of one of its financial covenants as mandated by its credit facility. Management is evaluating alternatives to rectify the violation in such a manner that will serve the interests of all stakeholders consistent with the Corporation's objectives when managing capital.

# CORPORATE DIRECTORY

## CORPORATE HEADQUARTERS

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

Phone: 403-346-9710  
Fax: 403-346-9770

## EXECUTIVE OFFICE

Suite 1910, 715 – 5<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 2X6

Phone: 403-263-1110  
Fax: 403-263-1182

## PRINCIPAL BANK

National Bank of Canada  
Calgary, 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  
VP of Corporate Development, General  
Counsel and Corporate Secretary

