

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

MANAGEMENT REPORT

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

The accompanying unaudited consolidated balance sheet of **Dalmac Energy Inc.** as at October 31, 2007 and the consolidated statements of income, retained earnings and cash flows for the six 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
December 21, 2007

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

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

	<i>Oct 31</i> 2007	<i>April 30</i> 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,711,530	\$ 5,455,443
Accounts receivable	3,082,369	2,372,483
Inventory	408,198	110,801
Income taxes receivable	144,694	144,694
Prepaid expenses and deposits	<u>623,924</u>	<u>606,508</u>
	5,970,715	8,689,929
RESTRICTED CASH	379,396	100,000
PROPERTY AND EQUIPMENT, net of accumulated amortization	14,559,567	8,014,716
GOODWILL	<u>2,122,928</u>	<u>1,504,313</u>
	\$ 23,032,606	\$ 18,308,958
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	\$ 1,543,623	\$ 1,199,889
Accounts payable and accrued liabilities	1,918,178	1,132,568
Current portion of obligations under capital lease	49,951	47,519
Callable debt due within the year	149,962	106,212
Current portion of long term debt	<u>2,016,640</u>	<u>1,861,130</u>
	5,678,354	4,347,318
Callable debt due after one year	<u>2,169,394</u>	<u>94,656</u>
	7,847,748	4,441,974
OBLIGATIONS UNDER CAPITAL LEASE, net of current portion	244,646	270,419
LONG TERM DEBT, net of current portion	4,543,493	3,764,984
FUTURE INCOME TAXES (Note 1)	<u>493,113</u>	<u>439,252</u>
	13,129,000	8,916,629
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 2)	8,453,449	8,179,174
CONTRIBUTED SURPLUS (Note 3)	520,085	409,225
REPURCHASED SHARES	-	(75,725)
RETAINED EARNINGS	<u>930,072</u>	<u>879,655</u>
	9,903,606	9,392,329
	\$ 23,032,606	\$ 18,308,958

APPROVED ON BEHALF OF THE BOARD

Signed "John I. Babic"

Director

Signed "Shawn T. Szydlowski"

Director

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statement of Income (Loss)
Three and Six Month Period Ended October 31, 2007
(Unaudited)

	October, 31 2007 (3 months)	October, 31 2006 (3 months)	October, 31 2007 (6 months)	October, 31 2006 (6 months)
Revenue				
Service revenue	\$ 2,965,234	\$ 1,950,450	\$ 5,328,843	\$ 3,885,396
Product sales	\$ 269,185	\$ 275,517	\$ 441,646	\$ 535,347
	<u>3,234,419</u>	<u>2,225,967</u>	<u>5,770,488</u>	<u>4,420,743</u>
Direct Costs				
Service	2,041,628	1,528,730	\$ 3,723,850	\$ 3,040,208
Product	75,644	187,127	\$ 191,947	\$ 317,687
	<u>2,117,272</u>	<u>1,715,857</u>	<u>3,915,797</u>	<u>3,357,895</u>
Gross profit	<u>1,117,147</u>	<u>510,110</u>	<u>1,854,692</u>	<u>1,062,848</u>
Expenses				
General and Administrative	261,572	287,997	496,974	489,174
Wages and benefits	370,565	274,233	713,959	562,905
Amortization	304,138	202,467	575,193	415,403
Interest on long term debt	143,979	60,294	276,501	127,601
	<u>1,080,255</u>	<u>824,991</u>	<u>2,062,627</u>	<u>1,595,083</u>
Income (loss) from Operations	36,892	(314,881)	(207,935)	(532,235)
Other income (expenses)				
Interest Income	29,931	26,869	68,619	80,297
Gain (loss) on disposal of assets	-	15,172	-	15,172
Recovery of Expenses	243,593	-	243,593	-
	<u>273,525</u>	<u>42,041</u>	<u>312,213</u>	<u>95,469</u>
Income (loss) before income taxes	<u>310,416</u>	<u>(272,840)</u>	<u>104,278</u>	<u>(436,766)</u>
Income taxes recovered (provision for)				
Current	-	1,076	-	136,715
Future	(62,496)	(16,408)	(53,861)	(64,193)
	<u>(62,496)</u>	<u>17,484</u>	<u>(53,861)</u>	<u>72,522</u>
Net income (loss) for the period	<u>247,920</u>	<u>(255,356)</u>	<u>50,417</u>	<u>(364,244)</u>
Retained earnings at beginning of period				
	\$ 682,151	\$ 906,397	\$ 879,655	\$ 992,266
Retained earnings at end of period				
	\$ 930,072	\$ 629,022	\$ 930,072	\$ 629,022
Net income per share				
Basic	\$ 0.02	\$ (0.02)	\$ 0.004	\$ (0.02)
Diluted	\$ 0.02	\$ (0.02)	\$ 0.003	\$ (0.02)
Weighted average number of shares				
Basic	12,581,325	12,395,263	12,581,325	12,395,263
Diluted	16,301,077	12,395,263	16,301,077	12,395,263

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

	October, 31 2007 (3 months)	October, 31 2006 (3 months)	October, 31 2007 (6 months)	October, 31 2006 (6 months)
Operating Activities				
Net income (loss) for period	\$ 247,921	\$ (255,356)	\$ 50,417	\$ (363,244)
Items not affecting cash & cash equivalents:				
Amortization	304,139	202,467	575,193	405,701
Loss (gain on disposal of assets)		(15,172)	-	(15,172)
Future income taxes	62,496	(16,408)	53,861	64,193
Stock-based compensation	53,425	-	80,138	-
	<u>667,981</u>	<u>(84,469)</u>	<u>759,609</u>	<u>91,478</u>
Changes in non-cash working capital:				
Accounts receivable	(577,757)	357,444	(709,886)	1,601,730
Inventory	(255,736)	(58,736)	(297,397)	(62,313)
Prepaid expenses and deposits	(111,523)	74,412	(17,416)	51,003
Accounts payable and accrued liabilities	411,487	(168,701)	785,611	(835,351)
Income taxes payable	-	(165,165)	-	(293,160)
	<u>(533,529)</u>	<u>39,254</u>	<u>(239,088)</u>	<u>461,909</u>
	<u>134,452</u>	<u>(45,215)</u>	<u>520,521</u>	<u>553,387</u>
Investing Activities				
Purchase of property and equipment	(3,543,809)	(49,931)	(7,120,045)	(356,925)
Disposal of property & equipment	-	90,000	-	90,000
Purchase of goodwill	(393,615)	-	(618,615)	-
Increase in restricted cash	(247,951)	-	(279,396)	-
	<u>(4,185,375)</u>	<u>40,069</u>	<u>(8,018,056)</u>	<u>(266,925)</u>
Financing Activities				
Proceeds from issuance of share capital	300,000	-	350,000	40,138
Share issuance costs	30,722	-	30,722	(29,500)
Proceeds from long term debt	607,009	30,500	2,099,830	183,239
Proceeds from callable debt	1,745,031		2,182,531	
Repayment of callable debt	(37,490)	(26,553)	(64,043)	(53,106)
Repayment of long term debt	(546,541)	(374,032)	(1,165,811)	(690,375)
Repayment of obligations under capital lease	(11,739)		(23,341)	
Increase (decrease) in bank indebtedness	179,129		343,734	
	<u>2,266,121</u>	<u>(370,085)</u>	<u>3,753,622</u>	<u>(549,604)</u>
Increase (decrease) in cash and cash equivalents	(1,784,802)	(375,231)	(3,743,913)	(263,142)
Cash & cash equivalents at beginning of period	3,496,332	5,186,055	5,455,443	5,073,966
Cash & cash equivalents at end of period	<u>\$ 1,711,530</u>	<u>\$ 4,810,824</u>	<u>\$ 1,711,530</u>	<u>\$ 4,810,824</u>
Cash (Deficiency) Consists of:				
Cash & cash equivalents	1,711,530	4,810,824	1,711,530	4,810,824

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

1. INCOME TAXES

(a) Non-capital losses

The Company has accumulated non-capital losses carried forward for income tax purposes of approximately \$1,494,093, 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		\$	154,900
2026			154,300
2027			515,500
2028			669,393
			669,393
		\$	1,494,093

(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:

	October 31, 2007	April 30, 2007
Income tax effect of taxable temporary differences:		
Net book value in excess of undepreciated capital cost for tax purposes	\$ 1,098,364	\$ 829,099
Non capital losses carried forward	(479,903)	(260,357)
Share issuance costs deductible for tax purposes	(138,456)	(138,456)
Book value of goodwill in excess of tax value	13,108	8,966
	\$ 493,113	\$ 439,252
Recognized future income tax liability		

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

2. SHARE CAPITAL

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

	October 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 asset acquisition of North End Oil Industries	92,592	50,000	-	-
Issued pursuant to asset acquisition of KD Trucking (1989) Ltd.	592,199	300,000	-	-
Balance, end of period	12,976,124	\$ 8,453,449	12,427,833	\$ 8,179,174

In May 2007, the Company issued 92,592 common shares as part of an acquisition. *See Note 4*

In October 2007, the Company issued 592,199 common shares as part of an acquisition. *See Note 4*

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
Six Month Period Ended October 31, 2007
(Unaudited)

2. 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 \$80,138 for the six month period.

During the period ended October 31, 2007, the Company granted 126,847 options on October 1, 2007 as part of the asset purchase and signing bonus to enter into a management contract. 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 lower than the option exercise price.

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DALMAC ENERGY INC.
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(Unaudited)

2. SHARE CAPITAL *(continued)*

The following table summarizes activity related to stock options:

	Number	Weighted Average Exercise Price October 31, 2007	Number	Weighted Average Exercise Price April 30, 2007
Balance, beginning of period	879,189	\$ 0.85	888,449	\$ 0.85
Granted	826,847	0.55	-	-
Expired	(18,407)	-	-	-
Exercised	-	-	(9,260)	0.70
Outstanding, end of period	<u>1,687,629</u>	<u>\$ 0.71</u>	<u>879,189</u>	<u>\$ 0.85</u>
Exercisable, end of period	<u>987,627</u>	<u>\$ 0.85</u>	<u>879,189</u>	<u>\$ 0.85</u>

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

Expiry Date	Number outstanding	Exercise Price
February 28, 2008	480,000	1.25
December 22, 2008	255,782	0.30
December 22, 2008	125,000	0.45
June 21, 2012	700,000	0.54
October 1, 2012.	-	0.60
	<u>1,687,629</u>	

(d) Warrants

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

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

The weighted average exercise price of the outstanding warrants is \$1.50.

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

3. CONTRIBUTED SURPLUS

The following table summarizes the changes in contributed surplus:

	<u>October 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	80,138	-
Fair value of options issued on acquisition	<u>30,722</u>	<u>(22,558)</u>
Balance, end of period	<u>\$ 520,085</u>	<u>\$ 409,225</u>

4. 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.

Effective October 1, 2007 the Company acquired for cash, a promissory note and common shares, the assets and business of KD Trucking (1989) Ltd. (KD). KD operates a fleet of service vehicles and equipment used in the oil and gas industry in Central Alberta. The purchase price was \$3,600,000 which comprised of \$2,800,000 cash, \$500,000 promissory note, and 592,199 common shares valued at an average of \$0.51 per share totaling \$300,000.

5. 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.

6. RECOVERY OF EXPENSES

Recovery of expenses has been recognized in the quarter relating to unclaimed Goods and Services Tax input credits. This is an ongoing investigation and therefore the amount is estimated.

7. COMPARATIVE FIGURES

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