

DALMAC ENERGY INC.

Consolidated Financial Statements

Six Month Period Ended October 31, 2008

(Unaudited – See Management Report)

MANAGEMENT REPORT

To the Shareholders of Dalmac Energy Inc.

The accompanying unaudited consolidated balance sheet of **Dalmac Energy Inc.** as at October 31, 2008 and the consolidated statements of loss, 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 22, 2008

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

DALMAC ENERGY INC.
Consolidated Balance Sheet
October 31, 2008
(Unaudited - See Management Report)

	October 31, 2008	April 30, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 347,517	\$ 1,580,903
Accounts receivable	3,647,694	3,409,466
Inventory	491,611	287,319
Prepaid expenses and deposits	380,071	258,142
	4,866,892	5,535,830
INTANGIBLE ASSETS	35,000	40,000
GOODWILL	2,128,102	2,128,102
PROPERTY AND EQUIPMENT (net of accumulated amortization)	18,530,587	15,384,309
	\$ 25,560,582	\$ 23,088,241
LIABILITIES		
CURRENT LIABILITIES		
Bank Indebtedness	\$ 2,290,997	\$ 1,883,497
Accounts payable and accrued liabilities	2,818,351	1,926,532
Callable debt due within one year	702,645	514,606
Capital lease obligation due within one year	72,996	77,165
Current portion of long term debt	2,069,015	2,031,918
	7,954,004	6,433,718
Callable debt	2,350,432	1,738,444
Capital lease obligation	193,032	219,669
	10,497,468	8,391,831
CAPITAL LEASE OBLIGATIONS	13,901	22,826
LONG TERM DEBT	3,848,844	4,252,023
FUTURE INCOME TAXES (note 4)	614,747	502,434
NON-CONTROLLING INTEREST IN SUBSIDIARIES (note 8)	900,000	-
	15,874,960	13,169,114
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 6)	8,439,453	8,439,453
CONTRIBUTED SURPLUS (note 7)	604,404	561,013
RETAINED EARNINGS	641,765	918,661
	9,685,623	9,919,127
	\$ 25,560,582	\$ 23,088,241

APPROVED ON BEHALF OF THE BOARD

Signed "John I. Babic" _____ Director

Signed "Shawn T. Szydłowski" _____ Director

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statement of Loss and Comprehensive Loss
Three and Six Month Period Ended October 31, 2008
(Unaudited - See Management Report)

	October 31, 2008 <i>(3 months)</i>	<i>restated</i> October 31, 2007 <i>(3 months)</i>	October 31, 2008 <i>(6 months)</i>	<i>restated</i> October 31, 2007 <i>(6 months)</i>
Revenue				
Service	\$ 4,865,718	\$ 2,965,234	\$ 8,606,351	\$ 5,328,843
Product	300,789	269,185	529,719	441,646
	<u>5,166,507</u>	<u>3,234,419</u>	<u>9,136,070</u>	<u>5,770,489</u>
Direct Costs				
Service	3,216,964	2,041,628	6,095,886	3,723,850
Product	333,016	75,644	472,991	191,947
	<u>3,549,980</u>	<u>2,117,272</u>	<u>6,568,876</u>	<u>3,915,797</u>
	<u>1,616,527</u>	<u>1,117,147</u>	<u>2,567,194</u>	<u>1,854,692</u>
Expenses				
Amortization of property and equipment	427,014	304,138	829,891	575,193
Wages and benefits	488,298	370,565	883,672	713,959
General and administrative	319,737	261,572	615,377	496,974
Interest on long term debt	103,201	102,273	206,068	207,838
Interest on callable debt and other	65,805	36,759	124,847	57,298
Interest on obligations under capital lease	5,208	4,947	10,993	11,366
Amortization of intangible asset	2,500	-	5,000	-
	<u>1,411,763</u>	<u>1,080,255</u>	<u>2,675,849</u>	<u>2,062,627</u>
	<u>204,764</u>	<u>36,892</u>	<u>(108,655)</u>	<u>(207,935)</u>
Other income (expenses)				
Interest Income	3,058	29,931	13,693	68,619
Loss on disposal of assets	(35,081)	-	(69,621)	-
	<u>(32,024)</u>	<u>29,931</u>	<u>(55,927)</u>	<u>68,619</u>
Income (loss) before income taxes	<u>172,741</u>	<u>66,823</u>	<u>(164,583)</u>	<u>(139,316)</u>
Income taxes expense				
Future (benefit)	(24,746)	(62,496)	(112,313)	(53,861)
	<u>(24,746)</u>	<u>(62,496)</u>	<u>(112,313)</u>	<u>(53,861)</u>
NET INCOME (LOSS) AND COMPENHENSIVE INCOME (LOSS) FOR THE YEAR	<u>\$ 147,995</u>	<u>\$ 4,327</u>	<u>\$ (276,896)</u>	<u>\$ (193,177)</u>
Net income (loss) per common share				
Basic	\$ 0.01	\$ 0.00	\$ (0.02)	\$ (0.02)
Diluted	\$ 0.01	\$ 0.00	\$ (0.02)	\$ (0.02)
Weighted average number of common shares				
Basic	12,974,522	12,581,325	12,974,522	12,581,325
Diluted	13,562,462	16,301,077	12,974,522	12,581,325

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statement of Retained Earnings
Three and Six Month Period Ended October 31, 2008
(Unaudited - See Management Report)

	October 31, 2008 <i>(3 months)</i>	<i>restated</i> October 31, 2007 <i>(3 months)</i>	October 31, 2008 <i>(6 months)</i>	<i>restated</i> October 31, 2007 <i>(6 months)</i>
RETAINED EARNINGS AT BEGINNING OF PERIOD				
As previously reported	\$ 493,770	\$ 682,151	\$ 918,661	\$ 879,655
Prior period accounting error <i>(note 10)</i>	\$ -	\$ 158,445	\$ -	\$ 158,445
As restated	\$ 493,770	\$ 840,596	\$ 918,661	\$ 1,038,100
NET INCOME (LOSS) FOR THE PERIOD	147,995	4,327	(276,896)	(193,177)
RETAINED EARNINGS AT END OF PERIOD	\$ 641,765	\$ 844,923	\$ 641,765	\$ 844,923

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statement of Cash Flow
Three and Six Month Period Ended October 31, 2008
(Unaudited - See Management Report)

	October 31, 2008 <i>(3 months)</i>	<i>restated</i> October 31, 2007 <i>(3 months)</i>	October 31, 2008 <i>(6 months)</i>	<i>restated</i> October 31, 2007 <i>(6 months)</i>
Operating Activities				
Net income (loss) for period	\$ 147,995	\$ 4,327	(276,896)	\$ (193,177)
Items not affecting cash & cash equivalents:				
Amortization	427,014	304,139	829,891	575,193
Loss on disposal of assets	35,081	-	69,620	-
Future income taxes	24,746	62,496	112,314	53,861
Stock-based compensation	21,696	53,425	43,391	81,138
Amortization of intangible assets	2,500	-	5,000	-
	<u>659,032</u>	<u>424,387</u>	<u>783,320</u>	<u>517,015</u>
Changes in non-cash working capital:				
Accounts receivable	(721,826)	(334,163)	(238,228)	(467,292)
Inventory	(198,402)	(255,736)	(204,292)	(297,397)
Prepaid expenses and deposits	53,824	(111,523)	(121,929)	(17,416)
Accounts payable and accrued liabilities	708,585	411,487	891,819	785,611
	<u>(157,819)</u>	<u>(289,935)</u>	<u>327,370</u>	<u>3,506</u>
	<u>501,213</u>	<u>134,452</u>	<u>1,110,690</u>	<u>520,521</u>
Investing Activities				
Purchase of property and equipment	(3,958,069)	(3,543,809)	(4,210,257)	(7,120,045)
Proceeds on disposal of property & equipment	131,667	-	164,467	-
Purchase of goodwill	-	(393,615)	-	(618,615)
Restricted cash	-	(247,951)	-	(279,396)
	<u>(3,826,402)</u>	<u>(4,185,375)</u>	<u>(4,045,790)</u>	<u>(8,018,056)</u>
Financing Activities				
Proceeds from issuance of share capital	900,000	300,000	900,000	350,000
Share issuance costs	-	30,722	-	30,722
Proceeds from long term debt	400,000	607,009	805,654	2,099,830
Proceeds from callable debt	1,088,000	1,745,031	1,088,000	2,182,531
Repayment of callable debt	(153,053)	(37,490)	(287,973)	(64,043)
Repayment of long term debt	(596,219)	(546,541)	(1,171,735)	(1,165,811)
Repayment of obligations under capital lease	(19,841)	(11,739)	(39,730)	(23,341)
Increase (decrease) in bank indebtedness	581,858	179,129	407,500	343,734
	<u>2,200,744</u>	<u>2,266,121</u>	<u>1,701,715</u>	<u>3,753,622</u>
Decrease in cash and cash equivalents	(1,124,446)	(1,784,802)	(1,233,386)	(3,743,913)
Cash & cash equivalents at beginning of period	1,471,963	3,496,332	1,580,903	5,455,443
Cash & cash equivalents at end of period	<u>\$ 347,517</u>	<u>\$ 1,711,530</u>	<u>\$ 347,517</u>	<u>\$ 1,711,530</u>

See accompanying notes

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Dalmac and 1353245 Alberta Ltd. and its 100% ownership of the common shares of 1421771 Alberta Ltd.

(b) Change in accounting policies

i) Financial instruments and capital disclosures

On May 1, 2008, the Company adopted the following new Canadian Institute of Chartered Accounts’ (“CICA”) Handbook Section:

- 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 to 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”.

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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 they entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences with such non-compliance.

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 of 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 October 31, 2008.

(c) 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 the 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.

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
For the Six Month Period Ended October 31, 2008
(Unaudited – See Management Report)

4. INCOME TAXES

(a) Non-capital losses

The company has accumulated non-capital losses carried forward for income tax purposes of approximately \$4,002,856, 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	\$	45,574
	2027		515,455
	2028		1,974,522
	2029		<u>1,467,305</u>
		\$	<u>4,002,856</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:

	October 31, 2008	April 30, 2008
Income tax effect of taxable temporary differences:		
Net book value in excess of undepreciated capital cost for tax purposes	\$ 1,830,978	\$ 1,405,000
Non capital losses carried forward	(1,174,438)	(837,000)
Share issuance costs deductible for tax purposes	(59,883)	(87,000)
Book value of goodwill in excess of tax value	<u>18,090</u>	<u>21,434</u>
Recognized future income tax liability	<u>\$ 614,747</u>	<u>\$ 502,434</u>

The accompanying notes are an integral part of these consolidated financial statements.

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
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(Unaudited – See Management Report)

5. 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 October 31, 2008 and April 30, 2008 are shown in the table below.

	October 31, 2008	April 30, 2008
Long-term debt	\$ (3,848,844)	\$ (4,252,023)
Capital lease obligations	(206,933)	(242,495)
Callable debt	<u>(2,350,432)</u>	<u>(1,738,444)</u>
Total long-term debt	(6,406,209)	(6,232,962)
Shareholder's equity	<u>(9,658,623)</u>	<u>(9,919,127)</u>
Long-term debt to equity	<u>\$ 0.66</u>	<u>\$ 0.63</u>

6. SHARE CAPITAL

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

- (b) Common shares issued:

	October 31, 2008		April 30, 2008	
	Shares	Amount	Shares	Amount
Balance, beginning of period	12,974,522	\$ 8,439,453	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
Balance, end of period	<u>12,974,522</u>	<u>\$ 8,439,453</u>	<u>12,974,522</u>	<u>\$ 8,439,453</u>

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DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
For the Six Month Period Ended October 31, 2008
(Unaudited – See Management Report)

(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.

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 the stock-based compensation expense and contributed surplus of \$21,696.

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:

	October 31, 2008	April 30 2008
Balance, beginning of period	\$ 582,708	\$ 409,225
Stock-based compensation	21,696	137,792
Repurchased shares below average carrying value	-	13,996
Balance, end of period	\$ 604,404	\$ 561,013

The accompanying notes are an integral part of these consolidated financial statements.

8. BUSINESS ACQUISITIONS

On September 15, 2008, the Company acquired certain assets of Tinky Rentals LP and Tinky Trucking LP which operates a fleet of service vehicles and supplies oilfield rental equipment used in the oil and gas industry in Central Alberta and Northeastern British Columbia.

The purchase price was \$3,800,000 comprised of \$2,000,000 cash, a promissory note for \$400,000, a closing note for \$500,000 and the issuance of 900,000 preferred shares in a subsidiary company, 1421771 Alberta Ltd., valued at \$1.00 per share. Transaction costs of \$68,831.04 were also incurred.

The promissory note bears interest at 6% per annum and is repayable in equal principal instalments plus interest over three years.

The closing note bears no interest and was due and paid in full on October 31, 2008.

The preferred shares carry a cumulative dividend at the rate of six percent (6%) per annum. The preferred shares may be redeemed at any time after September 15, 2009.

9. 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 (36%) of the outstanding accounts receivable at October 31, 2008 is due from two customers.

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(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) Mark 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.

10. PRIOR PERIOD ACCOUNTING ERROR

During the year ended April 30, 2008, the Company recognized an accounting error had occurred relating to GST input tax credits ("ITCs") and to payments made to subcontractors from June, 2003 to April, 2008. As a result of this accounting error the prior period's financial statements have been restated to:

- decrease net income for the by \$243,593;
- increase retained earnings at April 30, 2007 by \$158,445

11. COMPARATIVE FIGURES

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