

**DALMAC ENERGY INC.**  
**Consolidated Financial Statements**  
**Three Month Period Ended July 31, 2008**  
*(Unaudited - See Management Report)*

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## MANAGEMENT REPORT

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

The accompanying unaudited consolidated balance sheet of **Dalmac Energy Inc.** as at July 31, 2008 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, 2008

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

**DALMAC ENERGY INC.**  
**Consolidated Balance Sheet**  
**July 31, 2008**

*(Unaudited - See Management Report)*

	<i>July 31</i> <b>2008</b>	<i>April 30</i> <b>2008</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,471,963	\$ 1,580,903
Accounts receivable	2,895,440	3,379,038
Inventory	293,209	287,319
Prepaid expenses and deposits	433,895	258,142
	<u>5,094,507</u>	<u>5,505,402</u>
<b>INTANGIBLE ASSET</b>	<b>37,500</b>	<b>40,000</b>
<b>GOODWILL</b>	<b>2,128,102</b>	<b>2,128,102</b>
<b>PROPERTY AND EQUIPMENT (net of accumulated amortization)</b>	<b>15,166,281</b>	<b>15,384,309</b>
	<u>\$ 22,426,390</u>	<u>\$ 23,057,813</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank indebtedness	\$ 1,709,139	\$ 1,883,497
Accounts payable and accrued liabilities	2,079,338	1,896,104
Callable debt due within one year	490,759	514,606
Capital lease obligations due within one year	75,560	77,165
Current portion of long term debt	2,020,207	2,031,918
	<u>6,375,003</u>	<u>6,403,290</u>
Callable debt	1,627,371	1,738,444
Capital lease obligation	206,448	219,669
	<u>8,208,822</u>	<u>8,361,403</u>
<b>CAPITAL LEASE OBLIGATIONS</b>	<b>17,763</b>	<b>22,826</b>
<b>LONG TERM DEBT</b>	<b>4,093,872</b>	<b>4,252,023</b>
<b>FUTURE INCOME TAXES (Note 5)</b>	<b>590,002</b>	<b>502,434</b>
	<u>12,910,459</u>	<u>13,138,686</u>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 6)	8,439,453	8,439,453
CONTRIBUTED SURPLUS (Note 7)	582,708	561,013
RETAINED EARNINGS	493,770	918,661
	<u>9,515,931</u>	<u>9,919,127</u>
	<u>\$ 22,426,390</u>	<u>\$ 23,057,813</u>

**APPROVED ON BEHALF OF THE BOARD**

Signed "John I. Babic" \_\_\_\_\_ Director

Signed "Shawn T. Szydowski" \_\_\_\_\_ Director

See accompanying notes

**DALMAC ENERGY INC.**  
**Consolidated Statement of Loss and Comprehensive Loss**  
**Three month period ended July 31, 2008**  
*(Unaudited - See Management Report)*

	<i>July 31</i> <b>2008</b> <i>(3 months)</i>	<i>July 31</i> <b>2007</b> <i>(3 months)</i>
<b>Revenue</b>		
Service	\$ 3,740,633	\$ 2,320,712
Product	<u>228,930</u>	<u>215,357</u>
	<u>3,969,563</u>	<u>2,536,069</u>
<b>Direct costs</b>		
Service	2,878,921	1,722,131
Product	<u>145,032</u>	<u>116,303</u>
	<u>3,023,953</u>	<u>1,838,434</u>
	<u>945,610</u>	<u>697,635</u>
<b>Expenses</b>		
Amortization of property and equipment	402,877	271,054
Wages and benefits	373,678	261,958
General and administration	312,280	279,217
Interest on long term debt	102,867	105,565
Interest on callable debt and other	59,042	18,250
Interest on obligations under capital lease	5,785	6,418
Amortization of intangible asset	<u>2,500</u>	<u>-</u>
	<u>1,259,029</u>	<u>942,462</u>
	<u>(313,419)</u>	<u>(244,827)</u>
<b>Other income (expenses)</b>		
Interest	10,635	38,688
Loss on disposal of property and equipment	<u>(34,539)</u>	<u>-</u>
	<u>(23,904)</u>	<u>38,688</u>
<b>Loss before income taxes</b>	<u>(337,323)</u>	<u>(206,139)</u>
<b>Income tax expense</b>		
Future (benefit)	<u>87,568</u>	<u>(8,635)</u>
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	<u>\$ (424,891)</u>	<u>\$ (197,504)</u>
<b>Basic and diluted net loss per common share</b>	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>
<b>Basic and diluted weighted average number of common shares</b>	<u>12,974,522</u>	<u>12,383,925</u>

See accompanying notes

**DALMAC ENERGY INC.**  
**Consolidated Statement of Retained Earnings**  
**Three month period ended July 31, 2008**  
*(Unaudited - See Management Report)*

	<i>July 31</i> <b>2008</b> <i>(3 months)</i>	<i>July 31</i> <b>2007</b> <i>(3 months)</i>
RETAINED EARNINGS AT BEGINNING OF PERIOD	\$ 918,661	\$ 879,655
NET LOSS FOR THE PERIOD	<u>(424,891)</u>	<u>(197,504)</u>
RETAINED EARNINGS AT END OF PERIOD	<u>\$ 493,770</u>	<u>\$ 682,151</u>

See accompanying notes

**DALMAC ENERGY INC.**  
**Consolidated Statement of Cash Flow**  
**Three month period ended July 31, 2008**  
*(Unaudited - See Management Report)*

	<i>July 31</i> <b>2008</b> <i>(3 months)</i>	<i>July 31</i> <b>2007</b> <i>(3 months)</i>
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (424,891)	\$ (197,504)
Items not affecting cash and cash equivalents:		
Amortization of property and equipment	402,877	271,054
Gain on disposal of property and equipment	34,539	-
Future income taxes	87,568	(8,635)
Stock-based compensation	21,695	26,713
Amortization of intangible assets	2,500	-
	<u>124,288</u>	<u>91,628</u>
Changes in non-cash working capital:		
Accounts receivable	483,598	(132,129)
Inventory	(5,890)	(41,661)
Prepaid expenses and deposits	(175,753)	94,107
Accounts payable and accrued liabilities	183,234	374,124
	<u>485,189</u>	<u>294,441</u>
	<u>609,477</u>	<u>386,069</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(252,188)	(3,576,236)
Proceeds on disposal of property and equipment	32,800	-
Decrease (increase) in restricted cash	-	(31,445)
Purchase of goodwill	-	(225,000)
	<u>(219,388)</u>	<u>(3,832,681)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from callable debt	-	437,500
Proceeds from long term debt	405,654	1,492,821
Repayment of callable debt	(134,920)	(26,553)
Repayment of obligations under capital lease	(19,889)	(11,602)
Repayment of long term debt	(575,516)	(619,270)
Proceeds from issuance of share capital	-	50,000
(Decrease) increase in bank indebtedness	(174,358)	164,605
	<u>(499,029)</u>	<u>1,487,501</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(108,940)</b>	<b>(1,959,111)</b>
Cash and cash equivalents at beginning of period	<u>1,580,903</u>	<u>5,455,443</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 1,471,963</b>	<b>\$ 3,496,332</b>

See accompanying notes

**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Three Month Periods Ended July 31, 2008 and 2007**  
*(Unaudited - See Management Report)*

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1. DESCRIPTION OF OPERATIONS

Dalmac Energy Inc. (the "Company") was incorporated under the *Canada Business Corporations Act* and is listed on the TSX Venture Exchange. The Company's wholly owned subsidiary Dalmac Oilfield Services Ltd. ("Dalmac") is a provider of hot oiler, hydro vac, vacuum, pressure and tanker truck services to the oil and gas industry in Alberta.

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2. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). These unaudited interim consolidated financial statements follow the same accounting policies as the most recent annual financial statements except as described in Note 3. Not all disclosures required by GAAP for annual financial statements are presented in these interim financial statements. The interim financial statements should be read in conjunction with the most recent annual financial statements.

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**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Three Month Periods Ended July 31, 2008 and 2007**  
*(Unaudited - See Management Report)*

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Change in accounting policies

i) Financial instruments and capital disclosures

On May 1, 2008, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

- Section 3862 "Financial Instruments - Disclosures";
- Section 3863 "Financial Instruments - Presentation"; and
- Section 1535 "Capital Disclosures".

These new standards do not affect the accounting treatment of transactions. However, they require additional disclosure related to the Company's policies and processes of managing its capital and commentary related to the risks associated with its financial instruments.

Section 3862 describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. These sections replaced Section 3861 "Financial Instruments - Disclosure and Presentation".

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

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**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Three Month Periods Ended July 31, 2008 and 2007**  
*(Unaudited - See Management Report)*

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

ii) Inventories

Effective May 1, 2008, the Company adopted the CICA Handbook Section 3031 "Inventories", which replaces Section 3030. The new section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

The changes to this section affect the following, in particular:

Certain costs, such as storage costs and general and administrative expenses that do not contribute to bringing the inventories to their present location and condition, are excluded from the cost of inventories and expensed during the year in which they are incurred; and

The reversal of the write-down to net realizable value amounts, when there is a subsequent increase in the value of the inventories, is now required.

This change has no significant impact on the financial statements as at July 31, 2008.

(b) Future accounting pronouncements

*Intangibles*

In February 2008, the AcSB issued Section 3064 "Goodwill and Intangible Assets", which replaces Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". This section is effective for the Company for interim and annual consolidated financial statements beginning on May 1, 2009. This Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with IFRS IAS 38 "Intangible Assets". The Company is currently evaluating the impact of this new standard.

*International Financial Reporting Standards ("IFRS")*

In February 2008, the AcSB confirmed that Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011 with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required for the Company for interim and annual consolidated financial statements beginning on May 1, 2011.

IFRS uses a conceptual framework similar to Canadian GAAP but there are significant differences on recognition, measurement and disclosures. The Company is currently evaluating the impact of the adoption of IFRS on its consolidated financial statements.

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**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Three Month Periods Ended July 31, 2008 and 2007**  
*(Unaudited - See Management Report)*

4. CAPITAL MANAGEMENT

The Company's strategy is to a) maintain a level of capital for operations and to sustain future growth of the business and b) meet the debt covenants imposed by our banking institution. The Company strives to maintain a healthy balance between debt and equity to ensure the continued access to capital to fund growth and ensure long-term viability. The Company monitors its capital balance through regular evaluations of long-term debt to equity ratio. The components of capital as well as the long-term debt to equity ratio as of July 31, 2008 and April 30, 2008 are shown in the table below.

	<i>July 31</i> <b>2008</b>	<i>April 30</i> <b>2008</b>
Long term debt	\$ (4,093,872)	\$ (4,252,023)
Capital lease obligations	(224,210)	(242,495)
Callable debt	(1,627,371)	(1,738,444)
Total long-term debt	(5,945,453)	(6,232,962)
Shareholders' equity	(9,515,931)	(9,919,127)
Long-term debt to equity	<b>\$ 0.63</b>	<b>\$ 0.63</b>

As at July 31, 2008, the Company did not meet certain debt covenants with respect to the Company's credit facility.

**DALMAC ENERGY INC.****Notes to Consolidated Financial Statements****Three Month Periods Ended July 31, 2008 and 2007***(Unaudited - See Management Report)***5. INCOME TAXES****(a) Non-capital losses**

The Company has accumulated non-capital losses carried forward for income tax purposes of approximately \$3,451,621, the benefit of which has been reflected in the consolidated 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:

2016	\$	108,159
2027		515,455
2028		1,974,522
2029		<u>853,485</u>
	\$	<u>3,451,621</u>

**(b) Temporary differences**

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

	<i>July 31</i> <b>2008</b>	<i>April 30</i> <b>2008</b>
Income tax effect of taxable temporary differences:		
Net book value in excess of undepreciated capital cost for tax purposes	\$ 1,726,062	\$ 1,405,000
Non capital losses carried forward	(1,078,286)	(837,000)
Share issuance costs deductible for tax purposes	(73,508)	(87,000)
Book value of goodwill in excess of tax value	<u>15,734</u>	<u>21,434</u>
Recognized future income tax liability	<u>\$ 590,002</u>	<u>\$ 502,434</u>

**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Three Month Periods Ended July 31, 2008 and 2007**  
*(Unaudited - See Management Report)*

6. SHARE CAPITAL

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

- (b) Common shares issued:

	<i>July 31</i> <b>2008</b>		<i>April 30</i> <b>2008</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>
Balance, beginning of period	<b>12,974,522</b>	<b>\$ 8,439,453</b>	12,427,833	\$ 8,179,174
Repurchased shares	-	-	(136,500)	(89,721)
Issued on North End acquisition	-	-	92,592	50,000
Issued on KD acquisition	-	-	590,597	300,000
<b>Balance, end of period</b>	<b>12,974,522</b>	<b>\$ 8,439,453</b>	<b>12,974,522</b>	<b>\$ 8,439,453</b>

- (d) 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.

On May 1, 2008 the Company granted 50,000 options to a director. These options are vested equally over three years starting January 1, 2009. The fair value of the options granted was calculated using the Black-Scholes option pricing model. The fair value of the options was calculated using a weighted average risk-free interest rate of 3.04%, the weighted average expected life of the options was five years and the weighted average expected volatility was 72%. These options granted resulted in stock-based compensation expense and contributed surplus of \$2,613 during the quarter.

The total cost of options vested in this quarter resulted in stock-based compensation expense and contributed surplus of \$21,695.

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**DALMAC ENERGY INC.****Notes to Consolidated Financial Statements****Three Month Periods Ended July 31, 2008 and 2007***(Unaudited - See Management Report)***6. SHARE CAPITAL (continued)**

The following table summarizes activity related to stock options:

	Number	Weighted Average Exercise Price July 31, 2008	Number	Weighted Average Exercise Price April 30, 2008
Balance, beginning of period	1,207,629	\$ 0.49	879,189	\$ 0.85
Granted	50,000	0.40	826,847	0.55
Expired	-	-	(18,407)	0.70
Expired	-	-	(480,000)	1.25
Outstanding, end of period	1,257,629	\$ 0.49	1,207,629	\$ 0.49
Exercisable, end of period	614,629	\$ 0.42	614,115	\$ 0.42

**7. CONTRIBUTED SURPLUS**

The following table summarizes the changes in contributed surplus:

	<i>July 31</i> <b>2008</b>	<i>April 30</i> <b>2008</b>
Balance, beginning of period	\$ 561,013	\$ 409,225
Stock-based compensation	21,695	137,792
Repurchased shares below average carrying value	-	13,996
Balance, end of period	\$ 582,708	\$ 561,013

**8. COMPARATIVE FIGURES**

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

**9. SUBSEQUENT EVENT**

On June 23, 2008, the Company entered into a binding letter of intent to acquire the business and assets of an oilfield rental equipment supplier in Edson, Alberta which operates in western Alberta and Northeastern British Columbia.

The proposed purchase price is \$3.8 million to be paid in cash, vendor take-back loan and preferred shares of Dalmac's subsidiary acquisition company.

10. FINANCIAL INSTRUMENTS

The Company has designated its financial instruments as follows: cash and cash equivalents as held-for-trading ("HFT"), which is measured at fair value; accounts receivable are classified as loans and receivables which are measured at amortized cost; bank indebtedness, long term debt, callable debt, accounts payable and accrued liabilities, and capital lease obligations are classified as other financial liabilities which are measured at amortized cost. Transaction costs associated with the Company's debt facilities are no longer presented as a separate asset on the balance sheet but are offset against the debt. Transaction costs are no longer amortized on a straight-line basis over the life of the debt but are amortized using the effective interest method.

The Company is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments.

(a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers; however it is the opinion of the Company's management that the credit risk is minimal. Accounts receivable carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of management, there is a reasonable doubt that credit-related losses are expected to be incurred taking into consideration all circumstances known at the date of review. A significant portion (28%) of the outstanding accounts receivable at July 31, 2008 is due from two customers.

(b) Liquidity risk

Liquidity risk is the potential inability to meet financial obligations as they become due. The Company manages this risk by maintaining detailed cash forecasts. The management of consolidated liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a detailed forecast of the Company's consolidated liquidity position, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is assessed in view of historical volatility and seasonal needs and the maturity profile of indebtedness. The Company also constantly monitors any financing opportunities to optimise its capital structure and maintain appropriate financial flexibility.

(c) Market risk

*Foreign exchange risk*

Foreign exchange risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is not exposed to foreign exchange risk.

*Interest rate risk*

The Company is exposed to interest rate risks through its financial assets and financial obligations bearing variable interest rates. The interest rate risk is primarily related to cash and cash equivalents, callable debt and variable bank indebtedness. The Company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

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