

DALMAC ENERGY INC.
Consolidated Financial Statements
Three Month Period Ended July 31, 2007
(Unaudited)

MANAGEMENT REPORT

To the Shareholders of **Dalmac Energy Inc.**

The accompanying unaudited consolidated balance sheet of **Dalmac Energy Inc.** as at July 31, 2007 and the consolidated statements of loss, retained earnings and cash flows for the three month period then ended, have been prepared by management and approved by the Board of Directors of the Company.

These consolidated financial statements have not been reviewed by the Company's external auditors.

Edmonton, Canada
September 26, 2007

Signed "John I. Babic"
PRESIDENT AND CHIEF EXECUTIVE OFFICER

DALMAC ENERGY INC.**Consolidated Balance Sheet****July 31, 2007***(Unaudited)*

	<i>July 31</i> <i>2007</i>	<i>April 30</i> <i>2007</i>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents <i>(Note 1)</i>	\$ 3,496,332	\$ 5,455,443
Accounts receivable	2,504,612	2,372,483
Inventory	152,462	110,801
Income taxes receivable	144,694	144,694
Prepaid expenses and deposits	512,401	606,508
	6,810,501	8,689,929
RESTRICTED CASH	131,445	100,000
PROPERTY AND EQUIPMENT, <i>net of accumulated amortization</i>	11,319,897	8,014,716
GOODWILL	1,729,313	1,504,313
	\$ 19,991,156	\$ 18,308,958
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	\$ 1,364,494	\$ 1,199,889
Accounts payable and accrued liabilities	1,506,692	1,132,568
Current portion of obligations under capital lease	43,802	47,519
Callable debt due within the year	149,962	106,212
Current portion of long term debt	1,936,759	1,861,130
	5,001,709	4,347,318
Callable debt due after one year	461,853	94,656
	5,463,562	4,441,974
OBLIGATIONS UNDER CAPITAL LEASE, <i>net of current portion</i>	262,534	270,419
LONG TERM DEBT, <i>net of current portion</i>	4,562,906	3,764,984
FUTURE INCOME TAXES <i>(Note 2)</i>	430,617	439,252
	10,719,619	8,916,629
SHAREHOLDERS' EQUITY		
SHARE CAPITAL <i>(Note 3)</i>	8,153,449	8,179,174
CONTRIBUTED SURPLUS <i>(Note 4)</i>	435,937	409,225
REPURCHASED SHARES	-	(75,725)
RETAINED EARNINGS	682,151	879,655
	9,271,537	9,392,329
	\$ 19,991,156	\$ 18,308,958

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statement of Loss
Three Month Period Ended July 31, 2007
(Unaudited)

	2007 <i>(3 months)</i>	2006 <i>(3 months)</i>
Revenue		
Service revenue	\$ 2,363,609	\$ 1,934,946
Product sales	<u>172,461</u>	<u>259,830</u>
	<u>2,536,070</u>	<u>2,194,776</u>
Direct costs		
Service	1,682,223	1,546,617
Product	<u>116,300</u>	<u>130,559</u>
	<u>1,798,523</u>	<u>1,677,176</u>
	<u>737,547</u>	<u>517,600</u>
Expenses		
General and administrative	389,000	280,785
Amortization	271,054	203,234
Wages and benefits	189,798	174,985
Interest on long-term debt	141,473	61,742
Interest paid on callable debt and other	<u>20,539</u>	<u>5,566</u>
	<u>1,011,864</u>	<u>726,312</u>
LOSS FROM OPERATIONS	(274,317)	(208,712)
Other income (expenses)		
Interest income	<u>68,178</u>	<u>53,428</u>
Loss before income taxes	<u>(206,139)</u>	<u>(155,284)</u>
Income taxes recovered (provision for)		
Current	-	90,843
Future	<u>8,635</u>	<u>(21,428)</u>
	<u>8,635</u>	<u>69,415</u>
NET LOSS FOR THE PERIOD	\$ (197,504)	\$ (85,869)
Net (loss) income per common share		
Basic	\$ (0.016)	\$ (0.007)
Diluted	\$ (0.016)	\$ (0.007)
Weighted average number of shares		
Basic	12,383,925	12,395,263
Diluted	12,383,925	12,395,263

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statement of Retained Earnings
Three Month Period Ended July 31, 2007
(Unaudited)

	2007 <i>(3 months)</i>	2006 <i>(3 months)</i>
RETAINED EARNINGS AT BEGINNING OF PERIOD	\$ 879,655	\$ 992,266
Net loss for the period	<u>(197,504)</u>	<u>(85,869)</u>
RETAINED EARNINGS AT END OF PERIOD	<u>\$ 682,151</u>	<u>\$ 906,397</u>

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statement of Cash Flows
Three Month Period Ended July 31, 2007
(Unaudited)

	2007 <i>(3 months)</i>	2006 <i>(3 months)</i>
OPERATING ACTIVITIES		
Net loss for the period	\$ (197,504)	\$ (85,869)
Items not affecting cash and cash equivalents:		
Amortization	271,054	203,234
Future income taxes	(8,635)	21,428
Stock based compensation	26,713	-
	91,628	138,793
Changes in non-cash working capital:		
Accounts receivable	(132,129)	1,244,286
Inventory	(41,661)	(3,577)
Prepaid expenses and deposits	94,107	(23,409)
Accounts payable and accrued liabilities	374,124	(666,645)
Income taxes payable	-	(90,843)
	294,441	459,812
	386,069	598,605
INVESTING ACTIVITIES		
Purchase of property and equipment	(3,576,236)	(306,995)
Purchase of goodwill	(225,000)	-
Increase in restricted cash	(31,445)	-
	(3,832,681)	(306,995)
FINANCING ACTIVITIES		
Proceeds from issuance of share capital	50,000	40,138
Share issuance costs	-	(29,500)
Proceeds from callable debt	437,500	-
Proceeds from long term debt	1,492,821	152,738
Repayment of callable debt	(26,553)	(26,553)
Repayment of long term debt	(619,270)	(316,344)
Repayment of obligations under capital lease	(11,602)	-
Increase (decrease) in bank indebtedness	164,605	(210,000)
	1,487,501	(389,521)
(Decrease) increase in cash and cash equivalents	(1,959,111)	(97,911)
Cash and cash equivalents at beginning of period	5,455,443	5,670,965
CASH AND CASH EQUIVALENTS AT END OF PERIOD <i>(Note 1)</i>	\$ 3,496,332	\$ 5,573,054

See accompanying notes

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
Three Month Period Ended July 31, 2007
(Unaudited)

1. CASH AND CASH EQUIVALENTS

	July 31, 2007	April 30, 2007
Guaranteed investment certificate	\$ 3,301,266	\$ 3,514,196
Cash	195,066	1,941,247
	\$ 3,496,332	\$ 5,455,443

2. INCOME TAXES

(a) Non-capital losses

The Company has accumulated non-capital losses carried forward for income tax purposes of approximately \$1,268,337, the benefit of which has been reflected in these financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act (Canada) and expire as follows:

2015	\$ 112,902
2026	154,278
2027	1,001,157
	\$ 1,268,337

(b) Temporary differences

A future income tax liability reflects the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax liability are as follows:

	July 31, 2007	April 30, 2007
Income tax effect of taxable temporary differences:		
Net book value in excess of undepreciated capital cost for tax purposes	\$ 924,667	\$ 829,099
Non capital losses carried forward	(407,390)	(260,357)
Share issuance costs deductible for tax purposes	(138,456)	(138,456)
Book value of goodwill in excess of tax value	51,796	8,966
Recognized future income tax liability	\$ 430,617	\$ 439,252

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
Three Month Period Ended July 31, 2007
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3. SHARE CAPITAL

- (a) Authorized:
 Unlimited common voting shares
 Unlimited preferred shares, issuable in series

- (b) Common shares issued:

	July 31, 2007		April 30, 2007	
	Shares	Amount	Shares	Amount
Balance, beginning of period	12,427,833	\$ 8,179,174	12,378,978	\$ 8,116,478
Issued on exercise of options	-	-	9,260	6,482
Issued on exercise of warrants	-	-	39,595	33,656
Fair value of options on exercise	-	-	-	22,558
Cancellation of repurchased shares	(136,500)	(75,725)	-	-
Issued pursuant to acquisition of North End	92,592	50,000	-	-
Balance, end of period	12,383,925	\$ 8,153,449	12,427,833	\$ 8,179,174

In May 2007, the Company issued 92,592 common shares as part of an acquisition. *See Note 5*

In May 2007, the Company cancelled 136,500 shares which had been repurchased under a normal course issuer bid.

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DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
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3. SHARE CAPITAL *(continued)*

(c) Stock options

The Company has a stock option plan under which directors, officers and employees of the Company and its affiliates are eligible to receive stock options. The maximum number of shares issuable pursuant to the exercise of outstanding options granted under the plan shall be 10% of the issued shares of the Company at the time of granting the options. The maximum number of common shares optioned to any one optionee shall not exceed 5% of outstanding common shares of the Company and options granted under the plan may not exceed five years. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policy or policies of the stock exchange(s) on which the Company's common shares are then listed.

The Company accounts for options granted under this plan in accordance with the fair value based method of accounting for stock-based compensation. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility of the underlying stock and life of the options.

During the period ended July 31, 2007, the Company granted 700,000 options on June 21, 2007 to directors and senior officials of the company. These options are vested equally over three years starting January 1, 2008. The fair value of the options granted was calculated assuming the risk free interest rate was 4.68%, the expected life of the options was five years and the expected volatility was 65%. The market price of the Company's shares at the grant date was equal to the option exercise price. The options granted resulted in stock based compensation expense and contributed surplus of \$26,713 during the period.

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3. SHARE CAPITAL *(continued)*

The following table summarizes activity related to stock options:

	Number	Weighted Average Exercise Price July 31, 2007	Number	Weighted Average Exercise Price April 30, 2007
Balance, beginning of period	879,189	\$ 0.85	888,449	\$ 0.85
Granted	700,000	0.54	-	-
Exercised	-	-	(9,260)	0.70
Outstanding, end of period	1,579,189	\$ 0.71	879,189	\$ 0.85
Exercisable, end of period	879,189	\$ 0.85	879,189	\$ 0.85

The following table summarizes stock options outstanding at July 31, 2007:

<u>Expiry Date</u>	<u>Number outstanding</u>	<u>Exercise Price</u>
September 27, 2007	18,407	0.70
February 28, 2008	480,000	1.25
December 22, 2008	255,782	0.30
March 21, 2010	125,000	0.45
June 21, 2012	700,000	0.54
	1,579,189	

(d) Warrants

The following table summarizes warrants outstanding at July 31, 2007:

	<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Warrants Outstanding July 31, 2007</u>	<u>Warrants Outstanding April 30, 2007</u>
Issued pursuant to private placement in September, 2005	September 27, 2007	\$ 0.85	674,616	674,616
Issued pursuant to private placement in February, 2006	February 28, 2008	\$ 1.50	2,400,000	2,400,000
			3,074,616	3,074,616

The weighted average exercise price of the outstanding warrants is \$1.36.

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4. CONTRIBUTED SURPLUS

The following table summarizes the changes in contributed surplus:

	<u>July 31, 2007</u>	<u>April 30, 2007</u>
Balance, beginning of period	\$ 409,225	\$ 431,783
Stock based compensation issued to directors and senior officials	26,712	-
Fair value of options on exercise	-	<u>(22,558)</u>
Balance, end of period	<u>\$ 435,937</u>	<u>\$ 409,225</u>

5. ACQUISITIONS

Effective May 1, 2007 the Company acquired for cash, a promissory note and common shares, the assets and business of North End Oil Industries Ltd. (North End). North End operates a fleet of service vehicles and equipment used in the oil and gas industry in Central Alberta. The purchase price was \$1,925,000 which comprised of \$1,500,000 cash, \$375,000 promissory note, and 92,592 common shares valued at \$0.54 per share totaling \$50,000.

Effective July 31, 2007 the Company acquired for cash and mortgage, a property with building located in Fox Creek. The purchase price was \$625,000 which comprised of \$187,500 cash and \$437,500 mortgage. The mortgage is a callable instrument bearing interest at prime rate plus 1.25% and is repayable over 10 years.

6. CHANGE IN ACCOUNTING ESTIMATE

Effective May 1, 2007, the Company has adopted a change in estimate in relation to the amortization of service vehicles and equipment to reflect a net book value comparable to fair market value.

7. SUBSEQUENT EVENTS

On July 5, 2007 the Company announced the signing of an LOI to purchase another oilfield services company. This target company is situated in west central Alberta and is currently outside the existing operating area.

8. COMPARATIVE FIGURES

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