

2010 ANNUAL REPORT

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 **EAGLE**
Well Servicing


Energy Services Corp.



IROC Energy Services Corp. is a diversified provider of production and technology related products and services for the Oil & Gas Industry operating in Western Canada and around the world. IROC combines cutting-edge technology with depth of experience, delivering products and services in the following areas:



Well Servicing & Equipment



Oilfield Rental Equipment & Services



Downhole Temperature & Pressure Monitoring Tools

With revenue of \$64 million in 2010, up 77% since 2009, IROC is experiencing the first step to full recovery – evident in the increased utilization in our service rig division. Also, with the acquisition of the rental assets of Trust Energy Services in the 3rd Quarter of 2010, and the continuous internal growth through the addition of new equipment to our rental fleet inventory, IROC has begun to capitalize on the opportunity that we envisioned when we started Aero Rental Services.

Currently, there are numerous other growth initiatives that are being funded during 2011:

- The addition of three new service rigs
- The continued expansion of our rental asset inventory and
- Expansion into the coil tubing business with the construction of three 2" Coil Tubing Units.

Additional capital expenditures may be undertaken later in 2011 as opportunities for accretive additions and/or acquisitions continue to develop.

Annual General and Special Meeting

The Annual General and Special Meeting of IROC Energy Services Corp., will be held at 3:00 pm (MST) on Thursday, May 26, 2011 at the Calgary Petroleum Club (*Viking Room*) in Calgary Alberta. Those unable to attend are asked to complete and return the instrument of proxy mailed with this report in order to be represented at the meeting.



PRESIDENT'S MESSAGE 2010 ANNUAL REPORT

A YEAR OF TRANSITION

2010 will be looked back upon as a year of rapid change in the Western Canadian oilfield services sector, clearly situated between a year of poor performance industry wide during 2009, and the excitement that is being generated as we enter 2011 and beyond. After a slow start to the year, 2010 steadily gained momentum through the 3rd and 4th quarter, allowing us to post significantly increased returns as compared to the previous year. The application of horizontal drilling to existing fields has opened up significant new opportunities for IROC Energy Services and has begun to push activity levels in all our Canadian operations forward. Higher oil pricing combined with the increasing use of technology, has created a positive environment where demand for our equipment, products and services is increasing and has provided a strong basis for optimism as we enter 2011. The immediate benefit of increased drilling activity began to surface midway through the year and continued to gain momentum right through the 4th quarter. As capacity of other services, such as drilling and fracturing, that can facilitate the application of these technologies increases, we expect to see continued growth in our businesses as the number of active wells operating in the WCSB increases providing longer term benefits for our service focused businesses.

In addition to the obvious benefits from the higher price for oil and the shift towards increased use of new technology, there have been a number of changes which have benefitted the industry in general and our company specifically. A reversal by the Alberta Government on the changes to its Royalty Structure have made Alberta a better place to invest again for oil producers and service companies alike, the low heavy oil differential continues to remain in place creating consistent work for our NE Alberta based assets and the continued tightness in the labor market has given our companies a relative advantage in responding to the needs of our customers.

During my message a year ago I discussed the fact that things were beginning to improve and indeed we saw our overall business bottom with the end of 2009. The visibility that was clouded, to say the least, became clearer as oil activity took hold and financial markets responded favorably to the prospects that were beginning to develop in the industry. To that end, IROC began to invest in our growth again with substantial expenditures being made during the last half of the year. We acquired the business assets of Trust Energy Services, expanding our rental offering to meet the changing demands emanating from increased horizontal drilling, built a new service rig utilizing major new components held in our inventory from our previous build cycle, and purchased additional rental inventories as opportunities presented themselves. Total expenditures of \$8.5 million during 2010 are expected to increase significantly as the momentum evident during the last half of the year continues to increase. IROC has released a capital budget of \$17.2 million for 2011, expected to be expended during the first half of 2011 allowing for further potential expenditures should conditions dictate in the last half of the year. New build service rigs, additional rental equipment and a newly formed coil tubing division are all included in our initial 2011 capital budgets, taking advantage of growth opportunities that are available to the company.

IROC Energy Services Corp. posted revenues of \$64.4 million during 2010 as compared to \$49.0 million in 2009, an increase of 31%. EBITDAS amounted to \$12.5 million for the year ended December 31, 2010 as compared to \$7.5 million in 2009, an increase of 66% year over year.

Eagle Well Servicing continues to represent the largest portion of our business posting approximately 72% of our overall revenues during the year. While margins remained tight due to competitive pricing pressures and increasing costs, higher field activity led to 2010 utilization of 52.5%, boosting service rig revenues to \$46 million, up 37% from 2009. The ability of the company to crew our service rig equipment as demand increased over the year was instrumental in our delivering performance in this division. After beginning the year with less than 30 rigs active due to efficiency measures taken during 2009, Eagle ended the year with 35 rigs operating in the field with the 36th rig, a newly built single rig, being deployed into our heavy oil group at the beginning of January.

Additional rigs are expected to be added to the fleet during 2011 with the first 3 expected to be delivered during the second quarter of the year. Two singles and a deeper double service rig will allow us to continue to meet the needs of our customers from existing operational bases. Eagle has been fortunate in its ability to attract and retain qualified personnel in what has shown to be an extremely tight labor market during 2010. Management expects this situation to continue for some time as competition for labor remains tight amongst oilfield service companies; however we will continue to use the inherent advantages that our new equipment brings to ensure that we operate at the highest utilization possible.

Aero Rental Services has been a benefactor of the shift towards horizontal drilling and the general increase in activity in Western Canada. Management continues to add equipment to the owned inventory of assets in order to meet the changing demands of our customers. Much of the capital deployed in this division was expended in the last half of the year, meaning that much of the benefit from the acquired equipment will come in future quarters. Included in the capital expenditures are those costs related to the acquisition of the business assets of Trust Energy Services, which complemented the existing core competency of pressure control in addition to bringing new opportunity for growth.

Aero increased its sales revenue substantially, but more importantly we witnessed our gross margins increase as our fixed costs do not increase as our rental revenue increases. Gross margins in 2009 amounted to 25% of revenues, rising to 41% of revenues during 2010 as revenues rose from \$4.8 million in 2009 to \$7.6 million in 2010, an increase of 59%. At the same time EBITDAS increased 222% during 2010 setting the stage for further growth in this division during the coming year. Further capital expenditures are planned for the early part of 2011 in this division.

Canada Tech and its employees have worked hard to diversify their base of offerings in an effort to reduce the risk related to the natural gas business. The development of equipment and products that address the burgeoning SAGD markets in Canada continues to develop. While revenues remained essentially flat during the year, this division was able to maintain its margins and marginally increase its EBITDAS for the year due to continuing tight cost control. Management continues to look for ways to boost revenues, but is confident that the progress made in recent quarters will begin to reflect in the financial performance of this division over the medium and longer terms.

It is clear from the above that management at IROC Energy Services believes that the results from 2010 and the changed environment that we are exposed to in Western Canada point to an improving trend for

our business in the coming year. Our response has been to increase our capital expenditures substantially to \$17.2 million with the bulk of our asset additions happening in the first half of the year, allowing for additional expenditures later in the year as opportunities arise.

Subsequent to year end we have executed a secondary offering of the stock of a major and long term shareholder of IROC, and at the same time issued equity to raise approximately \$9.3 million to assist in the planned growth during 2011. Management is excited to have some new shareholders on board and expect that this will bode well for all shareholders in the future.

IROC Energy Services has managed the cyclical nature of the oilfield services business well during the past few years and look forward to continuing with our growth during the coming year. As always I thank all our employees for their contributions to our ongoing success and the patience of our shareholders as we position our company for the future.

Respectfully submitted,

(signed) "Thomas Alford"

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) is a review of the results of operations and liquidity and capital resources of IROC Energy Services Corp. (unless the context indicates otherwise, a reference in this MD&A to "IROC", the "Corporation", "we", "us", or "our" means IROC Energy Services Corp. and includes direct and indirect subsidiaries of IROC and partnership interests held by IROC and its subsidiaries). The following discussion and analysis provided by IROC is dated April 18, 2011 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010, and the Corporation's Annual Information Form ("AIF"). These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are expressed in Canadian dollars unless otherwise noted. Additional information relating to IROC, including IROC's AIF, is available on Sedar at www.sedar.com.

Cautionary Statement Regarding Forward Looking Information and Statements

Certain information contained in this MD&A, Annual Report and the President's Message, contains forward looking information that is based upon IROC's current internal expectations, estimates, projections, assumptions and beliefs. In some cases, words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate", "may", "will", "potential", "proposed" and other similar words, or statements that certain events or conditions "may" or "will" occur, are intended to identify forward looking information. These statements are not guarantees of future performance and involve known and unknown risks and uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward looking information. In addition, this MD&A may contain forward looking information attributed to third party industry sources. By its nature, forward looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward looking information will not occur. Such forward looking information in this MD&A speaks only as of the date of December 31, 2010 or as of the date specified herein.

Forward looking information in this MD&A includes, but is not limited to, statements with respect to:

- adequacy of capital resources required to finance IROC's operations;
- the business objectives of IROC;
- the intended expansion of rental inventory;
- results of operations and the performance of IROC; and
- the completion and timing of the construction of IROC's three new service rigs and three new coiled tubing units.

With respect to the forward looking information contained in this MD&A, IROC has made assumptions regarding, among other things:

- IROC's relationships with its key customers;
- economic conditions that influence the demand of IROC's customers for equipment and services;
- receipt of necessary regulatory approvals;
- IROC's cash flow from sales; and
- the availability of debt financing through the corporation's credit facilities.

Although IROC believes that the expectations reflected in the forward looking information are reasonable, there can be no assurance that such expectations will prove to be correct. IROC cannot guarantee future results, levels of activity, performance or achievements. Consequently, there is no representation by IROC that actual results achieved will be the same, in whole or in part, as those set out in the forward looking information. Some of the risks and other factors, some of which are beyond IROC's control, which could cause results to differ materially from those expressed in the forward looking information contained in this annual information form include, but are not limited to:

- supply and demand for oilfield services;
- competition for, and access to, among other things, capital and skilled personnel;
- incorrect assessments of the value of future acquisitions;
- fluctuations in the market for oil and natural gas and related products and services;
- liabilities and risks, including environmental liabilities and risk, inherent in oil and natural gas operations;
- fluctuations in foreign exchange or interest rates;
- political and economic conditions;
- failure of counterparties to perform on contracts;

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cautionary Statement Regarding Forward Looking Information and Statements (continued)

- regional competition;
- IROC's ability to attract and retain customers;
- IROC's ability to attract and retain qualified employees;
- amounts retained by IROC for capital expenditures;
- volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oil and natural gas services generally;
- stock market volatility and market valuations;
- uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed;
- fixed costs in relation to variable revenue streams;
- the presence of heavy competition in the industry in which IROC currently operates;
- general economic conditions in Canada and globally;
- failure to realize anticipated benefits of acquisitions completed by IROC in 2010 and future acquisitions;
- the availability of capital on acceptable terms; and
- the other factors disclosed under "Risks" in this document and "Risk Factors" in IROC's AIF.

Readers are cautioned that the foregoing list of factors is not exhaustive. All forward looking information contained in this MD&A is expressly qualified by this cautionary statement. IROC disclaims any intent or obligation to update publicly any forward looking information, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

Throughout this MD&A amounts are presented on a continuing operations basis to more accurately reflect the way in which IROC intends to operate on a continuing basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS

HIGHLIGHTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2010:

- Total revenue from continuing operations increased 35% to \$20.8 million for the three months ended December 31, 2010 as compared to \$15.5 million in the comparable period of the prior year.
- Gross margin from continuing operations increased 47% to \$7.5 million for the three months ended December 31, 2010 as compared to \$5.1 million in the comparable period of the prior year.
- EBITDAS from continuing operations increased 73% to \$5.1 million for the three months ended December 31, 2010 as compared to \$3.0 million in the comparable period of the prior year.
- Net income from continuing operations increased to \$2.1 million for the three months ended December 31, 2010 as compared to a loss of \$0.4 million in the comparable period of the prior year.

HIGHLIGHTS FOR THE YEAR ENDED DECEMBER, 2010:

- Total revenue from continuing operations increased 31% to \$64.4 million for the year ended December 31, 2010 as compared to \$49.0 million in the comparable period of the prior year.
- Gross margin from continuing operations increased 34% to \$21.3 million for the year ended December 31, 2010 as compared to \$15.9 million in the comparable period of the prior year.
- EBITDAS from continuing operations increased 66% to \$12.5 million for the year ended December 31, 2010 as compared to \$7.5 million in the comparable period of the prior year.
- Net income from continuing operations increased to \$2.0 million for the year ended December 31, 2010 as compared to a loss of \$10.9 million in the comparable period of the prior year.
- Expanded our rental product lines to include coiled tubing and related well servicing equipment through the acquisition of the rental assets of Trust Energy Services Corp.

OPERATIONS

IROC's continuing operations are reported in three segments; the *Drilling and Production Services* segment, the *Technology Services* segment and *Corporate Services*. The following is a discussion of the reporting segments in which IROC operates.

DRILLING AND PRODUCTION SERVICES

The Drilling and Production Services segment provides services and rental equipment to oil and gas exploration, development and production companies with most of our customers and operations being located in western Canada, in the provinces of Alberta and Saskatchewan.

The Drilling and Production Services segment consists of two divisions:

Eagle Well Servicing ("Eagle") contracts service rigs to oil and gas companies to perform various completion, work-over and maintenance services on oil and natural gas wells. Eagle has offices and equipment in Red Deer, Grande Prairie and Lloydminster in Alberta and an office and equipment in Estevan, Saskatchewan with equipment being used in those geographic areas.

Aero Rental Services ("Aero") provides rental equipment for surface pressure control in drilling and work-over operations and tubular handling equipment used for the work over, re-entry and completion operations. Aero has an office in Red Deer, Alberta with equipment being rented for use primarily in Alberta. Aero's results are directly affected by the level of new well drilling activity.

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

OPERATIONS (CONTINUED)

DRILLING AND PRODUCTION SERVICES (CONTINUED)

	Three months ended			
	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Eagle Well Servicing:				
Number of service rigs	35	35	35	36
Service rig utilization	66%	57%	33%	55%
Aero Rental Services:				
Gross margin \$000's	1,687	735	233	467
Book value of rental equipment \$000's	10,724	8,733	7,379	7,005
Commodity prices:				
NYMEX crude oil \$US/bbl	85.17	76.20	78.03	78.72
AECO Monthly index natural gas \$CAD/GJ	3.39	3.52	3.66	5.08

	Three months ended			
	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Eagle Well Servicing:				
Number of service rigs	36	36	36	34
Service rig utilization	49%	34%	27%	46%
Aero Rental Services:				
Gross margin \$000's	455	311	60	368
Book value of rental equipment \$000's	6,868	6,743	6,873	5,076
Commodity prices:				
NYMEX crude oil \$US/bbl	76.19	68.30	59.62	43.08
AECO Monthly index natural gas \$CAD/GJ	4.01	2.87	3.47	5.34

At December 31, 2010, Eagle had a fleet of 35 service rigs with our equipment amongst the newest in the industry. All Eagle's service rigs are internally guyed with no requirement for external anchors. This reduces set up time and corresponding costs when compared to anchored rigs. During the second quarter of 2010 we ceased marketing of our oldest service rig and have removed it from the number of active service rigs for utilization calculation purposes. Subsequent to quarter end, in January, 2011 the Corporation has placed one additional rig into service for a total operational service rig fleet of 36 rigs. In addition, three new service rigs are being built with delivery expected in the second and third quarters of 2011.

Commodity prices are the main activity driver as the Corporation's customers' exploration and development programs are directly impacted by oil and natural gas prices. Oil and gas producers spend capital on new wells and service operations when they are economic within the context of current and forecasted commodity prices. Year over year, crude oil prices were stronger in each quarter of 2010 as compared to 2009 and have been following a general trend of strengthening since the fourth quarter of 2008. Subsequent to year end, NYMEX crude oil prices for the first quarter of 2011 averaged \$US94.07/bbl. Natural gas prices have experienced less of a recovery than crude oil and remain relatively weak in comparison to historic price levels over the past five years. At current price levels, natural gas development is focused on resource type development projects and liquids rich reservoirs as much conventional shallow gas is no longer economic.

Service rig utilization, as measured by IROC's internal methodology, increased in the quarter to 66%, as compared to 49% in the comparative period of last year. Our utilization percentage increased by 9% as compared to the third quarter as activity levels increased due to the fall and winter freeze-up. Certain areas are only accessible by service rigs and other heavy equipment during winter when the ground is frozen. In 2010, our utilization percentage has increased 14% averaging 53% as compared to 39% in the prior year. Subsequent to year end, first quarter 2011 utilization has increased further to 78%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATIONS (CONTINUED)

DRILLING AND PRODUCTION SERVICES (CONTINUED)

On July 16, 2010 IROC purchased all of the rental assets, rental contracts, and most of the business assets of Trust Energy Services Corp. ("Trust"). Trust was a privately owned Alberta based oilfield rental company, specializing in a complete line of coil tubing and well servicing equipment rentals. The Trust assets were acquired to complement Aero Rental Services existing rental assets and to expand the products and services offered. The Trust rental location was closed and all equipment was transferred and integrated into IROC's existing rental asset inventory immediately after the purchase. As part of the asset purchase, Trust's manager has joined Aero Rental Services in a management position.

TECHNOLOGY SERVICES

The Technology Services segment is comprised solely of our Canada Tech division. Canada Tech designs, develops, manufactures and sells or rents a wide line of tools and systems that measure pressures, temperatures and other attributes in the downhole and surface environment of oil and gas wells.

Canada Tech continues to make progress in the sales of products that measure temperature and pressure in Steam Assisted Gravity Drainage ("SAGD") applications in Alberta's heavy oil sector. This is a market segment with large growth potential as this sector has been growing and has recently surpassed natural gas in the dollar amount of Crown royalties being paid to the Alberta Government for the first time.

Our products utilize new and superior technology enabling our gauges and systems to operate in higher temperatures and more challenging environments. Canada Tech's customers require data that is reliable, consistent and accurate. Canada Tech's competitive advantage is the ability to look at each well individually and adapt a system to match the needs of the customer within the well parameters. Due to the custom nature of much of Canada Tech's sales, much of the manufacturing is done on a build to order basis and a significant portion of revenues are on a project basis.

There is continued progress in the permanent monitoring market because of our ability to adapt systems to the customer's needs. This is evident through the SAGD and shale gas projects we are involved in where we are deploying new Hybrid technology which measures temperatures and pressures up to 225°C. In addition, we have developed permanent technology for measuring temperature up to 260°C. For customers with multiple zones in a well, we have installed permanent multi gauge systems with up to six gauges per well and have the capability to increase the number of gauges beyond this. We anticipate growth in SAGD and multiple zone applications, both in Western Canada and internationally where permanent monitoring technology has become more accepted and is ready to be deployed.

In memory tools we continue to pursue sales into international markets. Although sales are marginally reduced over the prior year period, we have executed additional customer contracts and anticipate continued growth over the coming year. In addition, Canada Tech has developed increased memory capability in both Piezo gauges and Quartz gauges to allow for additional data storage.

Canada Tech differs from our other divisions in that the capital requirement is smaller and the value of the division is contained in its patents and proprietary technology. A significant portion of Canada Tech's costs are fixed and as such increased sales volumes have a magnified effect on the EBITDAS of IROC. Financial performance in the last two quarters of 2010 fell short of expectations due to permanent installation projects being delayed or cancelled. While these results are disappointing, we continue to gain market acceptance with our high temperature permanent systems with installations being completed for two additional SAGD customers in the fourth quarter of this year.

CORPORATE SERVICES

IROC's non-operating segment, Corporate Services, captures general and administrative expenses associated with supporting each of the reporting segments operations noted above, plus costs associated with being a public company. Also, included in Corporate Services is interest expense for debt servicing and income tax expense.

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

FINANCIAL RESULTS AND SELECTED FINANCIAL INFORMATION

\$ 000's except number of shares and per share amounts	Year ended December 31, 2010	December 31, 2010	Three months ended September 30, 2010	June 30, 2010	March 31, 2010
Revenue:					
Eagle Well Servicing	46,014	15,400	12,241	6,642	11,731
Aero Rental Services	7,602	3,131	1,801	894	1,776
Total drilling & production services	53,616	18,531	14,042	7,536	13,507
Technology services	10,738	2,306	2,402	3,289	2,741
Total revenue	64,354	20,837	16,444	10,825	16,248
Operating costs:					
Eagle Well Servicing	31,085	10,175	8,234	5,106	7,570
Aero Rental Services	4,480	1,444	1,066	661	1,309
Total drilling & production services	35,565	11,619	9,300	5,767	8,879
Technology services	7,477	1,721	2,108	1,897	1,751
Total operating costs	43,042	13,340	11,408	7,664	10,630
Gross margin⁽¹⁾					
Eagle Well Servicing	14,929	5,225	4,007	1,536	4,162
Aero Rental Services	3,122	1,687	735	233	467
Total drilling & production services	18,051	6,912	4,742	1,769	4,629
Technology services	3,261	585	294	1,392	989
Total gross margin	21,312	7,497	5,036	3,161	5,618
Gross margin %⁽¹⁾:					
Eagle Well Servicing	32%	34%	33%	23%	35%
Aero Rental Services	41%	54%	41%	26%	26%
Total drilling & production services	34%	37%	34%	23%	34%
Technology services	30%	25%	12%	42%	36%
Total gross margin %	33%	36%	31%	29%	35%
EBITDAS⁽¹⁾:					
Eagle Well Servicing	12,534	4,486	3,403	1,079	3,566
Aero Rental Services	2,398	1,457	524	101	316
Total drilling & production services	14,932	5,943	3,927	1,180	3,882
Technology services	1,046	10	(204)	765	475
Corporate	(3,500)	(804)	(747)	(970)	(979)
Total EBITDAS	12,478	5,149	2,976	975	3,378
General and administrative	8,834	2,348	2,060	2,186	2,240
Depreciation and amortization	8,693	2,431	2,268	2,003	1,991
Interest expense net of interest income	1,209	291	293	265	360
Stock based compensation	506	101	98	129	178
Provision for current and future income taxes	365	221	187	(278)	235
Loss (gain) on foreign exchange	24	17	(2)	(88)	97
Net income (loss) from continuing operations	2,010	2,104	437	(1,055)	524
Net income (loss)	2,010	2,104	437	(1,055)	524
Net income (loss) per common share from continuing operations:					
- Basic	\$0.05	\$0.05	\$0.01	\$(0.02)	\$0.01
- Diluted	\$0.05	\$0.05	\$0.01	\$(0.02)	\$0.01
Net income (loss) per common share:					
- Basic	\$0.05	\$0.05	\$0.01	\$(0.02)	\$0.01
- Diluted	\$0.05	\$0.05	\$0.01	\$(0.02)	\$0.01
Weighted average common shares outstanding:					
- Basic	43,426,436	43,026,730	43,502,346	43,604,911	43,576,971
- Diluted	43,453,485	43,270,196	43,523,763	43,604,911	43,576,971

(1) See Non-GAAP Measures

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

FINANCIAL RESULTS AND SELECTED FINANCIAL INFORMATION (CONTINUED)

\$ 000's except number of shares and per share amounts	Year ended		Three months ended		
	December 31, 2009	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Revenue:					
Eagle Well Servicing	33,496	10,537	7,166	5,349	10,444
Aero Rental Services	4,776	1,501	1,013	900	1,362
Total drilling & production services	38,272	12,038	8,179	6,249	11,806
Technology services	10,751	3,445	2,052	3,053	2,201
Total revenue	49,023	15,483	10,231	9,302	14,007
Operating costs:					
Eagle Well Servicing	22,097	6,982	4,652	3,919	6,544
Aero Rental Services	3,583	1,047	702	840	994
Total drilling & production services	25,680	8,029	5,354	4,759	7,538
Technology services	7,406	2,356	1,554	1,808	1,688
Total operating costs	33,086	10,385	6,908	6,567	9,226
Gross margin⁽¹⁾					
Eagle Well Servicing	11,399	3,555	2,514	1,430	3,900
Aero Rental Services	1,194	455	311	60	368
Total drilling & production services	12,593	4,010	2,825	1,490	4,268
Technology services	3,344	1,088	498	1,245	513
Total gross margin	15,937	5,098	3,323	2,735	4,781
Gross margin %⁽¹⁾:					
Eagle Well Servicing	34%	34%	35%	27%	37%
Aero Rental Services	25%	30%	31%	7%	27%
Total drilling & production services	33%	33%	34%	24%	36%
Technology services	31%	32%	24%	41%	23%
Total gross margin %	33%	33%	32%	29%	34%
EBITDAS⁽¹⁾:					
Eagle Well Servicing	9,617	3,057	2,129	997	3,434
Aero Rental Services	745	331	206	(53)	261
Total drilling & production services	10,362	3,388	2,335	944	3,695
Technology services	932	512	29	556	(165)
Corporate	(3,779)	(927)	(985)	(917)	(950)
Total EBITDAS	7,515	2,973	1,379	583	2,580
General and administrative	8,422	2,125	1,944	2,152	2,201
Depreciation and amortization	8,454	2,392	2,073	1,978	2,011
Interest expense net of interest income	1,232	446	308	205	273
Stock based compensation	340	74	64	92	110
Provision for current and future income taxes	(620)	380	(268)	(785)	54
Loss on foreign exchange	619	43	168	354	54
Net income (loss) from continuing operations	(10,886)	(395)	(9,314)	(1,260)	82
Net income (loss)	(10,576)	(481)	(9,324)	(1,260)	488
Net income (loss) per common share from continuing operations:					
- Basic	\$(0.25)	\$(0.01)	\$(0.21)	\$(0.03)	\$ -
- Diluted	\$(0.25)	\$(0.01)	\$(0.21)	\$(0.03)	\$ -
Net income (loss) per common share:					
- Basic	\$(0.24)	\$(0.01)	\$(0.21)	\$(0.03)	\$0.01
- Diluted	\$(0.24)	\$(0.01)	\$(0.21)	\$(0.03)	\$0.01
Weighted average common shares outstanding:					
- Basic	44,000,524	43,565,754	43,947,852	44,200,651	44,296,448
- Diluted	44,000,524	43,565,754	43,947,852	44,200,651	44,296,448

(1) See Non-GAAP Measures

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

SUMMARY OF QUARTERLY RESULTS

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 revenues, operating costs and operating results of the Corporation, especially the Drilling and Production Services Segment, will vary on a quarterly basis.

During the three month period ended September 30, 2009 the Corporation had one-time write downs for goodwill (\$6.9 million) and a note receivable (\$1.5 million) which impacted net earnings. See the sections titled *Goodwill Impairment* and *Notes Receivable Impairment* in the annual MD&A for the year ended December 31, 2009 for additional information relating to these items. These items had the most significant impact on net income variances between the quarters presented.

COMPARISON OF RESULTS FROM THE THREE MONTHS AND ONE YEAR PERIODS ENDED DECEMBER 31, 2010 TO THE SAME PERIODS LAST YEAR

Revenue

\$ 000's	Three months ended			
	December 31, 2010	December 31, 2009	Change \$	Change %
Revenue:				
Eagle Well Servicing	15,400	10,537	4,863	46%
Aero Rental Services	3,131	1,501	1,630	109%
Total drilling & production services	18,531	12,038	6,493	54%
Technology services (Canada Tech)	2,306	3,445	(1,139)	(33%)
Total revenue	20,837	15,483	5,354	35%

\$ 000's	Years ended			
	December 31, 2010	December 31, 2009	Change \$	Change %
Revenue:				
Eagle Well Servicing	46,014	33,496	12,518	37%
Aero Rental Services	7,602	4,776	2,826	59%
Total drilling & production services	53,616	38,272	15,344	40%
Technology services (Canada Tech)	10,738	10,751	(13)	0%
Total revenue	64,354	49,023	15,331	31%

Total revenues have increased year over year for both the three months and full year periods ended December 31, 2010 reflecting the general recovery in the oil and gas sector and increased demand for the Corporation's products and services.

The increase in revenues for Eagle Well Servicing in both the current year quarter and full year periods is almost entirely due to an increase in the number of service rig hours. These increased rig hours are primarily a function of increased utilization with some contribution from the addition of two new service rigs in the second quarter of 2009. During the downturn of industry activity experienced during 2009 and early 2010 competitive pressure forced a reduction in hourly rig rates and the inclusion of certain extras without charge in order to remain competitive. This reduced hourly rig revenues in the latter part of 2009 and continues to impact current revenues as hourly rig rates remain below the levels achieved in 2008. The last half of 2010 saw a modest trend of rate increases and a return to more normal service inclusions as demand began to recover. With increased utilization rates across the industry, we are optimistic hourly rig rates will continue to recover toward 2008 levels.

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

COMPARISON OF RESULTS FROM THE THREE MONTHS AND ONE YEAR PERIODS ENDED DECEMBER 31, 2010 TO THE SAME PERIODS LAST YEAR (CONTINUED)

Revenue (continued)

The increase in revenue for Aero Rental Services is attributable to an increase both in utilization and in the amount of rentable equipment in the current year periods. During 2010 Aero added \$4.8 million of rental assets, including assets added in the Trust Energy Services acquisition. Additionally, in the prior year periods, proportionately more of our rental revenue was related to third party equipment than in the current year which caused higher operating expenses as we paid third parties rental fees.

Canada Tech launched a targeted plan to increase customer visibility both domestically and internationally in early 2010. As part of this program, travel was increased and this contributed to sales to international customers for both new and continuing projects as well as boosting relationships with existing international agents and development of new international agent relationships. The increase in oil prices resulted in increased producer spending on capital projects as during 2009 many producers curtailed capital program spending due to lower commodity prices and the worldwide financial crisis. New agent relationships in China and the Middle East promoted growth in these segments with product currently being evaluated to ensure our tools perform as required for the specific conditions of these marketplaces. Revenue in the quarter ended December 31, 2010 was below the prior year period with full year revenues being relatively consistent between the two years. The build to order and project nature of much of Canada Tech's business can result in revenue fluctuations depending upon the timing of product delivery or installation. We currently have permanent systems installed at a number of domestic customer's oil and gas wells on a pilot or trial basis. If these systems prove reliable for the harsh environments under which they are operating we have the potential for increased sales when they decide to deploy our systems more widely as a normal part of their field development.

Crude oil and natural gas prices are activity drivers for all of our businesses as our customers make capital and operating expenditure decisions based on their revenue streams which are generated by selling crude oil and natural gas. NYMEX Crude oil prices in the quarter ended December 31, 2010 averaged \$US 85.17/ barrel as compared to \$US 76.19/ barrel in the prior year quarter. Natural gas prices averaged \$3.39 per GJ in the quarter ended December 31, 2010 as compared to \$4.01 per GJ in the prior year quarter. For the full year period, NYMEX Crude oil prices averaged \$US79.53/ barrel in 2010 as compared to \$US76.19/ barrel in 2009. Natural gas prices averaged \$3.91 per GJ in 2010 as compared to \$3.92 per GJ in 2009.

Operating Costs and Gross Margin

\$ 000's	December 31, 2010	December 31, 2009	Change \$	Change %
Operating costs:				
Eagle Well Servicing	10,175	6,982	3,193	46%
Aero Rental Services	1,444	1,047	397	38%
Total drilling & production services	11,619	8,029	3,590	45%
Technology services (Canada Tech)	1,721	2,356	(635)	(27%)
Total operating costs	13,340	10,385	2,955	28%
Gross margin:⁽¹⁾				
Eagle Well Servicing	5,225	3,555	1,670	47%
Aero Rental Services	1,687	455	1,232	271%
Total drilling & production services	6,912	4,010	2,902	72%
Technology services (Canada Tech)	585	1,088	(503)	(46%)
Total gross margin	7,497	5,098	2,399	47%
Gross margin %⁽¹⁾:				
Eagle Well Servicing	34%	34%		0%
Aero Rental Services	54%	30%		24%
Total drilling & production services	37%	33%		4%
Technology services (Canada Tech)	25%	32%		(7%)
Total gross margin %	36%	33%		3%

(1) See Non-GAAP Measures

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

COMPARISON OF RESULTS FROM THE THREE MONTHS AND ONE YEAR PERIODS ENDED DECEMBER 31, 2010 TO THE SAME PERIODS LAST YEAR (CONTINUED)

Operating Costs and Gross Margin (continued)

\$ 000's	Years ended			
	December 31, 2010	December 31, 2009	Change \$	Change %
Operating costs:				
Eagle Well Servicing	31,085	22,097	8,988	41%
Aero Rental Services	4,480	3,583	897	25%
Total drilling & production services	35,565	25,680	9,885	38%
Technology services (Canada Tech)	7,477	7,406	71	1%
Total operating costs	43,042	33,086	9,956	30%
Gross margin:⁽¹⁾				
Eagle Well Servicing	14,929	11,399	3,530	31%
Aero Rental Services	3,122	1,194	1,928	161%
Total drilling & production services	18,051	12,593	5,458	43%
Technology services (Canada Tech)	3,261	3,344	(83)	(2%)
Total gross margin	21,312	15,937	5,375	34%
Gross margin %⁽¹⁾:				
Eagle Well Servicing	32%	34%		(2%)
Aero Rental Services	41%	25%		16%
Total drilling & production services	34%	33%		1%
Technology services (Canada Tech)	30%	31%		(1%)
Total gross margin %	33%	33%		0%

(1) See Non-GAAP Measures

Many operating costs are variable in nature and increase or decrease with activity levels such that much of the change in operating costs in the year over year periods is due to the increases in revenues in the current year periods as compared to the prior year periods.

The cost of goods sold is included in operating costs for our Technology Services segment. Technology services operating costs were lower for the current year quarter than in the prior year quarter largely due the lower level of sales in the current year quarter. On a full year basis, both revenues and operating costs were relatively consistent year over year.

During the latter part of 2009 and into the spring of 2010 the Corporation focused on operating cost efficiencies and the reduction of head count and discretionary spending in order to reduce costs to align with the reduced activity levels of the downturn. As activity levels began to recover, we have needed to adjust head count in some areas to match the increases in activity while still being focused on minimization of discretionary costs.

Gross margin is calculated as revenue minus operating costs and provides a measure of cash flow available to cover all of the other costs of the business. Gross margin percentages for the full year period were lower for our Eagle Well Servicing division due to lower pricing in the first three quarters of 2010 as compared to 2009. Gross margin percentages were higher for our Aero Rental Services division during both the fourth quarter and full year periods largely due to the increase in the quantity of rental assets and associated rental revenues. Rental revenues increased more than operating costs because there is a significant component of fixed costs relating to Aero's facilities which do not change with the increase in rental activity. The decline in gross margin for Technology Services in the fourth quarter is due to lower revenues in the current year which also impacted the gross margin percentage. For the full year period, revenues, operating costs, gross margins and gross margin percentages are all relatively consistent with the prior year. On a relative basis, more of the costs in the Technology Services segment are fixed or step-variable in nature than in the Drilling and Production Services segment.

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

COMPARISON OF RESULTS FROM THE THREE MONTHS AND ONE YEAR PERIODS ENDED DECEMBER 31, 2010 TO THE SAME PERIODS LAST YEAR (CONTINUED)

EBITDAS

\$ 000's except per share amounts	Three months ended		Change \$	Change %
	December 31, 2010	December 31, 2009		
EBITDAS⁽¹⁾:				
Eagle Well Servicing	4,486	3,057	1,429	47%
Aero Rental Services	1,457	331	1,126	340%
Total drilling & production services	5,943	3,388	2,555	75%
Technology services (Canada Tech)	10	512	(502)	(98%)
Corporate	(804)	(927)	123	13%
Total EBITDAS	5,149	2,973	2,176	73%
EBITDAS per common share⁽¹⁾				
- Basic	\$ 0.12	\$ 0.07	\$ 0.05	71%
- Diluted	\$ 0.12	\$ 0.07	\$ 0.05	71%

(1) See Non-GAAP Measures

\$ 000's except per share amounts	Years ended		Change \$	Change %
	December 31, 2010	December 31, 2009		
EBITDAS⁽¹⁾:				
Eagle Well Servicing	12,534	9,617	2,917	30%
Aero Rental Services	2,398	745	1,653	222%
Total drilling & production services	14,932	10,362	4,570	44%
Technology services (Canada Tech)	1,046	932	114	12%
Corporate	(3,500)	(3,779)	279	7%
Total EBITDAS	12,478	7,515	4,963	66%
EBITDAS per common share⁽¹⁾				
- Basic	\$ 0.29	\$ 0.17	\$ 0.12	70%
- Diluted	\$ 0.29	\$ 0.17	\$ 0.12	70%

(1) See Non-GAAP Measures

Earnings before interest, income taxes, depreciation, amortization, and stock based compensation (“EBITDAS”) is used by the Corporation as a measure of cash flow and liquidity. EBITDAS has grown significantly when comparing the year over year quarter and full year periods to those of the prior year. Positive EBITDAS provides cash needed to grow our business through the purchase of new equipment or business acquisitions, reduce outstanding bank debt, or pay dividends to our shareholders. We believe Aero will continue to report higher EBITDAS growth relative to our other businesses as we add equipment and rental revenue to this division.

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

COMPARISON OF RESULTS FROM THE THREE MONTHS AND ONE YEAR PERIODS ENDED DECEMBER 31, 2010 TO THE SAME PERIODS LAST YEAR (CONTINUED)

General and Administrative Expenses

\$ 000's	Three months ended		Change \$	Change %
	December 31, 2010	December 31, 2009		
General and administrative				
Eagle Well Servicing	739	498	241	48%
Aero Rental Services	232	123	109	89%
Total drilling & production services	971	621	350	56%
Technology services (Canada Tech)	573	577	(4)	(1%)
Corporate	804	927	(123)	(13%)
Total general and administrative	2,348	2,125	223	10%

\$ 000's	Years ended		Change \$	Change %
	December 31, 2010	December 31, 2009		
General and administrative				
Eagle Well Servicing	2,394	1,783	611	34%
Aero Rental Services	725	448	277	62%
Total drilling & production services	3,119	2,231	888	40%
Technology services (Canada Tech)	2,215	2,412	(197)	(8%)
Corporate	3,500	3,779	(279)	(7%)
Total general and administrative	8,834	8,422	412	5%

In our Drilling and Production services segment, increased general and administrative expenses are primarily attributable to increased activity levels and compensation costs largely due to incentive compensation accruals in the current year quarter and full year periods. During the downturn experienced in 2009 we focused on cost efficiencies in all areas of our business and reduced head counts and discretionary spending where possible to match costs with activity levels. As activity levels recovered during 2010, some increases in general and administrative costs have been required to support the increased levels of activity.

In our Technology Services segment the decrease in general and administrative expenses for the full year period is primarily related to higher bad debt experience in the prior year. Adjusted for the bad debts experience, general and administrative expenses are similar between the two years.

Stock-based Compensation Expense

\$ 000's	Three months ended		Change \$	Change %
	December 31, 2010	December 31, 2009		
Stock based compensation				
Stock options	96	74	22	30%
Restricted Share Units	5	-	5	n/a
Total stock based compensation	101	74	27	36%

\$ 000's	Years ended		Change \$	Change %
	December 31, 2010	December 31, 2009		
Stock based compensation				
Stock options	391	326	65	20%
Restricted Share Units	115	14	101	721%
Total stock based compensation	506	340	166	49%

The Corporation utilizes a stock option plan as part of its incentive compensation arrangements for key employees, officers and directors.

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

COMPARISON OF RESULTS FROM THE THREE MONTHS AND ONE YEAR PERIODS ENDED DECEMBER 31, 2010 TO THE SAME PERIODS LAST YEAR (CONTINUED)

Stock-based Compensation Expense (continued)

The Corporation also has a Restricted Share Unit (“RSU”) Plan which is also used as part of its incentive compensation arrangements for key employees, officers and directors. The value of stock options is determined at the grant date using the Black-Scholes option pricing model. Stock options are expensed over the average vesting term of the stock option grant. RSU’s are expensed over the vesting term of the RSU grant. RSU’s granted in 2009 and 2010 vested immediately, were expensed immediately, and were redeemed for common shares immediately upon issue. The year over year increase in RSU costs is due to the Plan being new in 2009 and having little use prior to 2010.

Depreciation and Amortization

\$ 000’s	Three months ended		Change \$	Change %
	December 31, 2010	December 31, 2009		
Depreciation and amortization				
Eagle Well Servicing	1,542	1,394	148	11%
Aero Rental Services	346	218	128	59%
Total drilling & production services	1,888	1,612	276	17%
Technology services (Canada Tech)	297	310	(13)	(4%)
Corporate	246	470	(224)	(48%)
Total depreciation and amortization	2,431	2,392	39	2%

\$ 000’s	Years ended		Change \$	Change %
	December 31, 2010	December 31, 2009		
Depreciation and amortization				
Eagle Well Servicing	5,822	5,473	349	6%
Aero Rental Services	1,217	858	359	42%
Total drilling & production services	7,039	6,331	708	11%
Technology services (Canada Tech)	1,170	1,231	(61)	(5%)
Corporate	484	892	(408)	(46%)
Total depreciation and amortization	8,693	8,454	239	3%

Depreciation expense for Eagle Well Servicing has increased slightly for both the current year quarter and year due to an increase in the value of assets being depreciated. The increase in depreciation and amortization expenses for Aero Rental Services is a result of an increase in the value of rental equipment.

Corporate depreciation and amortization is lower than the prior year on both a quarterly and year to date basis due mainly to loan commitment fees being fully amortized by May, 2010.

Interest Expense

\$ 000’s	Three months ended		Change \$	Change %
	December 31, 2010	December 31, 2009		
Total interest expense	301	512	(211)	(41%)

\$ 000’s	Years ended		Change \$	Change %
	December 31, 2010	December 31, 2009		
Total interest expense	1,256	1,317	(61)	(5%)

Interest expense in the current year includes interest and loan related bank charges as well as standby fees and bank waiver fees.

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

COMPARISON OF RESULTS FROM THE THREE MONTHS AND ONE YEAR PERIODS ENDED DECEMBER 31, 2010 TO THE SAME PERIODS LAST YEAR (CONTINUED)

Interest Expense (continued)

Interest expense is a function of interest rates, standby rates, bank commitment fees and loan amendment fees and the level of bank debt under our bank facilities. In the fourth quarter of 2010 we had a non-recurring charge for modification of a loan covenant which counted for much of the higher interest cost in the prior year quarter. On a full year basis, average borrowings were lower in 2010 than in 2009 which reduced interest costs. In 2009, and for the first five months of 2010, fees related to loan renewals were capitalised to intangibles with the amortization included in depreciation and amortization expense. In the current year, loan renewal fees paid in May, 2010 were recorded as prepaid expenses and deposits and are being expensed to interest expense on a straight line basis over a one year period.

(Loss)/Gain on disposal of Property and Equipment

The Corporation regularly disposes of minor non-core service property and equipment, primarily in the Drilling and Production Services segment. Disposal of such equipment often allows for the Corporation to keep its rental and service equipment newer than would otherwise be the case. In the three month period ended December 31, 2010 the Corporation had a gain on disposal of \$15 thousand as compared to a \$33 thousand loss in the prior year period. In the year ended December 31, 2010 the Corporation had a gain on disposal of \$29 thousand as compared to a \$26 thousand loss in the prior year period.

Foreign exchange loss

\$ 000's	Three months ended		Change \$	Change %
	December 31, 2010	December 31, 2009		
Foreign exchange loss	17	43	(26)	(60%)

\$ 000's	Years ended		Change \$	Change %
	December 31, 2010	December 31, 2009		
Foreign exchange loss	24	619	(595)	(96%)

The Corporation is exposed to fluctuations in foreign currency exchange rates, primarily the exchange rate between the Canadian dollar and the United States Dollar ("US" or "US dollar"). This exposure arises primarily in our Canada Tech business in the Technology Services segment. In the Technology segment, a majority of sales are to customers outside of Canada and denominated primarily in US dollars. Foreign exchange losses experienced during 2009 are substantially all due to changes in the Canadian to US dollar exchange rate on accounts receivable relating to sales which were denominated in US dollars. As the term to collection on such sales are typically between 60 and 90 days or longer, the Corporation is exposed to changes in the exchange rate during those periods. As this exposure to the United States dollar is continually being renewed due to new sales to customers being denominated in United States dollars, the Corporation's exposure the United States dollars for accounts receivable is continual and tends to fluctuate within a relatively predictable range. In order to mitigate this continual exposure to the United States dollar, the Corporation has converted some of its borrowings under its bank credit facilities to be denominated in United States dollars. The amount of United States dollar denominated borrowings reduces the overall net exposure to foreign currency risk and is adjusted periodically to minimize the net exposure to United States dollar fluctuations. The use of this hedging strategy, coupled with less movement in the Canadian to US Dollar exchange rate in the current year periods has reduced the amount of foreign exchange losses in the current year periods. The goal of the Corporation is to keep the foreign exchange gain or loss as close to zero as possible.

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

COMPARISON OF RESULTS FROM THE THREE MONTHS AND ONE YEAR PERIODS ENDED DECEMBER 31, 2010 TO THE SAME PERIODS LAST YEAR (CONTINUED)

Discontinued Operations

During the fourth quarter of 2008, the Corporation decided to dispose of its safety, communication and monitoring operations (Oricomm), and its lease construction operations business (Envirocore) in order for the Corporation to focus on its core business operations. Oricomm and Envirocore consisted of certain fixed assets including field equipment, shop equipment and a data acquisition centre used in the safety, communication and monitoring operations as well as heavy equipment and field equipment used in lease construction operations. In February, 2009 the Corporation entered into a definitive agreement to sell Oricomm. The transaction closed on February 26, 2009 for cash consideration of \$3.0 million and the assumption of a note receivable of \$719 thousand. On February 26, 2009 the Corporation entered into a definitive agreement to sell Envirocore. The transaction closed on February 27, 2009 for cash consideration of \$3.3 million and the assumption of a note receivable of \$1.5 million. See *Notes Receivable and note receivable impairment (recovery)* for additional information.

Net earnings (loss) from discontinued operations for the three months ended December 31, 2009 was (\$86) thousand and \$310 thousand for the year ended December 31, 2009. There are no earnings from discontinued operations in the current year period because the operations were sold.

Notes receivable and note receivable impairment (recovery)

The notes receivable were received as partial payment for the sale of the Oricomm and Envirocore divisions (see *Discontinued Operations*).

At December 31, 2010 and 2009 the balance for notes receivable on the balance sheet consists of one note in the principal amount of \$719 thousand. The counterparty to the note is a private company which the Corporation believes will be able to satisfy the terms of repayment. The Corporation has been receiving interest payments when due in accordance with the terms of the note. The note is secured by various assets which were sold to the counterparty to the note for a value much greater than the principal value of the note. Based on these factors, it is the Corporation's assessment the value of the note receivable is fully realizable at December 31, 2010.

Prior to September 30, 2009, the Corporation had another note receivable recorded on the balance sheet at \$1.5 million. Due to the non-payment of interest due pursuant to the terms of the note and deterioration in the financial condition of the counterparty to the note, a \$1.5 million provision for impairment of notes receivable was made in the third quarter of 2009. No further collection of interest was made and the counterparty missed a \$0.75 million principal payment which was due on March 31, 2010. On April 26, 2010 the counterparty made an application under the *Companies' Creditors Arrangement Act* ("CCAA") and received a court order appointing a monitor. On September 19, 2010, the Corporation sold the note payable and any claim for overdue interest or principal to a third party for cash consideration of \$300 thousand resulting in the recovery in the current year period.

Income taxes

\$ 000's	Three months ended	
	December 31, 2010	December 31, 2009
Earnings (loss) before income taxes from continuing operations	2,325	(15)
Income taxes	221	380
Income taxes as a % of net income	10%	(25,333%)
Expected statutory income tax rate	28%	29%

\$ 000's	Years ended	
	December 31, 2010	December 31, 2009
Earnings (loss) before income taxes from continuing operations	2,375	(11,506)
Income taxes	365	(620)
Income taxes as a % of net income	15%	5%
Expected statutory income tax rate	28%	29%

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

COMPARISON OF RESULTS FROM THE THREE MONTHS AND ONE YEAR PERIODS ENDED DECEMBER 31, 2010 TO THE SAME PERIODS LAST YEAR (CONTINUED)

Income taxes

Income taxes are a function of taxable income which is calculated differently than accounting income. Differences between accounting income and taxable income include such things as the non-taxable portion of capital gains, the non-deductible portion of capital losses, items which are not deductible for income tax purposes such as goodwill impairments and stock based compensation, and other differences. Additionally, the recognition or de-recognition of certain tax credits or pool balances can occur based on judgements as to the ability of the Corporation to be able to realise the benefits of such tax balances or credits in the future. The difference between the actual income tax rate and the expected income tax rate in both the current year and prior year periods is due to these types of items.

Net Income

\$ 000's except share and per share amounts	Three months ended		Change \$ or number	Change %
	December 31, 2010	December 31, 2009		
Net income (loss) from continuing operations	2,104	(395)	2,499	(633%)
Net income (loss) and comprehensive income (loss)	2,104	(481)	2,585	(537%)
Net income (loss) per common share from continuing operations:				
- Basic	\$0.05	(\$0.01)	\$0.06	(634%)
- Diluted	\$0.05	(\$0.01)	\$0.06	(634%)
Weighted average common shares outstanding:				
- Basic	43,026,730	43,565,754	(539,024)	(1%)
- Diluted	43,270,196	43,565,754	(295,558)	(1%)

\$ 000's except share and per share amounts	Years ended		Change \$ or number	Change %
	December 31, 2010	December 31, 2009		
Net income (loss) from continuing operations	2,010	(10,887)	12,897	(118%)
Net income (loss) and comprehensive income	2,010	(10,577)	12,587	(119%)
Net loss per common share from continuing operations:				
- Basic	\$0.05	(\$0.24)	\$0.29	(119%)
- Diluted	\$0.05	(\$0.24)	\$0.29	(119%)
Weighted average common shares outstanding:				
- Basic	43,426,436	44,000,524	(574,088)	(1%)
- Diluted	43,453,485	44,000,524	(547,039)	(1%)

During the year ended December 31, 2009 the Corporation had a one-time write down for goodwill of \$6.9 million and for notes receivable of \$1.5 million which had the most significant impact when comparing the change in net income. See the sections titled *Goodwill Impairment* and *Notes Receivable Impairment* for additional information relating to these items.

The decrease in the weighted number of shares outstanding is the result of the purchase and cancellation of common shares pursuant to the Corporation's normal course issuer bid during the current and prior year. See the section titled "Normal course issuer bid" for additional information.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Sources of funds:

During the year ended December 31, 2010 the Corporation financed capital expenditures entirely with cash flow from operations.

At December 31, 2010 the Corporation had positive working capital, excluding the current portion of long-term debt, of \$8.4 million.

The Corporation has a credit agreement with a syndicate of three Canadian chartered banks (the "Credit Agreement"). The Credit Agreement provides the Corporation with an extendible demand revolving operating loan credit facility ("Operating loan") and an extendible revolving term acquisition loan facility ("Acquisition loan") (together referred to as "the Facilities"). The Operating loan may be used for ongoing working capital and general corporate purposes. The Acquisition loan may be used to finance acquisitions of businesses and equipment and for general corporate purposes. The Facilities are for a 364 day committed term until May 27, 2011, the term-out date. No principal payments are required under the facilities until the term-out date which may be extended for a further 364 day period upon approval by the banks. Following the term-out date, the Operating loan is immediately due and payable and the principal outstanding on the Acquisition loan becomes payable in 24 equal monthly installments over the following two year period. Interest on both facilities is payable monthly.

The Facilities bear interest based on a sliding scale pricing grid tied to the Corporation's trailing debt to cash flow (EBITDA) ratio as defined in the Credit Agreement. The maximum borrowings permitted under the Operating loan are \$7.5 million and under the Acquisition loan are \$25 million up to an aggregate of \$32.5 million under the Facilities. Borrowings under the Operating loan are limited to a ratio based on certain accounts receivable and qualified inventory. Borrowings under the Acquisition loan are limited to 60% of the net book value of fixed assets. The Facilities have an accordion feature which provides the Corporation with an ability to increase the maximum combined borrowings under the Facilities to up to \$52.5 million, subject to the approval of the lenders.

The Facilities are secured by a general security agreement covering all of the assets of the Corporation and a security arrangement covering all assets of the Corporation. As at December 31, 2010, there was \$1.5 million drawn under the Operating loan and \$17.6 million drawn under the Acquisition loan for total borrowings of \$19.1 million.

Under the terms of the Credit Agreement, the Corporation is required to comply with certain financial covenants. As of December 31, 2010, the Corporation is in compliance with each of the financial covenants under the agreement.

Capital requirements:

At December 31, 2010 the Corporation had committed approximately \$5.6 million for the construction of new coiled tubing units. Subsequent to year end, the Corporation has also committed approximately \$5.6 million for the construction of three new service rigs in the Eagle Well Servicing division to be delivered in May, June and July, 2011. These new service rigs will utilize in excess of \$1.4 million of new equipment which was held in inventory at year end, for a total build cost of \$7.0 million. The Corporation has also budgeted \$5 million for the expansion of rental inventory assets in the Aero Rental Services division. It is anticipated future cash requirements for capital expenditures will be met through a combination of funds generated from operations and existing bank debt facilities as required. However, additional funds may be raised by additional bank debt, other forms of debt, the sale of assets, or the issue of equity.

Subsequent to year end, on April 11, 2011, the Corporation completed a short form prospectus offering of 7,200,361 common shares at a price of \$1.40 per common share, for aggregate gross proceeds before costs of \$10.1 million and estimated net proceeds after costs of \$9.3 million. The shares issued pursuant to the offering were listed for trading on the TSX-Venture exchange on April 11, 2011.

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 favorable 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.

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

COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

IROC's contractual financial obligations are summarized as follows:

\$ 000's	Payments due by period				Total
	Next 12 months	Between 1 and 3 years	Between 4 and 5 years	Greater than 5 years	
Contractual obligations:					
Operating loan	1,455	-	-	-	1,455
Acquisition loan	4,957	12,038	-	-	16,995
Vehicle loans	27	45	-	-	72
Note payable	130	260	260	-	650
Operating lease payments	1,488	2,236	1,632	523	5,879
Total contractual obligations	8,057	14,579	1,892	523	25,051

The Corporation anticipates the annual renewal of its operating loan and long term debt facilities such that repayment in accordance with the current contractual requirements as indicated in this summary will not be required. However, there is no assurance the Corporation will be able to obtain such renewal from the Corporation's banking syndicate. Operating leases relate primarily to buildings and lands leased in operations and service vehicles used in day to day operating activities. IROC has not entered into any off-balance sheet arrangements other than operating leases.

CAPITAL EXPENDITURES

IROC's capital expenditures are as follows:

\$ 000's	Three months ended			
	December 31, 2010	December 31, 2009	Change \$	Change %
Capital expenditures:				
Eagle Well Servicing	2,449	232	2,217	956%
Aero Rental Services	2,126	321	1,805	562%
Total drilling & production services	4,575	553	4,022	727%
Technology services	9	5	4	80%
Corporate	11	7	4	57%
Total capital expenditures	4,595	565	4,030	713%

\$ 000's	Years ended			
	December 31, 2010	December 31, 2009	Change \$	Change %
Capital expenditures:				
Eagle Well Servicing	3,327	3,115	212	7%
Aero Rental Services	4,838	576	4,262	740%
Total drilling & production services	8,165	3,691	4,474	121%
Technology services	162	43	119	277%
Corporate	200	127	73	57%
Total capital expenditures	8,527	3,861	4,666	121%

Our strategy to organically grow our capital asset base, focused on our core businesses, has resulted in IROC having capital assets, as a whole, in new or like new condition. Our service rigs represent the largest percentage of the Corporation's overall net book value of fixed assets and they are among the newest fleet of service rigs in the industry. During 2009, capital expenditures for Eagle Well Servicing were largely for the completion of two service rigs which were put into service in the second quarter of 2009. During 2010, most of the capital additions for Eagle Well Servicing occurred during the fourth quarter as we started construction of one service rig and three coiled tubing units.

Aero Rental Services continues to add to its rental equipment when there are opportunities for accretive growth. In 2010, the Corporation purchased the rental assets of Trust Energy Services Corp. ("Trust") which comprised approximately \$1.2 million of additions. The assets acquired are complementary to Aero's existing rental assets and IROC has retained Trust's manager as part of the transaction.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL EXPENDITURES (CONTINUED)

For Canada Tech, our current capital budget relates to maintenance capital only, as the Corporation intends to focus its efforts on operating the current equipment base. Management evaluates opportunities to grow on an ongoing basis and will adjust the capital program if the opportunities and conditions warrant.

Eagle Well Servicing plans to spend \$5.6 million for construction of three new service rigs in the Eagle Well Servicing division to be delivered in May, June and July, 2011. In addition to the new capital cost, in excess of \$1.4 million of new fixed assets which are currently held in inventory will be used on these rigs making the total build cost approximately \$7.0 million.

Additionally, IROC is pleased to announce our entry into the coiled tubing business with the construction of three coiled tubing units with 2" capacity at a cost of approximately \$5.6 million. Construction of this equipment was well underway at year end and it is expected that this equipment will be fully deployed and operational early in the second quarter of 2011.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Corporation has financial instruments carried on the balance sheet as follows: cash equivalents (if any), accounts receivable, notes receivable, accounts payable and accrued liabilities, operating loan, note payable, and long-term debt all of which are measured at amortized cost. The fair values of the cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature; the fair value of the Corporation's bank operating loan and long-term debt approximates its carrying value due to the floating interest rate terms. The Corporation estimates the fair value of notes receivable and notes payable included in long-term debt approximate their carrying value due to the interest rate stated in the note itself or used to discount the value of the note.

The Corporation's financial instruments have exposure to credit risk, and market risk as follows:

a) 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. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Corporation accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual amount receivable.

The Corporation has one note receivable in the principal amount of \$719 thousand. The counterparty to the note is a private company which the Corporation believes will be able to satisfy the terms of repayment. The Corporation has been receiving interest payments when due in accordance with the terms of the note. The note is secured by various assets which were sold to the counterparty to the note for a value much greater than the principal value of the note. Based on these factors, it is the Corporation's assessment the value of the note receivable is fully realizable at December 31, 2010.

b) Market risk

Market risk is the risk of changes in market prices, such as commodity prices, foreign currency exchange rates, and interest rates will affect the net earnings or the value of financial instruments. The objective of managing market risk is to control market risk exposures within acceptable limits, while maximizing returns. Market risks to which the Company is subject include:

- Foreign currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS (CONTINUED)

b) Market risk (continued)

- Foreign currency risk (continued)

The Corporation is exposed to foreign currency fluctuations, primarily in accounts receivable denominated in United States dollars and bank debt. The Corporation has denominated a portion of the operating loan and long term bank debt in United States dollars to offset the net accounts receivable denominated in United States dollars. The amount of United States dollar denominated bank debt is adjusted periodically to provide an approximate offset to other exposures.

- 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 operating loan and long-term debt both of which bear interest at floating market rates. The Corporation has not entered into any interest rate swaps or other financial arrangements that mitigate the Corporation's exposure to interest rate fluctuations.

- Commodity price risk

The Corporation is not directly exposed to commodity price risk as it does not have any contracts that are directly based on commodity prices.

The Corporation uses bank debt as a part of its capital structure, primarily to finance capital assets. The Corporation uses accounts receivable, notes receivable and payable, and accounts payable in the normal course of business for purchase and sale of goods and services.

DIVIDENDS AND OUTSTANDING SHARE DATA:

The following table summarizes outstanding share data and potentially dilutive securities as at April 15, 2011:

	April 15, 2011
Common shares	49,878,131
Stock options	2,166,997
Restricted share units	327,100

The Corporation declared a two cent per common share dividend on January 15, 2010 which was paid on January 29, 2010.

The Board of Directors will consider the payment of a dividend twice yearly within the context of current and expected future performance, the cash needs of the business for current operations and for future growth. Having considered these factors, the Board of Directors has determined no dividend will be paid at the present time.

NORMAL COURSE ISSUER BID:

On December 24, 2010 the Corporation renewed its program to purchase its common shares from time to time in accordance with the normal course issuer bid procedures under Canadian securities laws. Pursuant to the issuer bid, IROC is allowed to purchase for cancellation up to 4,259,277 of its common shares during the 12-month period commencing December 24, 2010. To date no purchases have been made under the renewed normal course issuer bid.

Pursuant to the previous normal course issuer bid, the Corporation purchased and cancelled 1,054,200 common shares during the year ended December 23, 2010 at an average purchase price of \$0.93 per share before commissions. IROC believes that the purchases of its common shares at such market prices is a worthwhile investment as these prices do not properly reflect the underlying value of its assets and business. Upon cancellation of such shares in accordance with the normal course issuer bid, the holdings of the remaining shareholders represent an increased proportion of the shares outstanding and, all other things remaining equal, result in an increased net asset value per share.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OUTLOOK

The continued strength in the price of oil combined with the ever increasing application of horizontal drilling has provided for significant improvements in levels of activity in the Western Canadian Sedimentary Basin during the last half of 2010. The industry has seen year over year increases in all aspects of the service business with activity levels for the first quarter of 2011 indicating this trend is likely to continue through 2011.

Eagle Well Servicing has developed solid relationships with active oil and gas operators across Western Canada by providing the newest equipment available, trained personnel and a competent group of managers that combine to provide value to our customers both in superior customer service and efficient operations. We experienced continued strong utilization and improved financial performance through the winter season resulting from our customers' oil driven activities and seasonal activity increases for our northern based rigs. 36 service rigs (our entire fleet) were fully operational and crewed during the winter as demand remained strong for our equipment and personnel in all of our operating areas. Subsequent to year end, and in response to continuing customer demand, Eagle has initiated a build program for 3 new service rigs expected to be delivered and operational during the second quarter of 2011.

Aero Rental Services, having grown both organically and with the equipment and personnel acquired from Trust Energy Services during the past year, has facilities and a staff of pressure control professionals capable of handling increased activity in the near term. Management intends to continue deploying capital into this division given the increasing returns and continuing increased demand for its products and services. Capital expenditures of \$5 million are planned, with the bulk of the assets to be acquired during the first half of 2011. The Corporation expects Aero will become an increasingly important contributor to the financial performance of the Corporation by providing an increasing share of both revenue and cash flow over time.

Canada Tech continues to focus on increasing revenue streams by penetrating both domestic and international markets. Management has continued to work on efficiencies to reduce our fixed costs while at the same time pushing hard to extend our penetration into select markets around the world. A number of new products introduced over the past two years will allow for increased diversification with some of the oilsands applications for our technology beginning to contribute.

The increase in activity witnessed during the last half of 2010 is expected to continue during 2011, given strong oil prices and the resulting intensity of oil based activity. Oil wells require greater levels of maintenance over time, which bodes well for the service industry as new wells are completed adding more inventory to the active wells requiring attention. It is currently estimated that over 75 percent of activity in Canada is oil related. This provides a solid base for our service driven businesses. The continuing labour shortage is a cause for concern and much of our success in the coming quarters will depend on our ability to access personnel for our field operations.

In summary, we are now optimistic the challenges the industry experienced in late 2009 and early 2010 have certainly receded. Increased activity levels experienced during the last half of 2010 are expected to continue as we make our way through 2011.

IROC remains well positioned for growth from both financial and operational perspectives. Subsequent to year end, on April 11, 2011, the Corporation completed a short form prospectus offering of 7,200,361 common shares at a price of \$1.40 per common share, for estimated net proceeds after costs of approximately \$9.3 million. Along with this offering, Key Energy Services, Inc. sold the 8,734,469 common shares which it had held since 2005. Key's ownership amounted to 20.47% of the total outstanding common shares and we believe the sale of these shares to a much wider distribution along with the new shares issued will enhance liquidity in the trading of the Corporation's shares.

As we move into 2011, IROC has a strong balance sheet, the newest in equipment and technologies, and a competent group of employees that will allow us to both create opportunities for growth and capitalize on opportunities as they present themselves.

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

CEO AND CFO CERTIFICATIONS

Securities laws no longer require the CEO and CFO of TSX Venture Exchange listed companies such as IROC to certify they have designed internal control over financial reporting, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Instead, an optional form of certification has been made available to TSX Venture Exchange listed companies and has been used by IROC's certifying officers for the December 31, 2010 annual filings. The certification reflects what the Corporation considers to be a more appropriate level of CEO and CFO certification given the size and nature of the Corporation's operations. This certification requires that the certifying officer's state:

- i. They have reviewed the annual MD&A and financial statements;
- ii. They have determined there is no untrue statement of a material fact, or any omission of material fact required to be stated which would make any statement not misleading in light of the circumstances under which it was made within the annual MD&A and financial statements; and
- iii. That based upon their knowledge, the annual filings, together with the other financial information included in the annual filings, fairly present in all material respects the financial condition, results of operations and cash flows of the Corporation as of the date and for the periods presented in the filings.

SELECTED ANNUAL FINANCIAL INFORMATION

Selected annual financial information derived from the audited consolidated financial statements for the three most recently completed financial years is set forth below and is prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

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

\$ 000's except per share amounts	2010	2009	2008
Revenue – continuing operations	\$64,354	\$49,023	\$65,324
Net income (loss) from continuing operations	2,010	(10,887)	3,812
Per share:			
Basic	0.05	(0.25)	0.09
Diluted	0.05	(0.25)	0.09
Net earnings (loss) with discontinuing operations	2,010	(10,576)	2,178
Per share:			
Basic	0.05	(0.24)	0.05
Diluted	0.05	(0.24)	0.05
Total assets	83,992	80,402	103,853
Total long-term financial liabilities (excludes current portion and future income taxes)	12,513	14,344	20,116

Revenue increased in 2010 by 31% as compared to 2009 almost recovering to 1998 levels. The increase in 2010 was largely attributable to the general recovery in the oil and gas sector and increased demand for the Corporation's products and services due largely to increasing oil prices as well as increases in the number of active service rigs and the amount of rentable equipment owned by the Corporation. In 2009 revenues declined from 2008 levels by 25%. This decrease was a result of the slowdown in oil and natural gas drilling activity in 2009, caused primarily by the steep decline in the price for oil and natural gas in 2009, but also exacerbated by the Alberta Government's New Royalty scheme which significantly changed the economic viability of new drilling in the Province for our customers. In addition to the impact of the reduction in revenue, net income in 2009 was impacted by a couple of one-time non-cash items which included a write down of goodwill in our Technology Services segment of \$6,850 as well as an impairment of a \$1,500 note receivable which was received as partial proceeds of one of our discontinued operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SELECTED ANNUAL FINANCIAL INFORMATION (CONTINUED)

Total assets increased in 2010 due primarily to the addition of one new service rig and the acquisition of additional rental equipment, offset somewhat by depreciation. Total assets declined during 2009 due to the Corporation's focus on divesting non-core businesses. In 2009 the Corporation sold its safety, communications and monitoring business (Oricomm) and its lease construction business (Envirocore) for combined gross proceeds of \$8.4 million. These businesses had \$10.8 million of assets at December 31, 2008 and this disposition coupled with the write down of goodwill accounts and normal depreciation and amortization account for the decrease in total assets between the two years.

CHANGES IN ACCOUNTING PRONOUNCEMENTS INCLUDING INITIAL ADOPTION

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.

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. Thus, effective, January 1, 2011, the Corporation will be required to prepare its consolidated financial statements in accordance with IFRS, with the appropriate comparative figures for the year ended December 31, 2010.

The Corporation is currently in the process of identifying and assessing the impact of differences between Canadian GAAP and IFRS as well as the effects of adoption. While this project is well underway, quantification of the impact of changing from Canadian GAAP to IFRS is only partially complete at this time. The Corporation's financial statements will be impacted by the conversion to IFRS due to certain differences between IFRS and current Canadian GAAP. The conversion to IFRS will result in impacts to the financial statements, some of which may be significant.

At this time, the impact of IFRS on the Corporation's financial statements is not determinable.

The Corporation is aware there may be impacts to the financial ratios calculated under the operating loan and long-term debt facilities as a result of the adoption of IFRS. Appropriate language to accommodate changes in these ratios due to the adoption of IFRS is included in the renewed loan facilities. The Corporation does not believe the adoption of IFRS will negatively impact the calculation of loan covenants.

Business Combinations

On January 1, 2010, the Company adopted CICA Handbook section 1582 "Business Combinations", which replaced the previous business combinations standard. Under the new section, the term "business" is more broadly defined than in the previous standard, most assets acquired and liabilities assumed are measured at fair value, any interest in an acquiree owned prior to obtaining control is re-measured at fair value at the acquisition date (eliminating the need for guidance on step acquisitions), a bargain purchase results in recognition of a gain, and acquisition costs are expensed. The adoption of this standard will impact accounting treatment of business combinations entered into after January 1, 2010.

CRITICAL ACCOUNTING ESTIMATES

The Corporation prepares its consolidated financial statements in accordance with Canadian GAAP. In preparing its financial statements, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses, as well as the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience and various other assumptions believed to be reasonable at the time and under the circumstances in existence when the financial statements were prepared. Anticipating future events cannot be done with certainty; therefore, these estimates may change as new events occur, more experience is acquired or the Corporation's operating environment changes. The accounting estimates believed by management to require the most difficult, subjective or complex judgments and which are material to the Corporation's financial reporting results are set out below.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

Allowance for Doubtful Accounts Receivable

The Corporation periodically evaluates its accounts receivable on an individual and overall customer basis. This process consists of a review of historical collection experience, current aging status of the customer accounts and other factors. Based on its review of these factors, it establishes or adjusts allowances for specific customers. This process involves a high degree of judgment and estimation. Accordingly, the Corporation's results of operations can be affected by adjustments to the allowance due to actual write-offs that differ from estimated amounts.

Impairment of Long-Lived Assets

Long-lived assets are tested for impairment annually, or more frequently as circumstances require. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Estimates of undiscounted future net cash flows are calculated using estimated future revenues, operating expenses and other costs. These estimates are subject to risk and uncertainties, and it is possible that changes in estimates could occur which may affect the expected recoverability of the Corporation's long-lived assets.

To test for and measure impairment, long-lived assets are grouped at the lowest level for which identifiable cash flows are largely independent. The lowest asset groupings for which identifiable cash flows are largely independent are the well servicing division, the rentals division, and the downhole tools division or reporting units within the Drilling and Production Services and Technology Services segments.

Based on management's expectations for continued demand for the Corporation's services, the assumptions utilized to determine the future recoverability of long-lived assets resulted in no indication as at December 31, 2010 that the carrying value of the long-lived assets would not be recoverable in the future.

Goodwill Impairment

Goodwill represents the excess of purchase price for a company acquired over the fair market value of the acquired company's net assets. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is tested for impairment at least annually.

The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and performance of the second step of the impairment test is unnecessary. The second step compares the implied fair value of the reporting unit's goodwill with its carrying amount to measure the amount of the impairment loss, if any.

Assumptions utilized to determine the fair market value of each reporting unit are estimated future revenues, operating expenses and other costs.

Depreciation and Amortization of Property and Equipment and Intangible Assets

Depreciation and amortization is calculated using either the straight-line or declining balance method over the estimated useful life of the asset. Management bases the estimate of the useful life and salvage value of equipment on expected utilization, technological change and effectiveness of maintenance programs. Although management believes the estimated useful lives and salvage values of the Corporation's equipment are reasonable, they cannot be certain that depreciation and amortization expense measures with precision the true reduction in value of assets over time.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

Inventory Valuation

Inventory, primarily in the Canada Tech business of our Technology Services segment, consists of parts and finished goods which are stated at the lower of cost, determined on a weighted average basis, and net realizable value. Valuation of finished goods inventory is based on standard product costs using estimated overhead rates which are determined based, in some circumstances, on assumptions as to forecasted levels of activity, usage, scrap, inputs, manufacturing batch sizes, and other estimates which require the use of judgment and are subject to uncertainty. At times these estimated standard costs may differ significantly from actual costs.

Estimates of net realizable value of inventory require the use of judgment as to the ability of the Corporation to utilize certain specialized parts inventory in the production of finished goods and the price obtainable for the sale of such finished products as well as the ability to find purchasers for them. The Corporation believes the estimates made with respect to inventory are reasonable but management cannot be certain that the standard costs used will be the same as actual costs and management cannot be certain as to the ability to sell all inventory for the use intended at prices anticipated.

Income Taxes

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, the Corporation records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted tax rates. Valuation allowances are established to reduce future tax assets when it is more likely than not that some portion or all of the future tax asset will not be realized. Estimates of future taxable income and the continuation of ongoing prudent tax planning arrangements have been considered in assessing the utilization of available tax losses. Changes in circumstances and assumptions may require changes to the valuation allowances associated with the Corporation's future tax assets.

Measurement Uncertainty

Amounts used to assess goodwill for impairment are based on the estimated fair value of the reporting segment to which the goodwill is allocated and are subject to measurement uncertainty. The estimated fair value of the reporting segment is determined using forecasted cash flows and earnings or cash flow multiples or both. By their nature, these estimates of future cash flows are subject to measurement uncertainty, as are the estimates of appropriate multiples and the impact on the financial statements of the current and future periods could be material.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully transferable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Corporation's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

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 31, 2011 which is available under the Corporation's profile at www.sedar.com.

IROC's various businesses are generally tied in large part to the oil and gas exploration and production industry in Western Canada. IROC's businesses are sensitive to and will be affected by changing industry conditions in the oil and gas industry including changes in the level of demand, changes in pricing levels, changes in legislation or in regulation relating to exploration, development, production, refining, transportation, or marketing in the oil and gas industry. The following is a summary of certain risk factors relevant to IROC's various business lines. All of these risk factors could negatively impact IROC's consolidated revenue, margins and cash flow.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISKS (CONTINUED)

Operational Risks

Demand and prices for IROC's products and services depend upon the level of activity in the Canadian oil and gas exploration and production industry which in turn depends on the level of oil and gas prices, expectations about future oil and gas prices, the cost of exploring for, producing and delivering oil and gas, the discovery rate of new oil and gas reserves, available pipeline and other oil and gas transportation capacity, worldwide weather conditions, political, military, regulatory and economic conditions and the ability of oil and gas companies to raise capital. The level of activity in the Canadian oil and gas exploration and production industry is volatile. No assurances can be given that current levels of oil and gas exploration and production activities will continue or that demand for the Corporation's services will continue to reflect the level of activity in the industry generally. Industry conditions will continue to be influenced by numerous factors over which the Corporation will have no control. Prices for oil and gas are expected to continue to be volatile and to affect the demand for and pricing of the Corporation's products and services. A material decline in oil or gas prices or Canadian oil and gas industry activity could have a material adverse affect on the Corporation's business, results or operations and prospects.

The Corporation's operations are subject to hazards inherent in the oilfield service industry, such as explosions, fires and spills that can cause personal injury or loss of life, damage to or destruction of property, equipment and the environment and suspension of operations. In addition, claims for loss of oil and gas production, damage to formations, damage to facilities and business interruptions can occur. While the Corporation maintains insurance coverage that it believes to be adequate and customary in the industry, there can be no assurances that insurance proceeds will be available or sufficient or that IROC will be able to maintain adequate insurance in the future at rates considered reasonable. The single occurrence of a significant uninsured claim or a claim in excess of the insurance coverage limits maintained by the Corporation could have a material adverse effect on the Corporation's business, results of operation and prospects.

Oilfield Service Industry Risks

There are many risks inherent in the oilfield services industry, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. IROC's success will depend on the ability of IROC's customers to select and acquire suitable producing properties or undeveloped exploration prospects. The marketability of any oil and natural gas acquired or discovered by IROC's customers will be affected by numerous factors beyond the control of such customers. These factors include market fluctuations, the price of crude oil, the price of natural gas, the supply and demand for oil and natural gas, the proximity and capacity of oil and natural gas pipelines and processing equipment, and government regulations, including regulations relating to prices, taxes, royalties, land tenure, allowable production, the import and export of oil and natural gas, and environmental protection. The effect of these factors cannot be accurately predicted.

Hazards such as unusual or unexpected geological formations, pressures, blow-outs, fires or other conditions may be encountered in servicing operating wells. IROC will have the benefit of insurance maintained by it, however, IROC may become liable for damages arising from pollution, blowouts or other hazards against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons.

Seasonal Nature of IROC's Business

The Corporation's operations are carried on generally in Western Canada. The ability to move heavy equipment in the Western 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISKS (CONTINUED)

Price Competition and Cyclical Nature of the Oilfield Services Business

The service rig, coil tubing and oilfield rental businesses are highly competitive with numerous industry participants. Management believes pricing and rig availability are the primary factors considered by IROC's potential customers in determining which service rig or coil tubing contractor to select. Management believes other factors are also important. Among those factors are:

- the capabilities and condition of service rigs and/or coil tubing units;
- the quality of service and experience of crews;
- the safety record of the contractor and the particular service rig and/or coil tubing units;
- the offering of ancillary services;
- the ability to provide equipment adaptable to, and personnel familiar with, new technologies;
- the mobility and efficiency of the service rigs and/or coil tubing units; and
- marketing relationships.

The service rig industry historically has been cyclical and has experienced periods of low demand, excess rig supply, and low hourly rates, followed by periods of high demand, short rig supply and increasing hourly rates. Periods of excess rig supply intensify the competition in the industry and often result in rigs being idle. There are numerous service rig suppliers in each of the markets in which IROC operates. In all of those markets, an oversupply of service rigs can cause greater price competition. Service rig companies compete primarily on a regional basis, and the intensity of competition may vary significantly from region to region at any particular time.

IROC's oilfield rental business is also subject to the cyclical nature of the oil and natural gas industry. The demand for, and pricing of, the Corporation's rental equipment depends on the activity levels in the industry and on marketing relationships. In addition, the Corporation's rental business competes with a number of other companies which are significantly larger and have greater market share and financial resources. In periods of lower industry activity, it could be difficult for Aero to compete against such other rental companies.

IROC provides oil and natural gas services primarily to the field operation locations of oil and natural gas exploration and production companies located in western Canada. The oil and natural gas services business in which IROC operates is highly competitive. To be successful, IROC must provide services that meet the specific needs of its clients at competitive prices. The principal competitive factors in the markets in which IROC operates are service quality and availability, reliability and performance of equipment used and of qualified people to perform its services, technical knowledge and experience and reputation for safety and price. IROC will compete with several regional competitors that are both smaller and larger than it is. These competitors offer similar services in all geographic regions in which IROC operates. As a result of competition, IROC may be unable to continue to provide its present services or to acquire additional business opportunities, which could have a material adverse affect on IROC's business, financial condition, results of operations and cash flows.

Capital Overbuild in the Contract Service Rig Industry

Because of the long life nature of service rig equipment and the lag between the moment a decision to build a rig is made and the moment the rig is placed into service, the number of rigs in the industry does not always correlate to the level of demand for those rigs. Periods of high demand often spur increased capital expenditures on rigs, and those capital expenditures may exceed actual demand. This capital overbuild could cause IROC's competitors to lower their rates and could lead to a decrease in rates in the oilfield services industry generally, which would have a material adverse affect on the revenues, cash flows and earnings of IROC.

Equipment and Parts Availability

The Corporation's ability to expand its operations and provide reliable service is dependent upon timely delivery of new equipment and replacement parts from fabricators and suppliers. A lack of skilled labour to build equipment combined with new competitors entering the oilfield service sector has resulted in increased order times on new equipment and increased uncertainty surrounding final delivery dates. Significant delays in the arrival of new equipment from expected dates may impact future growth and the financial performance of the Corporation. IROC attempts to mitigate this risk by maintaining strong relations with key fabricators and suppliers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISKS (CONTINUED)

Dependence on Suppliers

The ability of the Corporation to compete and grow will be dependent on the Corporation having access, at a reasonable cost and in a timely manner, to equipment, parts, components and consumables. Failure of suppliers to deliver such equipment, parts, components and consumables at a reasonable cost and in a timely manner would be detrimental to the Corporation's ability to maintain existing customers and expand its customer list. No assurances can be given that the Corporation will be successful in maintaining its required supply of equipment, parts, components and consumables.

The Corporation's ability to provide services to its customers is also dependent upon the availability at reasonable prices of raw materials which the Corporation purchases from various suppliers, most of whom are located in Canada or the United States. Alternate suppliers exist for all raw materials. In periods of high industry activity periodic industry shortages of certain materials have been experienced and costs may be affected. In contrast, periods of low industry activity levels may cause financial distress on a supplier, thus limiting their ability to continue to operate and provide the Corporation with necessary services and supplies.

Management maintains relationships with a number of suppliers in an attempt to mitigate this risk. However, if the current suppliers are unable to provide the necessary raw materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to the Corporation's customers could have a material adverse effect on the Corporation's results of operations and the Corporation's financial condition.

Dependence on Key Personnel

IROC's future performance and development will depend to a significant extent on the efforts and abilities of its executive officers and key management personnel, and on the ability to attract and retain qualified field staff. The loss of the services of one or more of its management team could harm the Corporation. Also IROC's success largely depends on the Corporation's continuing ability to attract, develop and retain skilled employees in all areas of its business. The ability of the Corporation to expand its services is dependent upon its ability to attract additional qualified employees. The ability to secure the services of additional personnel is constrained in times of strong industry activity.

Risks of Interruption and Casualty Losses

IROC's operations are, or will be, subject to many hazards inherent in the well workover and completion industry, including blowouts, cratering, explosions, fires, loss of well control, loss of hole, damaged or lost drilling equipment and damage or loss from inclement weather or natural disasters and reservoir damage. Any of these hazards could result in personal injury or death, damage to or destruction of equipment and facilities, suspension of operations, environmental damage, damage to the property of others and damage to producing or potentially productive oil and natural gas formations. Generally, service rig and coil tubing contracts provide for the division of responsibilities between a service rig or coil tubing units provider and its customer, and IROC will seek to obtain indemnification from its customers by contract for certain of these risks. IROC will also seek protection through insurance. However, IROC cannot ensure that such insurance or indemnification agreements will adequately protect it against liability from all of the consequences of the hazards described above. The occurrence of an event not fully insured or indemnified against, or the failure of a customer or insurer to meet its indemnification or insurance obligations, could result in substantial losses. In addition, insurance may not be available to cover any or all of these risks, or, even if available, may not be adequate. Insurance premiums or other costs may rise significantly in the future, so as to make such insurance prohibitively expensive or uneconomic.

New Business

While IROC has hired experienced operational personnel to operate its new coil tubing division, Helix Coil Services, senior management has little or no direct experience in the operation of a coil tubing business. In addition, the Corporation does not have any existing customers or marketing relations in the coil tubing sector. As a result, there is certain inherent and direct risk associated with the Corporation's entrance into this business as a purely greenfield operation. There is no guarantee the coil tubing operation will produce sufficient cash flow to fund its operations or provide an acceptable return on the capital invested in the related equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISKS (CONTINUED)

Service Rig and Coil Tubing Units Construction Risks

When IROC contracts for the construction of a service rig or coil tubing unit, the cost of construction of the rig or coil tubing units and the timeline for completing the construction are estimated at that time. Actual costs of construction may, however, vary significantly from those estimated as a result of numerous factors, including, without limitation, changes in input costs such as the price of steel; variations in labour rates; and, to the extent that component parts must be sourced from other countries, fluctuations in exchange rates. In addition, several factors could cause delays in the construction of a service rig or coil tubing unit, including, and without limitation, shortages in skilled labour and delays or shortages in the supply of component parts. Construction delays may lead to postponements of the anticipated date for deployment of the newly constructed rig into operation and any such postponement could have a negative effect on cash flows generated from operations, of which the effect may be material.

Equipment and Technology Risks

Complex drilling programs for the exploration and development of remaining conventional and unconventional oil and natural gas reserves in North America places high demands on service rigs, coil tubing units and related equipment. IROC's ability to deliver equipment and services that are more efficient than equipment and services offered by its competitors is critical to continued success. There is no assurance that competitors will not achieve technological improvements that are more advantageous, timely or cost effective than improvements developed by IROC.

The ability of IROC to meet customer demands in respect of performance and cost will depend upon continuous improvements in operating equipment and there can be no assurance that IROC will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by IROC to do so could have a material adverse effect on IROC's business, financial condition, results of operations and cash flows. No assurances can be given that competitors will not achieve technological advantages over IROC.

The Corporation has sought or obtained patent or other similar protection in respect of certain of its tools, equipment or technology it has developed independently. In the future, the Corporation may seek patents or other similar protections in respect of particular tools, equipment and technology; however, the Corporation may not be successful in such efforts. Competitors may also develop similar tools, equipment and technology to those of the Corporation thereby adversely affecting the Corporation's competitive advantage in one or more of its businesses. Additionally, there can be no assurance that certain tools, equipment or technology developed by the Corporation may not be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have a material adverse effect on the business, results of operations and financial condition of the Corporation.

Merger and Acquisition Activity

Merger and acquisition activity in the oil and gas exploration and production sector may impact demand for IROC's services as customers focus on reorganizing their business prior to committing funds to exploration and development projects. Further, in any merger or acquisition transaction the resulting or acquired company may have preferred supplier relationships with oilfield service providers other than IROC.

Market Conditions

The trading price of securities of oilfield services companies is subject to substantial volatility. This volatility is often based on factors both related and unrelated to the financial performance or prospects of the companies involved. The market price of our common shares could be subject to significant fluctuations in response to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. Factors that could affect the market price of our common shares that are unrelated to the Corporation's performance include domestic and global commodity prices and market perceptions of the attractiveness of particular industries. The price at which our common shares will trade cannot be accurately predicted.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISKS (CONTINUED)

Future Capital Requirements

IROC may require additional financing in the future to implement its strategies and business objectives. It is possible that such financing will not be available, or if available, will not be available on favourable terms. Also, if IROC issues any shares in the future to finance its operations or implement its strategies, the current shareholders of IROC will suffer a dilution of their interest.

Capital and Financial Markets

While the world wide economic crisis of 2008 and 2009 has diminished significantly and the capital and financial markets have stabilized, access to new capital on acceptable terms, or at all, is not guaranteed. As future capital expenditures and potential acquisitions will need to be financed out of cash generated from operations, through debt or, if available, equity offerings, the Corporation's ability to access new capital is dependent on, among other factors, the overall state of capital markets generally, and the appetite for investments in the energy industry and the Corporation's securities specifically. All of these factors could have a negative effect on IROC's ability to obtain new capital on acceptable terms, or at all and this could have a material adverse effect on our operations and share price.

It should be noted however that based on current funds available and expected cash flow from operations, the Corporation believes it has sufficient funds available to fund our projected capital expenditures for the next year. However, if the economic conditions, both in our industry and on a worldwide basis, change we may be required to access required capital from alternative sources which may not be available on acceptable terms, or at all.

Future Sales of Common Shares by IROC

IROC may issue additional common shares in the future, which may dilute a shareholder's holdings in IROC or negatively affect the market price of our common shares. IROC's articles permit the issuance of an unlimited number of common shares. The directors of IROC have the discretion to determine the price and the terms of issue of further issuances of common shares, subject to applicable law. Also, additional common shares will be issued by IROC on the exercise of stock options granted pursuant to IROC's stock option plan, or pursuant to its restricted share unit bonus plan.

Intellectual Property Protection

In the future IROC may seek patents or other similar protections in respect of particular tools, equipment and technology, however, IROC may not be successful in such efforts. Competitors may also develop similar tools, equipment and technology to those of IROC thereby adversely affecting IROC's competitive advantage in one or more of its businesses. Additionally, there can be no assurance that certain tools, equipment or technology developed by IROC will not be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have a material adverse affect on IROC's business, financial condition, results of operations and cash flows.

Government Regulation

IROC's operations are subject to a variety of federal, provincial and local laws, regulations and guidelines, including laws and regulations related to health and safety, the conduct of operations, the manufacture, management, transportation and disposal of certain materials used in the Corporation's operations. Changes in any such laws, regulations or guidelines could have a material adverse effect on the IROC operations.

In addition, the oil and gas industry in general is subject to extensive government policies and regulations, which result in additional cost and risk for industry participants or parties, such as IROC, that service the industry. Royalty rates, other laws or government incentive programs relating to the oil and gas industry generally may in the future be changed or interpreted in a manner that adversely affects the Corporation and our shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISKS (CONTINUED)

Environmental Protection

IROC, is subject to various environmental laws and regulations enacted in most jurisdictions in which the Corporation operates, which primarily govern the manufacture, processing, importation, transportation, handling and disposal of certain materials used in the Corporation's operations. IROC believes that all IROC's business lines are currently in compliance with such laws and regulations. IROC's customers are subject to similar laws and regulations, as well as limits on emissions into the air and discharges into surface and sub-surface waters. While regulatory developments that may follow in subsequent years could have the effect of reducing industry activity, IROC cannot predict the nature of the restrictions that may be imposed. IROC may be required to increase operating expenses or capital expenditures in order to comply with any new restrictions or regulations.

Historically, environmental protection requirements have not had a significant financial operational effect on capital expenditures, earnings or competitive position of the Corporation. Environmental protection requirements are not presently anticipated to have a significant effect on such matters in 2011 or in the future.

The services provided by IROC, in some cases, involve flammable products being pumped under high pressure. To address these risks, IROC has developed and implemented safety and training programs. In addition, comprehensive insurance and risk management program has been established to protect IROC's assets and operations. IROC also complies with current environmental requirements and maintains an ongoing participation in various industry-related committees and programs.

The Corporation has established procedures to address compliance with current environmental laws and regulations and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that the Corporation's procedures will prevent environmental damage occurring from spills of materials handled by the Corporation or that such damage has not already occurred. On occasion, substantial liabilities to third parties may be incurred. The Corporation may have the benefit of insurance maintained by it or the operator; however the Corporation may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

Climate Change Legislation

In recent years, a number of initiatives relating to climate change have been proposed, both through domestic legislation and international agreements (such as the Kyoto Protocol and the United Nations Framework Convention on Climate Change). Many of these initiatives require nations to reduce their emissions of carbon dioxide and other greenhouse gases. Reductions in greenhouse gases from oil and gas producers may be required which could result in, amount other things, increased operating and capital expenditures for those producers which may make certain production of crude oil or natural gas by those producers uneconomic, resulting in reductions in such production and resulting decrease in the demand for the Corporation's services. The Corporation is unable to predict the impact, if any, of any such climate change initiatives, both current and future, on the Corporation.

Foreign Customers

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISKS (CONTINUED)

Third Party Credit Risk

IROC may be exposed to third party credit risk through its contractual arrangements with other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a material adverse effect on the Corporation.

IROC May Make Dispositions of Businesses and Assets in the Ordinary Course of Business

Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of, so that IROC can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of IROC, if disposed of, could be expected to realize less than their carrying value on the financial statements of IROC.

Tax Matters

The taxation of corporations is complex. In the ordinary course of business, IROC is subject to ongoing audits by tax authorities. While IROC believes that its tax filing positions are appropriate and supportable, it is possible that tax matters, including the calculation and determination of revenue, expenditures, deductions, credits and other tax attributes, taxable income and taxes payable, may be reviewed and challenged by the tax authorities. In addition, the tax filing positions of businesses acquired by IROC may be reviewed and challenged by the tax authorities. If such challenge were to succeed, it could have a material adverse affect on IROC's tax position. Further, the interpretation of, and changes in, tax laws, whether by legislative or judicial action or decision, and the administrative policies and assessing practices of taxation authorities, could materially adversely affect IROC's tax position. As a consequence, IROC is unable to predict with certainty the effect of the foregoing on IROC's effective tax rate and earnings.

IROC regularly reviews the adequacy of its tax provisions and believes that it has adequately provided for those matters. Should the ultimate outcomes materially differ from the provisions, IROC's effective tax rate and earnings may be affected positively or negatively in the period in which the matters are resolved. IROC intends to mitigate this risk through ensuring tax staff is well trained and supervised and that tax filing positions are carefully scrutinized by management and external consultants, as appropriate.

There can be no assurance that income tax laws or the interpretation thereof in any of the jurisdictions in which IROC operates will not be changed or interpreted or administered in a manner which adversely affects IROC, its subsidiaries and its shareholders. In addition, there is no assurance that the Canada Revenue Agency, the Internal Revenue Service or a provincial or foreign tax agency (collectively the "Tax Agencies") will agree with the manner in which IROC or its subsidiaries calculate their income or taxable income for tax purposes or that any of the Tax Agencies will not change their administrative practices to the detriment of IROC or its shareholders (or both).

International Financial Reporting Standards

IROC is adopting International Financial Reporting Standards ("IFRS") as required by the Accounting Standards Board of Canada ("AcSB") and issued by the International Accounting Standards Board ("IASB") for its interim and annual financial statements related to fiscal years beginning January 1, 2011, with retrospective adoption and restatement of the comparative fiscal period ending December 31, 2010. Accordingly, IROC's first consolidated financial statements prepared in accordance with IFRS will be for the three month period ended March 31, 2011.

IROC, with the assistance of its external advisors, continues to undertake an internal initiative to govern the transition to IFRS and is currently assessing the impact of the transition to IFRS on its consolidated financial statements. This transition will be an ongoing process as new standards are issued by the AcSB and the IASB. The transition to IFRS will impact IROC's accounting and financial reporting processes as well as the information systems and business processes within IROC.

To date, IROC has identified and is currently in the process of assessing, the key accounting differences between IFRS and current Canadian GAAP applicable to IROC. However, at this time, IROC is still in the process of assessing and quantifying the impact that IFRS will have on IROC's financial statements. There is no assurance that the changes from Canadian generally accepted accounting principles to IFRS will not have an adverse impact on IROC's financial results.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISKS (CONTINUED)

Vulnerability to Market Changes

Fixed costs, including costs associated with leases, labour costs and depreciation will account for a significant portion of the Corporation's costs and expenses. As a result, reduced utilization of equipment and other fixed assets resulting from reduced demand, equipment failure, weather or other factors could significantly affect financial results.

Forward-Looking Information may Prove Inaccurate

Investors are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Interest Rate Risk

The Corporation is exposed to interest rate price risk as both its term loans and its operating line have floating interest rate terms. However, the floating interest rate terms do give rise to interest rate cash flow risk as interest payments are recalculated as the market rates change. Management currently does not see this risk as significant due to Canada's history of reasonably stable interest rates and their expectations of future interest rates.

Conflicts of Interest

Certain of the directors and officers of the Corporation are also directors and officers of other oil and natural gas exploration and/or production entities and oil and natural gas services companies, and conflicts of interest may arise between their duties as officers and directors of the Corporation and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under, the Canada Business Corporations Act.

Legal Proceedings

The Corporation is involved in litigation from time to time in the ordinary course of business. No assurance can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a material adverse effect on the Corporation.

Failure to Realize Anticipated Benefits of Acquisitions

The Corporation makes acquisitions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions, retaining key employees and customer relationships and integrating operations and procedures in a timely and efficient manner. Such integration may require substantial management effort, time and resources, may divert management's focus from other strategic opportunities and operational matters and ultimately the Corporation may fail to realize anticipated benefits of acquisitions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 and EBITDAS per share- EBITDAS is defined as earnings before interest, taxes, depreciation and amortization, stock-based compensation expense, foreign exchange gains and losses, goodwill impairment, note receivable impairment, and gains or losses on disposal of property and equipment. EBITDAS and EBITDAS per share are not recognized measures under GAAP. The Corporation 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, the Corporation 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. EBITDAS % is calculated as EBITDAS divided by revenue.
2. Gross margin is defined as revenue less operating expenses. Gross margin % is defined as gross margin divided by revenue. The Company believes that gross margin and gross margin % are useful measures which provide an indicator of the Corporation's fundamental ability to make money on the products and services it sells. The Corporation believes the relationship between revenues and costs expressed by the gross margin % is a useful measure when compared between different financial periods as it demonstrates the trending relationship between revenues, costs and margins. Gross margin and gross margin % are not recognized measures of GAAP and do not have any standardized meaning prescribed by GAAP. IROC's method of calculating gross margin and gross margin % may differ from those of other companies, and accordingly, may not be directly comparable to measures used by other companies. Gross margin is reconciled to revenue – continuing operations in the *FINANCIAL RESULTS AND SELECTED FINANCIAL INFORMATION* table.

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

NON-GAAP MEASURES (CONTINUED)

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

\$ 000's except number of shares and per share amounts	Year ended	Three months ended			
	December 31, 2010	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Net income (loss) from continuing operations	2,010	2,104	437	(1,055)	524
Depreciation and amortization	8,693	2,431	2,268	2,003	1,991
Loss (gain) on foreign exchange	24	17	(2)	(88)	97
Stock based compensation expense	506	101	98	129	178
Loss (gain) on disposal of equipment	(29)	(16)	(5)	(1)	(7)
Other interest	227	64	45	37	81
Interest on long-term debt	1,029	237	263	239	290
Interest income	(47)	(10)	(15)	(11)	(11)
Goodwill impairment	-	-	-	-	-
Note receivable impairment (recovery)	(300)	-	(300)	-	-
Income taxes:					
Current	-	-	-	-	-
Future	365	221	187	(278)	235
EBITDAS – continuing operations	12,478	5,149	2,976	975	3,378
EBITDAS per share					
Basic	\$0.29	\$0.12	\$0.07	\$0.02	\$0.08
Diluted	\$0.29	\$0.12	\$0.07	\$0.02	\$0.08

\$ 000's except number of shares and per share amounts	Year ended	Three months ended			
	December 31, 2009	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Net income (loss) from continuing operations	(10,886)	(395)	(9,314)	(1,260)	82
Depreciation and amortization	8,454	2,392	2,073	1,978	2,011
Loss (gain) on foreign exchange	619	43	168	354	54
Stock based compensation expense	340	74	64	92	110
Loss (gain) on disposal of equipment	26	33	(2)	(1)	(4)
Other interest	269	92	50	54	73
Interest on long-term debt	1,048	373	276	187	212
Interest income	(85)	(19)	(18)	(36)	(12)
Interest and accretion on debentures	-	-	-	-	-
Goodwill impairment	6,850	-	6,850	-	-
Note receivable impairment	1,500	-	1,500	-	-
Income taxes:					
Current	-	-	-	-	-
Future	(620)	380	(268)	(785)	54
EBITDAS – continuing operations	7,515	2,973	1,379	583	2,580
EBITDAS per share					
Basic	\$0.17	\$0.07	\$0.03	\$0.01	\$0.06
Diluted	\$0.17	\$0.07	\$0.03	\$0.01	\$0.06

MANAGEMENT'S REPORT

To the Shareholders of IROC Energy Services Corp.:

The accompanying financial statements of IROC Energy Services Corp. are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared by management in accordance with generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. It exercises its responsibilities primarily through the Audit Committee, which is comprised entirely of non-management directors. The Audit Committee has reviewed the financial statements with management and the auditors and has reported to the Board of Directors. The Board of Directors has approved the financial statements at the recommendation of the Audit Committee.

The financial statements have been audited on behalf of the shareholders by Deloitte & Touche LLP, the external auditors, in accordance with standards generally accepted in Canada.

(signed) "Thomas Alford"

Thomas Alford
Chief Executive Officer

Calgary, Alberta
April 18, 2011

(signed) "Ryan A. Michaluk"

Ryan A. Michaluk
Chief Financial Officer

Calgary, Alberta
April 18, 2011



Deloitte & Touche LLP
700, Bankers Court
700 Second Street S.W.
Calgary AB T2P 0S7
Canada

Tel: (403) 267-1879
Fax: (403) 267-3247
www.deloitte.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of IROC Energy Services Corp.

We have audited the accompanying consolidated financial statements of IROC Energy Services Corp., which comprise the consolidated balance sheets as at December 31, 2010, and the consolidated statements of income (loss) and comprehensive income (loss) and retained earnings (deficit) and cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The consolidated balance sheet as at December 31, 2009 and the consolidated statements of income (loss) and comprehensive income (loss) and retained earnings (deficit) and cash flows for the year then ended were audited by another auditor who issued an unmodified opinion on April 28, 2010.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of IROC Energy Services Corp. as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
April 18, 2011

IROC ENERGY SERVICES CORP.

CONSOLIDATED BALANCE SHEETS

As at December 31, 2010 and 2009

	2010	2009
	(\$ 000's)	(\$ 000's)
ASSETS		
CURRENT		
Cash	\$ 301	\$ 230
Accounts receivable	15,103	11,541
Inventory	3,331	3,669
Prepaid expenses and deposits	445	315
	<u>19,180</u>	<u>15,755</u>
Notes receivable (note 4)	719	719
Intangible and other assets (note 5)	2,386	2,854
Property and equipment (note 6)	61,707	61,074
	<u>\$ 83,992</u>	<u>\$ 80,402</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 9,344	\$ 5,584
Operating loan (note 8)	1,455	-
Current portion of long-term debt (note 8)	5,105	5,924
	<u>15,904</u>	<u>11,508</u>
Long-term debt (note 8)	12,513	14,344
Future income taxes (note 10)	3,666	3,301
	<u>16,179</u>	<u>17,645</u>
SHAREHOLDERS' EQUITY:		
Common share capital (note 9)	49,496	50,607
Contributed surplus (note 9)	4,925	4,294
Deficit	(2,512)	(3,652)
	<u>51,909</u>	<u>51,249</u>
	<u>\$ 83,992</u>	<u>\$ 80,402</u>

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

"Tom Alford" Director"Brian Neeland" Director

IROC ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Years ended December 31, 2010 and 2009

	2010 (\$ 000's)	2009 (\$ 000's)
REVENUE	\$ 64,354	\$ 49,023
EXPENSES		
Operating	43,042	33,086
General and administrative	8,834	8,422
Stock-based compensation	506	340
Note receivable impairment (recovery) (note 4)	(300)	1,500
Goodwill impairment	-	6,850
Depreciation and amortization	8,693	8,454
Interest on long-term debt	1,029	1,048
Other interest	227	269
Interest income	(47)	(85)
Loss (gain) on disposal of property and equipment	(29)	26
Foreign exchange loss	24	619
	61,979	60,529
Net income (loss) before income taxes from continuing operations	2,375	(11,506)
Income taxes (note 10)		
Current	-	420
Future	(365)	(1,040)
	(365)	(620)
Net income (loss) from continuing operations	2,010	(10,886)
Net income from discontinued operations	-	310
Net income (loss) and comprehensive income (loss)	\$ 2,010	\$ (10,576)
Earnings (loss) per share from continuing operations		
Basic	\$ 0.05	\$ (0.25)
Diluted	\$ 0.05	\$ (0.25)
Earnings per share from discontinued operations		
Basic	\$ -	\$ 0.01
Diluted	\$ -	\$ 0.01
Earnings (loss) per share		
Basic	\$ 0.05	\$ (0.24)
Diluted	\$ 0.05	\$ (0.24)
Weighted average number of shares outstanding		
Basic	43,426,436	44,000,524
Diluted	43,453,485	44,000,524

See accompanying notes to the consolidated financial statements.

IROC ENERGY SERVICES CORP.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

Years ended December 31, 2010 and 2009

	2010	2009
	(000's)	(000's)
Retained earnings (deficit), beginning of year	\$ (3,652)	\$ 8,252
Net income (loss)	2,010	(10,576)
Dividends	(870)	(1,328)
Deficit, end of year	\$ (2,512)	\$ (3,652)

See accompanying notes to the consolidated financial statements.

IROC ENERGY SERVICES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2010 and 2009

	2010 (\$ 000's)	2009 (\$ 000's)
Cash flows from operating activities:		
Net income (loss) from continuing operations	\$ 2,010	\$ (10,886)
Items not affecting cash:		
Note receivable impairment (recovery) (note 4)	(300)	1,500
Goodwill impairment	-	6,850
Depreciation and amortization	8,693	8,454
Future income taxes	365	(1,040)
Stock-based compensation	506	340
Loss (gain) on disposal of property and equipment	(29)	26
	<u>11,245</u>	<u>5,244</u>
Changes in non-cash working capital balances (note 11)	(230)	1,955
	<u>11,015</u>	<u>7,199</u>
Discontinued operations (note 16):		
Funds provided by discontinued operations	-	(285)
Changes in non-cash working capital balances of discontinued operations	-	3,143
	<u>11,015</u>	<u>10,057</u>
Cash flows from (used in) investing activities:		
Purchase of property and equipment - continuing operations	(8,527)	(3,861)
Purchase of property and equipment – discontinued operations	-	(4)
Proceeds on disposal of property and equipment - continuing operations	349	544
Proceeds on disposal of property and equipment – discontinued operations	-	5,938
Purchase of intangible assets (note 7)	(118)	-
Proceeds on disposal of note receivable (note 4)	300	-
Change in non-cash working capital balances (note 11)	683	(906)
	<u>(7,313)</u>	<u>1,711</u>
Cash flows used in financing activities:		
Payment of long-term debt	(3,201)	(4,739)
Operating loan advance (payment)	1,455	(4,716)
Loan commitment fees	-	(200)
Payment of dividends	(870)	(1,328)
Shares repurchased for cancellation	(986)	(556)
Non-cash accretion (note 8)	18	-
Change in non-cash working capital balances (note 11)	(47)	-
	<u>(3,631)</u>	<u>(11,539)</u>
Increase in cash during the year	<u>71</u>	<u>229</u>
Cash, beginning of year	230	1
Cash, end of year	<u>\$ 301</u>	<u>\$ 230</u>

See Supplemental cash flow information (note 11)

See accompanying notes to consolidated financial statements.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

1. Nature of Operations

IROC Energy Services Corp. ("IROC" or 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 Venture Exchange under the symbol ISC.

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.

2. Significant Accounting Policies

These financial statements are expressed in Canadian dollars and have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The most significant of these are the valuation of accounts receivable, the valuation of inventory, the estimated useful lives of property and equipment, the valuation of intangible and long lived assets and goodwill and the provision for income taxes. Actual results may differ from these estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies described below:

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries and partnership all of which are wholly owned.

(b) Inventory

Inventory consisting of parts and finished goods are stated at the lower of cost, determined on a weighted average basis, and net realizable value.

During the year ended December 31, 2010, the Corporation recorded an allowance for obsolete items totaling \$179 (2009 – \$296) which is included in operating expenses. There were no reversals of prior inventory write-downs and no specific inventory items were permanently removed from inventory (2009 - \$157) and written off against the above mentioned allowance.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

2. Significant Accounting Policies (continued)

(c) Intangible and other assets

Intangible assets, consisting of patents and trademarks relating to proprietary software and tool development, customer relationships, and non competition agreements are recorded at cost and are amortized by the straight-line method over their estimated useful lives ranging from five to ten years.

(d) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is provided taking into consideration the estimated useful lives of the assets and their residual values using the following annual rates and methods:

<u>Asset type</u>	<u>Depreciation method</u>	<u>Period or annual percent</u>
Service rig equipment	Straight-line with 20% residual	10 years
Rental equipment	Declining balance	10% to 100%
Heavy equipment	Declining balance	15%
Field equipment	Declining balance	20% - 50%
Other equipment	Declining balance	20% - 100%
Leasehold improvements	Straight-line, over the term of the lease	5 – 10 years

Depreciation is not taken on assets under construction until the assets are considered available for use.

(e) Long-lived assets

Long-lived assets consist of property and equipment and intangible assets. On a periodic basis, the Corporation assesses the carrying value of long lived assets for indications of impairment. Indications of impairment include items such as an ongoing lack of profitability and significant changes in technology. When there is an indication of impairment, the Corporation tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value. The net recoverable amount is the undiscounted cash flows expected to be generated by the ongoing use and ultimate disposal of the assets.

Based on the Corporation's impairment analysis, there was no impairment in the carrying value of long-lived assets as at December 31, 2010 (December 31, 2009 - \$Nil).

(f) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less any liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting segments that are expected to benefit from the business combination.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

2. Significant Accounting Policies (continued)

(f) Goodwill (continued)

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting segment is compared to its fair value. When the fair value of a reporting segment exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of the reporting segment exceeds its fair value, in which case the implied fair value of the reporting segment's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of the goodwill is determined in a business combination described in the previous paragraph, using the fair value of the reporting segment as if it was the purchase price. When the carrying amount of the reporting segment's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

As a result of performing the tests described above, the Corporation determined that there was an impairment of goodwill associated with the Technology Services reporting unit and wrote down the value of goodwill to nil by recording a non-cash impairment expense of \$6,850 during the year ended December 31, 2009.

(g) Income taxes

The Corporation follows the asset and liability method of accounting for income taxes. Temporary differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment or substantive enactment date.

(h) Stock-based compensation

Under the Corporation's option plan described in note 9(c), options to purchase common shares are granted to directors, officers and employees. The fair value of common share purchase options is calculated at the date of grant using the Black-Scholes option pricing model and that value is recorded as compensation expense over the vesting period of the option with an offsetting credit to contributed surplus. Upon exercise of the share purchase options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in common share capital.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

2. Significant Accounting Policies (continued)

(i) Revenue recognition

The Corporation's Drilling and Production Services segment generally provides services or rental equipment pursuant to purchase orders or contracts with customers that include fixed or determinable prices based upon daily, hourly, or job rates. Customer contract terms do not include provisions for significant post service delivery obligations. Revenue in this segment is recognized when services and equipment rentals are rendered and only when collectability is reasonably assured.

The Corporation's Technology Services segment generally sells goods or provides services pursuant to purchase orders or contracts with customers that include fixed or determinable prices. Revenue in this segment is recognized when the goods are shipped from the Corporation's warehouse or the risks and rewards of ownership have been transferred to the purchaser and only when collectability is reasonably assured.

(j) Per share amounts

Basic per share amounts are calculated using the weighted average number of common shares outstanding during the year. Diluted per share amounts are calculated following the treasury stock method assuming that proceeds obtained upon exercise of the share purchase options would be used to purchase common shares at the average market price during the period.

(k) Research and development costs

The Corporation invests resources in the development of improved and new products, which are expensed as operating expenses as incurred. These expenditures may qualify for research and development investment tax credits. These credits are estimated annually and are recorded as a reduction of operating expenses in the period in which they are utilized to reduce taxes otherwise payable or there is reasonable certainty they will be utilized to do so.

(l) Cash

Cash includes cash, short term deposits, or money market investments with maturities at the date of purchase of less than 90 days (if any).

(m) Measurement uncertainty

Amounts used to assess goodwill for impairment are based on the estimated fair value of the reporting segment to which the goodwill is allocated and are subject to measurement uncertainty. The estimated fair value of the reporting segment is determined using forecasted cash flows and earnings or cash flow multiples or both. By their nature, these estimates of future cash flows are subject to measurement uncertainty, as are the estimates of appropriate multiples and the impact on the financial statements of the current and future periods could be material.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

2. Significant Accounting Policies (continued)

(m) Measurement uncertainty (continued)

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully transferable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Corporation's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Significant areas requiring the use of management judgments and estimates are the estimation of the allowance for doubtful accounts, assessment of intangibles for impairment, and the assessment of inventory for obsolescence. Actual results could differ materially from the estimates assessments made by management.

(n) Restricted Share Units

The Corporation has a restricted share unit plan (the "RSU Plan"). The RSU Plan is designed to provide incentive compensation to directors, officers, employees and consultants.

Subject to the limitations under the RSU Plan, the board of directors of the Corporation may grant restricted share units ("RSU" or "RSU's") and determine the number of RSU's granted, the expiration date of each RSU, the vesting terms and any other terms and conditions relating to the RSU's.

Each RSU entitles a Participant to receive an amount equal to the fair market value of the RSU (the "Payout Amount") plus an amount, if any, accrued from the date of grant of the RSU, equal to the aggregate amount paid by the Corporation in dividends on the common shares. At the option of the Corporation, the Payout Amount may be satisfied by (i) the issuance from treasury of a number of Common Shares which have a fair market value equal to the Payout Amount, provided that any required stock exchange approval has been obtained, (ii) open market purchases or purchases pursuant to private transactions with third parties, on behalf of the Participant, of such number of Common Shares which have a fair market value equal to the Payout Amount, or (iii) the payment to the Participant of an amount in cash equal to the Payout Amount.

Unless otherwise directed by the board of directors, each RSU will vest and become available for redemption as to 33 1/3% on each of the first, second and third anniversaries of the date of grant of the RSU's. RSU's will terminate and cease to be redeemable on December 31st of the third year following the year in which the grant of the RSU was made.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

2. Significant Accounting Policies (continued)

(n) Restricted Share Units (continued)

The Corporation uses the intrinsic-value method to recognize the obligation and compensation expense associated with the RSU's. Obligations are accrued on a graded vesting basis and represent the market value of the common shares for the graded vested portion of the RSU's outstanding plus the graded vested portion of any dividends paid on common shares since the grant date. The obligations are recoded as a liability and are revalued each reporting period based on the market value of the common shares and the number of graded vested RSU's outstanding at period end and, for each individual redemption, based on the actual market price, purchase cost, or cash payment made as applicable.

Upon redemption of the RSU: i) if shares are issued from treasury, the Payout Amount is recorded as an increase in common share capital and the liability is reduced by the Payout Amount, or ii) if common shares are purchased in open market purchases or purchases pursuant to private transactions with third parties, the liability is reduced by the purchase cost of such common shares, or iii) if a payment is made to the Participant of an amount in cash, the liability is reduced by the amount of the cash payment made.

(o) Foreign Currency Translation

Monetary assets and liabilities relating to foreign denominated transactions are initially recorded at the rate of exchange in effect at the transaction date. Gains and losses resulting from subsequent changes in foreign exchange rates are recorded in earnings for the period.

3. Changes in Accounting Policies including initial adoption

a) Business combinations

On January 1, 2010, the Company adopted CICA Handbook section 1582 "Business Combinations", which replaced the previous business combinations standard. Under the new section, the term "business" is more broadly defined than in the previous standard, most assets acquired and liabilities assumed are measured at fair value, any interest in an acquiree owned prior to obtaining control is re-measured at fair value at the acquisition date (eliminating the need for guidance on step acquisitions), a bargain purchase results in recognition of a gain, and acquisition costs are expensed. The adoption of this standard will impact accounting treatment of business combinations entered into after January 1, 2010.

b) Consolidations and Non-controlling interests

On January 1, 2010, the Company adopted CICA Handbook section 1601 "Consolidated Financial Statements", which, together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard had no material impact on IROC's consolidated financial statements.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

3. Changes in Accounting Policies including initial adoption (continued)

b) Consolidations and Non-controlling interests (continued)

On January 1, 2010, the Company adopted CICA Handbook section 1602 "Non-controlling Interests", which establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard had no material impact on IROC's consolidated financial statements.

4. Notes receivable

	2010	2009
Note receivable, interest at 6% payable monthly. Repayment terms are interest only until February 25, 2012 upon which, the entire principal amount is due and payable. Secured by a security agreement over the former Oricomm assets sold to the issuer of the note.	\$ 719	\$ 719
Note receivable, unsecured, interest at 7% payable monthly. Repayment terms are interest only until March 31, 2010 upon which \$750 principal becomes due. The balance is to be paid in blended monthly payments of principal and interest until maturity on March 31, 2011.	-	1,500
	719	2,219
Less impairment of note receivable	-	(1,500)
	\$ 719	\$ 719

The notes receivable were received as partial payment for the sale of the Oricomm and Envirocore divisions (Note 16).

Due to the non-payment of interest due pursuant to the terms of the \$1,500 note receivable and deterioration in the financial condition of the counterparty to the note, a \$1,500 provision for impairment of the note was made in 2009. The counterparty did not pay a \$750 principal payment which was due on March 31, 2010 and there were no collections of interest or principal during 2010. On April 26, 2010, the counterparty made an application under the *Companies' Creditors Arrangement Act* and received a court order appointing a monitor. On September 19, 2010, the Corporation sold the note receivable for cash consideration of \$300 to an unrelated third party resulting in a recovery of \$300.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

5. Intangible and other assets

2010	Cost	Accumulated amortization	Net book value
Patents and related proprietary tool designs	\$ 6,050	\$ 4,191	\$ 1,859
Customer list	418	377	41
Non-competition agreement	533	47	486
	\$ 7,001	\$ 4,615	\$ 2,386

2009	Cost	Accumulated amortization	Net book value
Patents and related proprietary tool designs	\$ 6,050	\$ 3,379	\$ 2,671
Customer list	300	200	100
Other	809	726	83
	\$ 7,159	\$ 4,305	\$ 2,854

On July 16, 2010 the Corporation purchased all of the rental assets of Trust Energy Services Corp (note 7). As part of the transaction, the Corporation entered into a five year non-competition agreement with the former manager of Trust Energy Services Corp. \$533 of the purchase price has been allocated to the non-competition agreement and is being amortized on a modified straight line basis over the five year term of the agreement. Prior to 2010, loan commitment fees were included as other assets and amortized over their estimated useful life of three years.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

6. Property and equipment

2010	Cost	Accumulated depreciation	Net book value
Service rig equipment	\$ 69,816	\$ 24,064	\$ 45,752
Rental equipment	13,770	3,598	10,172
Heavy equipment	1,947	1,378	569
Field equipment	1,974	1,155	819
Other equipment	3,185	2,516	669
Leasehold improvements	901	498	403
Asset under construction	3,323	-	3,323
	\$ 94,916	\$ 33,209	\$ 61,707

2009	Cost	Accumulated depreciation	Net book value
Service rig equipment	\$ 67,734	\$ 18,293	\$ 49,441
Rental equipment	9,720	2,786	6,934
Heavy equipment	1,947	1,237	710
Field equipment	1,695	987	708
Other equipment	3,031	2,277	754
Leasehold improvements	791	393	398
Asset under construction	2,129	-	2,129
	\$ 87,047	\$ 25,973	\$ 61,074

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

7. Asset acquisition

On July 16, 2010 IROC purchased all of the rental assets, rental contracts, and most of the business assets of Trust Energy Services Corp. ("Trust"). Trust is an Alberta based oilfield rental company, specializing in a complete line of coil tubing and well servicing equipment rentals. The Trust assets were acquired to complement IROC's existing rental division's assets and to expand the products and services offered.

The purchase price consisted of:

	Notional Value	Fair Value
Cash	\$ 1,379	\$ 1,379
Note payable over 5 years (see note 8)	650	533
Total consideration	\$ 2,029	\$ 1,912

The purchase price was allocated on the basis of the fair value of the assets acquired as follows:

Financial statement caption and description of asset acquired	Fair Value
Property and equipment – rental equipment	\$ 1,183
Intangibles - non competition agreement (see note 5)	533
Intangibles - existing rental contracts	118
Property and equipment – other non-rental assets	45
Prepaid expenses and deposits - consumables & supplies	33
Total fair value of assets acquired	\$ 1,912

The Trust rental location was closed and all equipment was transferred and integrated into IROC's existing rental asset inventory immediately after the purchase. The revenue and net income attributable to the assets since their acquisition on July 16, 2010 is not practically determinable as the assets acquired were integrated with IROC's rental assets and the assets acquired were never operated as a business subsequent to their acquisition. Transaction costs of \$10 are included in general and administrative expenses.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

8. Operating Loan and Long Term Debt

The Corporation has a credit agreement with a syndicate of three Canadian chartered banks (the “Credit Agreement”). The Credit Agreement provides the Corporation with an extendible demand revolving operating loan credit facility (“Operating loan”) and an extendible revolving term acquisition loan facility (“Acquisition loan”) (together referred to as “the Facilities”). The Operating loan may be used for ongoing working capital and general corporate purposes. The Acquisition loan may be used to finance acquisitions of businesses and equipment and for general corporate purposes. The Facilities are for a 364 day committed term until May 27, 2011, the term-out date. No principal payments are required under the facilities until the term-out date which may be extended for a further 364 day period upon approval by the banks. Following the term-out date, the Operating loan is immediately due and payable and the principal outstanding on the Acquisition loan becomes payable in 24 equal monthly installments over the following two year period. Interest on both facilities is payable monthly. The Corporation has the option to borrow funds denominated in either Canadian or United States dollars under both Facilities.

The Facilities bear interest based on a sliding scale pricing grid tied to the Corporation’s trailing debt to cash flow (Earnings before income taxes, depreciation, amortization, and stock based compensation – “EBITDAS”) ratio as defined in the Credit Agreement: from a minimum of the bank’s prime rate plus 1.00% to a maximum of the bank’s prime rate plus 2.75% or from a minimum of the bankers acceptances rate plus a stamping fee of 2.25% to a maximum of the bankers acceptances rate plus a stamping fee of 4.0%. Standby fees under the Facilities range between 0.45% and 0.80%. Effective January 1, 2011 the applicable rates under the agreement are: bank prime rate plus 1.75%, bankers acceptances rate plus a stamping fee of 3.00%, and stand by fee rate of 0.60%.

The maximum borrowings permitted under the Operating loan are \$7,500 and under the Acquisition loan is \$25,000 for an aggregate of \$32,500 under the Facilities. Borrowings under the Operating loan are limited to a ratio of 75% of accounts receivable outstanding less than 90 days plus 50% of qualified inventory. Borrowings under the Acquisition loan are limited to 60% of the net book value of fixed assets. The Facilities have an accordion feature which provides the Corporation with an ability to increase the maximum combined borrowings under the Facilities to up to \$52,500, subject to the approval of the lenders.

The Facilities are secured by a general security agreement covering all of the assets of the Corporation and a security arrangement covering all assets of the Corporation.

Under the terms of the Credit Agreement, the Corporation is required to comply with the following financial covenants, as defined in the Credit Agreement, on a quarterly basis: a working capital ratio of not less than 1.25 to 1.00; a ratio of total debt to capitalization (capitalization defined as total shareholders’ equity, less intangible assets and goodwill plus total debt) not to exceed 50%; a debt service coverage ratio (as defined in the credit agreement) of not less than 1.50 to 1.00; and a total debt to trailing twelve month earnings before interest, income taxes, depreciation and amortization of less than 3.00 to 1.00. The Corporation was in compliance with these covenants as at December 31, 2010.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

8. Operating Loan and Long Term Debt (continued)

The following table provides additional information with respect to amounts included in the consolidated balance sheets related to long term debt:

	2010	2009
Acquisition loan	\$ 16,995	\$ 20,250
Note payable	551	-
Obligations under capital leases	-	18
Vehicle loans	72	-
	17,618	20,268
Less current portion of long term debt	(5,105)	(5,924)
	\$ 12,513	\$ 14,344

As at December 31, 2010, \$50 (December 31, 2009 - \$nil) of the borrowings under the Operating Loan and \$1,000 under the Acquisition Loan were denominated in United States dollars. The Corporation was in compliance with all covenants at December 31, 2010 and 2009.

The note payable was issued as partial purchase consideration for the acquisition of certain rental assets (see note 7). The note is non-interest bearing, payable over five years by annual payments of \$130 commencing July 16, 2011, and has been recorded at fair value using a discount rate of 7%. Accretion of \$18 is included in interest expense for the year ended December 31, 2010.

Vehicle loans are for a three year term, are repayable in monthly installments totaling \$2 plus interest at zero percent, and are secured by the specific vehicles financed.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

9. Share capital

(a) Authorized:

Unlimited number of voting common shares without nominal or par value

(b) Common shares:

	Number	Amount
Balance at December 31, 2008	44,335,215	\$ 51,591
Issued on redemption of restricted share units	20,000	14
Share buy-back	(858,244)	(998)
Balance at December 31, 2009	43,496,971	\$ 50,607
Issued on redemption of restricted share units	150,000	115
Purchased and cancelled under normal course issuer bid ⁽¹⁾	(1,054,200)	(1,226)
Balance at December 31, 2010	42,592,771	\$ 49,496

(1) 567,200 shares purchased prior to December 31, 2010 were cancelled in January 2011.

(c) Stock options:

The Corporation has a stock option plan which allows the Corporation to issue options to purchase common shares for up to ten percent of the outstanding common shares at prevailing market prices on the date of the option grant. The Corporation has granted stock options to directors, officers and key employees. Stock options vest over three years from the date of grant as employees or directors render continuous service to the Corporation and have a maximum term of five years. The following table summarizes changes in the number of common shares under option during the years ended December 31, 2010 and 2009:

	Number of options	Weighted average exercise price
Balance, December 31, 2008	1,880,625	\$ 1.71
Granted	1,022,248	0.56
Forfeited	(598,750)	1.31
Balance, December 31, 2009	2,304,123	\$ 1.31
Granted	881,623	0.74
Expired	(140,000)	2.88
Forfeited - vested	(341,663)	1.75
Forfeited - unvested	(233,337)	0.72
Balance, December 31, 2010	2,470,746	\$ 1.01

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

9. Share capital (continued)

(c) Stock options (continued)

The following table summarizes information about stock options outstanding as at December 31, 2010:

Exercise Price	Number of options outstanding	Weighted average remaining life (years) contractual	Weighted average exercise price (\$)	Number of options exercisable
\$ 0.50 – 0.75	1,278,246	3.6	\$0.59	256,787
0.76 – 1.14	840,000	3.0	\$0.87	345,830
1.15 – 1.73	85,000	2.6	\$1.24	56,664
1.74 – 2.61	55,000	1.2	\$2.00	55,000
2.62 – 3.99	212,500	0.3	\$3.72	212,500
\$ 0.50 – 3.99	2,470,746	3.0	\$1.01	926,781

The fair value of common shares options is estimated as at the grant date using the Black-Scholes option pricing model, with the following weighted average assumptions:

	2010	2009
Risk free interest rate (%)	2.34%	1.82%
Expected life (years)	5.0	5.0
Expected volatility (%)	112%	152%
Expected dividend per share	-	-

The weighted average fair value of the options issued during the year ending December 31, 2010 was \$0.59 (2009 - \$0.56). For the year ended December 31, 2010, stock-based compensation expense relating to stock options totaled \$391 (2009 - \$326).

(d) Contributed surplus

The following table summarizes the changes in contributed surplus:

	Amount
Balance at December 31, 2008	\$ 3,526
Stock based compensation expense – stock options	326
Cancellation of common shares purchased under normal course issuer bid	442
Balance at December 31, 2009	\$ 4,294
Stock based compensation - stock options	391
Cancellation of common shares purchased under normal course issuer bid	240
Balance at December 31, 2010	\$ 4,925

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

9. Share capital (continued)

(e) Earnings per share

The following table reconciles the common shares used in computing earnings per share for the years ending December 31:

	2010	2009
Weighted average common shares outstanding – basic	43,426,436	44,000,524
Dilutive stock options	27,047	-
Weighted average common shares outstanding – diluted	43,453,485	44,000,524

Outstanding stock options are currently the only instruments which could potentially dilute earnings per share. For the year ended December 31, 2010, 501,623 stock options (2009 – 2,304,123) were not included in the computation of net income per common share because to do so would be anti-dilutive.

(f) Restricted Share Unit Plan

The Corporation has a restricted share unit plan (the “RSU Plan”). The RSU Plan is designed to provide incentive bonus compensation to directors, officers, employees and consultants.

During the year ended December 31, 2010, the Corporation granted 150,000 (2009 – 20,000) restricted share units (“RSU’s”). The restricted share units vested immediately - resulting in the issue of 150,000 (2009 – 20,000) common shares. There were no proceeds on the issue of the restricted share units or common shares. The common shares issued were valued at the trading price of the Corporation’s common shares on the TSX Venture Exchange on the day immediately preceding issue.

All RSU’s issued to date have vested immediately and were redeemed upon issue for common shares issued from treasury. There were no RSU’s outstanding at December 31, 2010 or 2009. For the year ended December 31, 2010, stock-based compensation expense relating to RSU’s totaled \$115 (2009 - \$14).

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

10. Income taxes

The provision for income taxes differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

	2010	2009
Earnings (loss) before income taxes – continuing operations	\$ 2,375	\$ (11,506)
Combined federal and provincial income tax rate	28.0%	29.0%
Expected income taxes	665	(3,337)
Increase (decrease) resulting from:		
Goodwill write down and dispositions	-	1,473
Non-deductible items	9	33
Income tax effect of income tax rate change	25	135
Non-taxable portion of capital gains	(2)	217
Stock based compensation	142	95
De-recognition (re-recognition) of investment tax credits	(567)	557
Other	93	207
	\$ 365	\$ (620)

The future income tax asset (liability) is comprised of:

	2010	2009
Future tax assets		
Non capital losses	\$ 4,667	\$ 3,372
Share issue costs	-	2
Operations of a partnership with a different tax year	-	1,900
Note payable	33	-
Scientific research and development expenses (SR&ED) and Investment Tax Credits	567	156
	5,267	5,430
Future tax liabilities:		
Property and equipment	(8,361)	(8,018)
Intangible assets	(572)	(713)
	(8,933)	(8,731)
Net future income tax liability	\$ (3,666)	\$ (3,301)

The Corporation has loss carry forwards for income tax purposes totaling which are available for application against future taxable income until:

	2010
2015	\$ 1,033
2026	1,785
2027	2,478
2028	3,000
2029	4,224
2030	7,899
	\$ 20,419

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

11. Supplemental cash flow information

	2010	2009
Interest paid	\$ 1,238	\$ 1,317
Income taxes paid	-	\$ 74
Change in non-cash working capital items from continuing operations:		
Accounts receivable	\$ (3,562)	\$ 1,660
Inventory	338	61
Prepaid expenses	(82)	137
Accounts payable and accrued liabilities - trade	3,076	97
	\$ (230)	\$ 1,955
Change in non-cash working capital items from investing activities:		
Accounts payable – Capital Assets	\$ 683	\$ (906)
	\$ 683	\$ (906)
Change in non-cash working capital items from financing activities:		
Prepaid expenses	\$ (47)	\$ -
	\$ (47)	\$ -

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

12. Segmented information

As at December 31, 2010 the Corporation operates in two main segments, which are substantially in one geographic region. Drilling and production services include service rigs and related equipment and oilfield rental equipment and services. Technology services includes the manufacturing and distribution of downhole pressure and temperature measurement tools which provide technology based solutions to assist oil and gas companies in the production of oil and gas.

\$ thousands	Drilling and Production Services	Technology Services	Corporate	Total
2010				
Revenue	\$ 53,616	\$ 10,738	\$ -	\$ 64,354
Depreciation and amortization	7,099	1,170	424	8,693
Interest on long-term debt	18	-	1,011	1,029
Interest on operating loan and other Interest	-	-	227	227
Net earnings (loss) – continuing operations	7,783	(205)	(5,568)	2,010
Intangible assets	526	1,860	-	2,386
Property and equipment	59,622	1,273	812	61,707
Capital expenditures	8,165	162	200	8,527
Total assets – continuing operations	72,904	8,940	2,148	83,992

\$ thousands	Drilling and Production Services	Technology Services	Corporate	Total
2009				
Revenue	\$ 38,273	\$ 10,750	\$ -	\$ 49,023
Depreciation and amortization	6,331	1,231	892	8,454
Interest on long-term debt	-	-	1,048	1,048
Interest on operating loan and other interest	-	-	269	269
Net earnings (loss) – continuing operations	3,992	(8,273)	(6,605)	(10,886)
Intangible assets	99	2,671	84	2,854
Property and equipment	58,779	1,469	826	61,074
Capital expenditures	3,698	43	120	3,861
Total assets – continuing operations	67,704	10,008	2,690	80,402

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

12. Segmented information (continued)

In the Technology segment, approximately \$6,946 or 64% of sales during the year ended December 31, 2010 (2009 - \$8,386 or 78%) were from customers outside of Canada.

During the year ended December 31, 2010, revenue from one customer aggregated \$8,930 (2009 - \$5,152) or 14% (2009 - 11%) of total revenue.

13. Contingencies

(a) A legal action seeking \$5.0 million plus general, special and punitive damages has been filed against the Corporation. The Corporation believes the suit is completely unfounded and without merit, and intends to vigorously defend the matter and believes that the outcome will be in its favor. Any amounts awarded as a result of this action will be reflected in the year the amounts become reasonably estimable.

(b) A legal action seeking compensation of \$1.0 million has been filed against the Corporation for non-performance in regard to the purchase agreement of Canada Tech Corp. The Corporation believes the suit is without merit and no liability in respect of this action has been included in the consolidated financial statements as the Corporation intends to vigorously defend the matter and believes the outcome will be in its favor. Any amounts awarded as a result of this action will be reflected in the year the amounts become reasonably estimable.

(c) The Corporation is party to legal proceedings and claims that arise during the ordinary course of business. It is the opinion of the Corporation that the ultimate outcome of these matters will not have a material effect upon the Corporation's financial position, results of operations, or cash flows.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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14. Financial instruments and financial risk management

The Corporation has designated its financial instruments as follows: cash equivalents (if any) are classified as held to maturity investments and measured at amortized cost, accounts receivable and notes receivable are classified as loans and receivables which are measured at amortized cost; accounts payable and accrued liabilities, the operating loan and long-term debt are classified as other financial liabilities which are also measured at amortized cost; the fair values of the cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature; the fair value of the Corporation's bank operating loan and long-term debt approximates its carrying value due to the floating interest rate terms. The Corporation estimates the fair value of notes receivable and notes payable included in long-term debt approximate their carrying value. The Corporation did not have any financial instruments designated as held for trading or available for sale outstanding at December 31, 2010 or 2009.

The Corporation has exposure to credit risk, liquidity risk and market risk as follows:

a) 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. Accounts receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The Corporation accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual amount receivable.

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.

At December 31, 2010, approximately 90% (2009 - 86%) of the Corporation's trade accounts receivable from continuing operations is less than 90 days overdue. As at December 31, 2010, the Corporation has made a provision for doubtful accounts receivable in the amount of \$411 (2009 - \$138) representing approximately 3% (2009 - 1%) of its total trade accounts receivable from continuing operations.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

14. Financial instruments and financial risk management (continued)

a) Credit risk (continued)

The following table, details the age of the outstanding trade accounts receivable and the related allowance for doubtful accounts at December 31:

	2010
Trade accounts receivable:	
1 to 30 days overdue	\$ 7,356
31 to 60 days overdue	5,300
61 to 90 days overdue	601
>90 days overdue	1,448
Allowance for doubtful accounts	(411)
Accruals and other accounts receivable	809
	\$ 15,103

The Corporation has one note receivable in the principal amount of \$719 (see note 5). The counterparty to the note is a private company which the Corporation believes will be able to satisfy the terms of repayment. The Corporation has been receiving interest payments when due in accordance with the terms of the note. The note is secured by various assets which were sold to the counterparty to the note for a value much greater than the principal value of the note. Based on these factors, it is the Corporation's assessment the value of the note receivable is fully realizable at December 31, 2010.

As at December 31, 2010, the Corporation's largest customer represented 15% of total accounts receivable with the Corporation's three largest customers representing 24% of total accounts receivable.

b) 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 \$7,500. At December 31, 2010, \$1,455 was drawn under the operating loan. Additionally, the Corporation has a long term debt facility with additional availability (see note 9).

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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

14. Financial instruments and financial risk management (continued)

b) Liquidity risk (continued)

The following table summarizes contractual maturities for non-derivative financial instruments at December 31, 2010:

\$ thousands	Less than 1 year	Between 2 and 3 years	Greater than 3 years
Accounts payable and accrued liabilities	9,344	-	-
Operating loan	1,455	-	-
Long term debt	5,105	12,303	210
	15,904	12,303	210

c) Market risk

Market risk is the risk of changes in market prices, such as commodity prices, foreign currency exchange rates, and interest rates will affect the net earnings or the value of financial instruments. The objective of managing market risk is to control market risk exposures within acceptable limits, while maximizing returns. Market risks to which the Company is subject include:

Foreign currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates.

The Corporation is exposed to foreign currency fluctuations, primarily in the Technology Services segment where a substantial percentage of sales are to international customers and denominated in United States dollars (see note 11). The foreign currency risk is somewhat mitigated with a natural hedge in that certain input costs to manufacture products sold in the Technology Services segment are procured from suppliers in the United States with transactions denominated in United States dollars. The foreign currency risks are further mitigated through attempts to collect and pay foreign currency denominated balances in a timely fashion and to maintain very little excess cash in United States dollar bank accounts. During 2010, the Corporation started to denominate a portion of the operating loan and long term bank debt in United States dollars to offset the net accounts receivable denominated in United States dollars. The amount of United States dollar denominated bank debt is adjusted periodically to provide an approximate offset to other exposures. At December 31, 2010, the Corporation had United States dollar denominated cash of \$160 (December 31, 2009 - \$nil) accounts receivable of \$1,504 (December 31, 2009 - \$1,549) accounts payable of \$7 (December 31, 2009 - \$199) and bank debt of \$1,050 (December 31, 2009 - \$nil) for a net exposure of \$607 (December 31, 2009 - \$1,350). A hypothetical strengthening/weakening of the U.S. dollar against the Canadian dollar by 1% would have increased/decreased net earnings from continuing operations before income taxes for the year ended December 31, 2010 by \$6 (December 31, 2009 - \$14).

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009

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14. Financial instruments and financial risk management (continued)

c) Market risk (continued)

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 operating loan and long-term debt both of which bear interest at floating market rates. For the year ended December 31, 2010, if the prime interest rate increased/decreased by 1%, with all other variables held constant, net earnings would have been \$184 lower/higher (2009 – \$218). The Corporation has not entered into any interest rate swaps or other financial arrangements that mitigate the Corporation's exposure to interest rate fluctuations.

Commodity price risk

The Corporation is not directly exposed to commodity price risk on any of its financial instruments as it does not have any contracts that are directly based on commodity prices. A change in commodity prices, specifically oil and natural gas prices could have a material impact on cash flows of the Corporation's customers and could therefore affect the demand for our products or services from these customers.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. 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 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, and long-term debt, 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 which requires the ratio to not exceed 0.50. The Corporation may be required to increase this from time to time as a result of expansion activities. The Corporation was in compliance with all externally imposed capital requirements as at December 31, 2010.

There has been no change in how the Corporation manages capital during the year ended December 31, 2010.

The debt-to-capitalization ratios at December 31 are as follows:

	2010	2009
Debt	\$ 19,073	\$ 20,268
Equity (net of intangible assets and goodwill)	49,523	48,395
Capitalization	68,596	68,663
Debt-to-capitalization ratio	0.28	0.30

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. Discontinued operations

During the fiscal year ended December 31, 2008, management identified its safety, communication and monitoring operations included in the Technology Services segment, and its lease construction operations included in the Drilling and Production Services segment, to be disposed of in order for the Corporation to focus on its core business operations. The disposal groups consisted of certain fixed assets consisting of field equipment, shop equipment and the data acquisition centre used in the safety, communication and monitoring operations and heavy equipment and field equipment used in the lease construction operations.

On February 10, 2009 the Corporation entered into a definitive agreement to sell the safety, communication and monitoring operations. The transaction closed on February 26, 2009 for gross proceeds before selling expenses of \$3,640 consisting of cash consideration of \$3,000 and the assumption of a note receivable of \$640. There was an additional \$79 added to the note receivable on November 19, 2009 for certain post closing adjustments.

On February 26, 2009 the Corporation entered into a definitive agreement to sell the lease construction operations. The transaction closed on February 27, 2009 for gross proceeds of \$4,800 before selling expenses consisting of cash consideration of \$3,300 and the assumption of a note receivable of \$1,500.

Goodwill of \$1,771 was included in the calculation of the gain on sale of the two businesses.

During the fiscal year ended December 31, 2008, the Corporation disposed of its contract drilling rig division included in the Drilling and Production Services segment for cash consideration of \$32,035, net of selling costs. The assets disposed consisted of four drilling rigs and related support equipment that operated under the brand name of Mission Drilling. The sale of the first three rigs closed on September 19, 2008 and the final closing on the fourth rig was October 29, 2008. Net cash proceeds of \$23,935 were received on September 19, 2008 and \$8,100 was received on October 29, 2008.

	2009
Revenue from discontinued operations:	
Safety, communications and monitoring	\$ 287
Net earnings from discontinued operations before taxes:	
Safety, communications and monitoring	753
Income taxes – future	443
Net earnings from discontinued operations	<u>\$ 310</u>

No amounts are included in the balance sheet as assets and liabilities of discontinued operations as at December 31, 2010 or 2009.

IROC ENERGY SERVICES CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

16. Discontinued operations (continued)

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

	2009
Net earnings from discontinued operations	310
Items not affecting cash:	
Gain on disposal of discontinued operations	(1,038)
Future income taxes	443
Funds provided by discontinued operations	(285)
<hr/>	
Components of change in non-cash working capital balance of discontinued operations	
Accounts receivable	3,615
Accounts payable and accrued liabilities	(472)
	3,143

17. Subsequent event

On April 11, 2011, the Corporation completed a short form prospectus offering of 7,200,361 common shares at a price of \$1.40 per common share, for aggregate gross proceeds before costs of \$10,081 and estimated net proceeds after costs of \$9,256. The shares issued pursuant to the offering were listed for trading on the TSX-Venture exchange on April 11, 2011.



[10]

DIRECTORS

Brian D. Neeland – Director and Chairman of the Board
Thomas M. Alford – Director
William Austin – Director
Newton (Trey) Wilson, III – Director
Brad Fedora – Director
Donald D. Copeland – Director

OFFICERS

Thomas M. Alford – President and Chief Executive Officer
Ryan A. Michaluk, CA, CMA – Chief Financial Officer
Timothy J. Sebastian – VP of Corporate Development, General Counsel and Corporate Secretary

PRINCIPAL BANK

National Bank of Canada
Calgary, Alberta

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta

LEGAL COUNSEL

McCarthy Tétrault LLP
Barristers & Solicitors
Calgary, Alberta

TRANSFER AGENT

Valiant Trust Company
Calgary, Alberta

TRADING INFORMATION

Symbol: ISC
TSX Venture Exchange



CORPORATE HEADQUARTERS

8113 – 49th Avenue Close
Red Deer, Alberta T4P 2V5
Tel. 403.346.9710
Fax. 403.346.9770

EXECUTIVE OFFICE

Suite 600, 505 – 8th Avenue SW
Calgary, Alberta T2P 1G2
Tel. 403.263.1110
Fax. 403.699.1110

www.iroccorp.com
investorrelations@iroccorp.com

Alberta Venture's 100 Best Performing Stocks

– Alberta Venture, February 2011



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– Globe and Mail, June 18, 2010



Corporate Headquarters

8113 - 49th Avenue Close, Red Deer Alberta T4P 2V5
T. 403.346.9710 F. 403.346.9770

www.iroccorp.com