

DALMAC ENERGY INC.
Consolidated Financial Statements
Years Ended April 30, 2007 and 2006



STOUT & COMPANY LLP

CHARTERED ACCOUNTANTS EDMONTON, CANADA

AUDITORS' REPORT

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

We have audited the consolidated balance sheets of **Dalmac Energy Inc.** as at April 30, 2007 and 2006 and the consolidated statements of net (loss) income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at April 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada
June 22, 2007

Chartered Accountants

DALMAC ENERGY INC.
Consolidated Balance Sheets
April 30, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents <i>(Note 3)</i>	\$ 5,455,443	\$ 5,570,965
Accounts receivable	2,340,449	3,180,717
Income taxes receivable	144,694	-
Inventory	110,801	73,359
Loan receivable <i>(Note 4)</i>	32,034	32,034
Prepaid expenses and deposits	606,508	514,824
	8,689,929	9,371,899
LOAN RECEIVABLE <i>(Note 4)</i>	-	102,974
RESTRICTED CASH <i>(Note 5)</i>	100,000	100,000
PROPERTY AND EQUIPMENT <i>(Note 6)</i>	8,014,714	5,180,299
GOODWILL	1,504,313	1,504,313
	\$ 18,308,956	\$ 16,259,485
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness <i>(Note 7)</i>	\$ 1,199,889	\$ 597,000
Accounts payable and accrued liabilities	1,132,566	1,784,858
Income taxes payable	-	52,776
Callable debt due within one year <i>(Note 8)</i>	106,212	106,212
Capital lease obligation due within one year <i>(Note 9)</i>	47,519	-
Current portion of long term debt <i>(Note 10)</i>	1,861,130	1,224,957
	4,347,316	3,765,803
Callable debt <i>(Note 8)</i>	94,656	200,868
Capital lease obligation <i>(Note 9)</i>	270,419	-
	4,712,391	3,966,671
LONG TERM DEBT <i>(Note 10)</i>	3,764,984	2,440,655
FUTURE INCOME TAXES <i>(Note 11)</i>	439,252	311,632
	8,916,627	6,718,958
SHAREHOLDERS' EQUITY		
SHARE CAPITAL <i>(Note 12)</i>	8,179,174	8,116,478
CONTRIBUTED SURPLUS <i>(Note 13)</i>	409,225	431,783
REPURCHASED SHARES <i>(Note 12(c))</i>	(75,725)	-
RETAINED EARNINGS	879,655	992,266
	9,392,329	9,540,527
	\$ 18,308,956	\$ 16,259,485

APPROVED ON BEHALF OF THE BOARD

Signed "John I. Babic" Director

Signed "Shawn T. Szydlowski" Director

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statements of Net (Loss) Income
Years Ended April 30, 2007 and 2006

	2007	2006
Revenue		
Service	\$ 9,175,521	\$ 13,073,990
Product sales	<u>1,160,527</u>	<u>1,704,544</u>
	<u>10,336,048</u>	<u>14,778,534</u>
Direct costs		
Service	6,668,979	9,230,219
Product sales	<u>592,951</u>	<u>1,183,812</u>
	<u>7,261,930</u>	<u>10,414,031</u>
	<u>3,074,118</u>	<u>4,364,503</u>
Expenses		
General and administrative	1,279,681	1,237,982
Wages and benefits	939,243	1,137,774
Amortization	883,247	737,959
Interest on long term debt	245,120	251,196
Interest on callable debt and other	<u>48,381</u>	<u>67,206</u>
	<u>3,395,672</u>	<u>3,432,117</u>
(Loss) income from operations	<u>(321,554)</u>	<u>932,386</u>
Other income (expense)		
Interest	234,123	34,869
Gain (loss) on disposal of property and equipment	<u>9,035</u>	<u>(73,676)</u>
	<u>243,158</u>	<u>(38,807)</u>
(Loss) income before income taxes	<u>(78,396)</u>	<u>893,579</u>
Income taxes <i>(Note 11)</i>		
Current	(93,405)	150,645
Future	<u>127,620</u>	<u>874</u>
	<u>34,215</u>	<u>151,519</u>
NET (LOSS) INCOME FOR THE YEAR	<u>\$ (112,611)</u>	<u>\$ 742,060</u>
Net (loss) income per common share		
Basic	\$ (0.01)	\$ 0.10
Diluted	<u>\$ (0.01)</u>	<u>\$ 0.09</u>
Weighted average number of common shares		
Basic	12,422,072	7,678,768
Diluted	<u>12,422,072</u>	<u>8,106,469</u>

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statements of Retained Earnings
Years Ended April 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
RETAINED EARNINGS AT BEGINNING OF YEAR	\$ 992,266	\$ 250,206
Net (loss) income for the year	<u>(112,611)</u>	<u>742,060</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 879,655</u>	<u>\$ 992,266</u>

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statements of Cash Flows
Years Ended April 30, 2007 and 2006

	2007	2006
OPERATING ACTIVITIES		
Net (loss) income for the year	\$ (112,611)	\$ 742,060
Items not affecting cash and cash equivalents:		
Amortization	883,247	737,959
(Gain) loss on disposal of property and equipment	(9,035)	73,676
Future income taxes	127,620	874
	889,221	1,554,569
Changes in non-cash working capital	(138,620)	(498,205)
	750,601	1,056,364
INVESTING ACTIVITIES		
Purchase of property and equipment	(3,477,615)	(747,769)
Proceeds on disposal of property and equipment	104,000	251,776
Loan receivable	-	(160,206)
Payments received on loan receivable	102,974	25,198
Increase in restricted cash	-	(100,000)
	(3,270,641)	(731,001)
FINANCING ACTIVITIES		
Proceeds from issuance of share capital	40,138	7,186,674
Share issuance costs	-	(648,327)
Proceeds from callable debt	-	70,609
Proceeds from long term debt	3,308,393	519,254
Repurchase of common shares	(75,725)	-
Repayment of callable debt	(106,212)	(120,006)
Repayment of long term debt	(1,347,891)	(1,202,869)
Repayment of obligations under capital lease	(17,074)	-
Increase (decrease) in bank indebtedness	602,889	(559,733)
	2,404,518	5,245,602
Increase (decrease) in cash and cash equivalents	(115,522)	5,570,965
Cash and cash equivalents at beginning of year	5,570,965	-
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	\$ 5,455,443	\$ 5,570,965

SUPPLEMENTARY INFORMATION (Note 14)

See accompanying notes

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
Years Ended April 30, 2007 and 2006

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 is a provider of hot oiler, hydro vac, vacuum, pressure and tanker truck services to the oil and gas industry in Alberta.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Dalmac Oilfield Services Inc. (formerly McClelland Oil Services Inc.)

(b) Cash and cash equivalents

The Company considers cash and short term investments as cash and cash equivalents.

(c) Inventory

Inventory is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis.

(d) Property and equipment

Property and equipment are recorded at cost and amortized using the straight-line method over their estimated useful lives as follows:

Rental equipment	12 years
Service equipment	12 years
Plant equipment	10 years
Service vehicles	8 years
Motor vehicles	8 years
Shop equipment	5 years
Office equipment	5 years
Furniture and fixtures	4 years
Computer equipment	3 years
Leasehold improvements	Term of lease

(e) Impairment of long-lived assets

In the event that facts and circumstances indicate that the carrying value of long-lived assets may be impaired, the Company performs a recoverability evaluation. If the evaluation indicates that the carrying value of the asset is not recoverable from undiscounted cash flows attributable to the asset, then an impairment loss is measured by comparing the carrying amount of the asset to its fair value.

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
Years Ended April 30, 2007 and 2006

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

(f) Goodwill

Goodwill comprises the excess of cost over fair values of the underlying net assets acquired arising from business combinations accounted for using the purchase method. Goodwill is not amortized.

The Company continually evaluates, on a two-step basis, whether an impairment of goodwill has occurred and whether an impairment loss should be recognized. The first test for impairment involves comparing the fair value of the Company with its carrying amount, including goodwill. The fair value of goodwill is determined by the excess of the fair value of the Company over the carrying amounts of its assets and liabilities. If the fair value of the Company exceeds its carrying amount, then goodwill is not considered to be impaired, and the second test is unnecessary. When the fair value of the Company does not exceed its carrying amount, the second test for impairment is performed, which involves comparing the fair value of goodwill with the carrying amount of goodwill. When the carrying amount of the goodwill exceeds the fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

(g) Income taxes

Income taxes are accounted for by the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases.

(h) Revenue recognition

Service revenue is recognized when services are performed.

Product sales revenue is recognized when the products are shipped, at which time title passes to the customer.

(i) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. The significant areas requiring the use of management estimates relate to the amortization of property and equipment, determining the impairment of goodwill and the assumptions used in determining stock based compensation. Actual results could differ from these estimates.

(j) Lease obligations

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein payments are expensed as incurred.

(k) Asset retirement obligations

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset. The liability is accreted at the end of each period through charges to operating expenses.

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
Years Ended April 30, 2007 and 2006

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

(l) Stock-based compensation

Stock-based compensation of directors, officers, employees and consultants is recorded in accordance with the fair value based method. Under this method, the estimated fair value of stock options or warrants granted are measured at the date of grant and are recognized over the applicable vesting period as a charge to stock based compensation expense or share issuance costs and a credit to contributed surplus. Upon exercise, the associated amounts will be reclassified from contributed surplus to share capital. Consideration paid upon exercise of options or warrants is credited to share capital.

(m) Net (loss) income per share

Basic net (loss) income per share is calculated based on the weighted average number of shares outstanding during the year. Diluted net (loss) income per share reflects the assumed conversion of all dilutive securities using the treasury stock method. Diluted net (loss) income per share figures are equal to those of basic net (loss) income per share if the effects of stock options and warrants have been excluded since they are anti-dilutive.

(n) Share issuance costs

Costs related to the issuance of shares (net of the related income effect) are charged against share capital.

3. CASH AND CASH EQUIVALENTS

	<u>2007</u>	<u>2006</u>
Guaranteed investment certificate	\$ 3,514,196	\$ 5,032,274
Cash	1,941,247	538,691
	<u>\$ 5,455,443</u>	<u>\$ 5,570,965</u>

4. LOAN RECEIVABLE

During the year ended April 30, 2007 the company received a lump sum payment of \$102,974 on the outstanding loan receivable from April 30, 2006 of \$135,008. The remaining balance of \$32,034 bears interest at prime plus 1% and is expected to be repaid within the next year. Automotive equipment of the borrower has been pledged as collateral for the loan.

5. RESTRICTED CASH

The Company has a \$100,000 deposit held in trust by legal counsel for a promissory note holder as security for the promissory note in the amount of \$153,553 (2006 - \$245,402) (see note 10).

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
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6. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2007 Net book value
Land	\$ 32,657	\$ -	\$ 32,657
Service equipment	5,607,284	1,822,530	3,784,754
Service vehicles	5,378,572	2,019,567	3,359,005
Plant equipment	368,184	146,521	221,663
Motor vehicles	167,246	18,041	149,205
Leasehold improvements	162,833	106,943	55,890
Rental equipment	78,028	40,087	37,941
Furniture and fixtures	156,500	117,844	38,656
Computer equipment	11,571	1,083	10,488
Office equipment	2,807	94	2,713
Shop equipment	844	155	689
Service vehicle under capital lease	335,012	13,959	321,053
	\$ 12,301,538	\$ 4,286,824	\$ 8,014,714

	Cost	Accumulated amortization	2006 Net book value
Land	\$ 32,657	\$ -	\$ 32,657
Service equipment	4,449,225	1,497,012	2,952,213
Service vehicles	3,403,509	1,611,890	1,791,619
Plant equipment	400,754	156,509	244,245
Furniture and fixtures	189,651	134,259	55,392
Rental equipment	74,573	30,129	44,444
Leasehold improvements	107,100	64,894	42,206
Motor vehicles	63,002	45,479	17,523
	\$ 8,720,471	\$ 3,540,172	\$ 5,180,299

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
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7. BANK INDEBTEDNESS

The Company's credit facilities includes a demand revolving operating overdraft to a maximum of \$3,000,000, (2006 - demand revolving operating loan to a maximum of \$1,500,000) margined to accounts receivable, at an interest rate of prime plus 1%. At April 30, 2007, \$1,199,889 (2006 - \$597,000) had been drawn on this facility. In addition, the Company has a demand revolving term loan and leases (see note 8 and note 9) to a maximum of \$1,500,000 (2006 - \$1,500,000) at an interest rate of prime plus 1.25% or the bank's fixed rate at time of issuance (margined to market value of property and equipment). At April 30, 2007, \$518,806 (2006 - \$307,080) has been drawn on this facility.

The following has been provided as collateral for bank indebtedness, callable debt and capital lease obligation (see note 8 and note 9):

- i) general security agreement providing a first security interest in all present and after acquired property;
- ii) assignment and postponement of creditors claim from the general manager, a director and a former director; and
- iii) assignment of insurance coverage for full insurable values of all assets of the borrower.

8. CALLABLE DEBT

	2007	2006
Bank loan, payable \$7,292 per month principal, plus interest at prime plus 1.25%.	\$ 150,606	\$ 238,110
Bank loan, payable \$902 per month principal, plus interest at prime plus 1.25%.	35,167	45,991
Bank loan, payable \$657 per month principal, plus interest at prime plus 1.25%.	15,095	22,979
	200,868	307,080
Less amount due within one year	(106,212)	(106,212)
	\$ 94,656	\$ 200,868

Unless the bank loans are demanded, the approximate principal repayments due within each of the next four years are as follows:

2008	\$ 106,212
2009	81,137
2010	10,824
2011	2,695
	\$ 200,868

Collateral has been provided for the callable debt (see Note 7).

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
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9. CAPITAL LEASE OBLIGATION

During the year ended April 30, 2007 the company acquired a service vehicle under a capital lease expiring in 2012. The liability recorded represents the minimum lease payments net of imputed interest at 6.65%.

Unless the capital lease obligation is demanded, the future minimum lease payments are as follows:

2008	\$	67,237
2009		67,237
2010		67,237
2011		67,237
2012		<u>111,829</u>
Total minimum lease payments		380,777
Less: amount representing interest at 6.65%		<u>(62,839)</u>
Present value of minimum lease payments		317,938
Less: amount due within one year		<u>(47,519)</u>
	<u>\$</u>	<u>270,419</u>

Collateral has been provided for the capital lease (see Note 7).

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
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10. LONG TERM DEBT

	2007	2006
Conditional sales contracts, with interest rates ranging from 6.50% to 8.75% per annum, repayable in monthly principal and interest payments that vary over the term of each contract, maturing on various dates to April, 2012, secured by specific service vehicles and service equipment (carrying value \$6,060,855).	\$ 5,067,656	\$ 2,987,708
Conditional sales contracts, with interest rates ranging from 8.75% to 10.95% per annum, repayable in monthly principal and interest payments that vary over the term of each contract, maturing on various dates to March, 2010, secured by specific motor vehicles (carrying value \$149,206).	138,889	34,491
Promissory note, payable \$11,701 per month, principal and interest at 4.25%, due March, 2008, secured by a charge against the assets of the company, subrogated to any existing charges.	126,016	258,011
Promissory note due to a former director of the Company, payable \$8,373 per month, principal and interest at 4.25%, due November, 2008, secured by a general security agreement and \$100,000 of monies in trust (see note 5).	153,553	245,402
Promissory note due to a director of the Company, payable in equal monthly principal and interest payments of \$4,148 over thirty-six months with the first such payment commencing one month after the promissory note in the amount of \$153,553 (2006 - \$245,402) is paid in full, to bear interest commencing from that date at a rate of 4.25% per annum.	140,000	140,000
	5,626,114	3,665,612
Less amount due within one year	(1,861,130)	(1,224,957)
	\$ 3,764,984	\$ 2,440,655

Approximate principal repayments due within each of the next five years are as follows:

2008	\$ 1,861,130
2009	1,365,241
2010	1,042,329
2011	763,810
2012 and subsequent	593,604
	\$ 5,626,114

The Company has a revolving credit facility expiring July 31, 2007 in the amount of \$5,000,000 for the purchase and/or lease of service equipment. Eligible purchases require entering into conditional sales contracts or open ended leases. The conditional sales contracts or leases can have terms no greater than 60 months and interest is determined on a 30 day draw down basis. The conditional sales contracts are secured by the specific equipment and evidence of adequate insurance coverage. As at April 30, 2007 \$3,036,335 has been drawn on this facility. Subsequent to the year-end the company purchased significant assets and drew down the remaining balance on the facility.

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
Years Ended April 30, 2007 and 2006

11. INCOME TAXES

(a) Non-capital losses

The Company has accumulated non-capital losses carried forward for income tax purposes of approximately \$824,700, 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		<u>515,500</u>
		<u>\$ 824,700</u>

(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:

	2007	2006
Income tax effect of taxable temporary differences:		
Net book value in excess of undepreciated capital cost for tax purposes	\$ 829,099	\$ 597,225
Non capital losses carried forward	(260,357)	(119,678)
Share issuance costs deductible for tax purposes	(138,456)	(193,294)
Book value of goodwill in excess of tax value	<u>8,966</u>	<u>27,379</u>
Recognized future income tax liability	<u>\$ 439,252</u>	<u>\$ 311,632</u>

(c) Income tax reconciliation

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 32.12% (2006 - 33.5%) to the income for the year and is reconciled as follows:

	2007	2006
Expected income tax (recovery) expense	\$ (25,181)	\$ 299,349
Tax effect of expenses deductible for income tax purposes in excess of accounting purposes	(210,071)	(207,172)
Tax effect of current year losses not recognized	165,564	51,683
Tax effect of prior year losses recognized	(20,349)	-
Tax effect of changes in income tax rates	(11,020)	(56,280)
Tax effect of change in taxable temporary differences	<u>135,272</u>	<u>63,939</u>
Effective income tax expense	<u>\$ 34,215</u>	<u>\$ 151,519</u>

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
Years Ended April 30, 2007 and 2006

12. SHARE CAPITAL

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

	2007		2006	
	Shares	Amount	Shares	Amount
Balance, beginning of year	12,378,978	\$ 8,116,478	5,795,964	\$ 1,736,980
Issued on exercise of options	9,260	6,482	292,143	133,719
Private placements	-	-	6,228,571	7,000,000
Issued on exercise of warrants	39,595	33,656	62,300	52,955
Fair value of options on exercise (Note 13)	-	22,558	-	90,975
Share issuance costs	-	-	-	(898,151)
Balance, end of year	12,427,833	\$ 8,179,174	12,378,978	\$ 8,116,478

Subsequent to the year ended April 30, 2007 the company issued 92,592 common shares (see note 18).

In February 2006, pursuant to a private placement, the Company issued 4,800,000 units at \$1.25 per unit for aggregate proceeds of \$6,000,000. Each unit consisted of one common share and one-half common share purchase warrant. Each full warrant entitles the holder to purchase one common share at \$1.50 per share until February 28, 2008. The Company also issued options to the agent to acquire 480,000 units at an exercise price of \$1.25 per unit (see note 13). The options expire on February 28, 2008, and each unit is identical to those issued under the private placement.

In September 2005, pursuant to a private placement, the Company issued 1,428,571 units at \$0.70 per unit for aggregate proceeds of \$1,000,000. Each unit consisted of one common share and one-half common share purchase warrant. Each full warrant entitles the holder to purchase one common share at \$0.85 per share until September 27, 2007. The Company also issued options to the agent to acquire 142,857 units at an exercise price of \$0.70 per unit (see note 13). The options expire on September 27, 2007, and each unit is identical to those issued under the private placement. During the year ended April 30, 2007 the company issued 4,630 warrants upon exercise of 9,260 agents options.

DALMAC ENERGY INC.
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12. SHARE CAPITAL (*continued*)

(c) Repurchased shares

During the year ended April 30, 2007 the company carried out a normal course issuer bid to purchase up to 621,391 of its common shares. The issuer bid will be carried out for a period of one year commencing on December 1, 2006 and terminating on November 30, 2007. During the year ended April 30, 2007 the company repurchased 136,500 common shares for \$75,725 and subsequent to the year end the company cancelled the shares.

(d) Stock options

The Company has a stock option plan under which directors, officers, employees and consultants 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 year ended April 30, 2006, the Company granted 142,857 options on September 27, 2005 and 480,000 options on February 28, 2006 to agents of the Company as commissions. The fair value of the options granted on September 27, 2005 was calculated assuming the risk free interest rate was 3.3%, the expected life of the options was two years and the expected volatility was 57%. The market price of the Company's shares at the grant date exceeded the option exercise price. The fair value of the options granted on February 28, 2006 was calculated assuming the risk free interest rate was 3.91%, the expected life of the options was two years and the expected volatility was 55%. The market price of the Company's shares at the grant date exceeded the option exercise price. The options granted resulted in stock based compensation, which was recorded as a share issuance cost, and contributed surplus of \$458,066 during the year.

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12. SHARE CAPITAL *(continued)*

The following table summarizes activity related to stock options:

	Number	Weighted Average Exercise Price 2007	Number	Weighted Average Exercise Price 2006
Balance, beginning of year	888,449	\$ 0.85	662,051	\$ 0.33
Granted	-	-	622,857	1.12
Expired	-	-	(104,316)	0.34
Exercised	(9,260)	0.70	(292,143)	0.46
Outstanding, end of year	879,189	\$ 0.85	888,449	\$ 0.85
Exercisable, end of year	879,189	\$ 0.85	888,449	\$ 0.85

The following table summarizes stock options outstanding at April 30, 2007:

Expiry Date	Number outstanding	Exercise Price
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
	879,189	

The 18,407 and 480,000 stock options are agents options for units. Each unit contains one common share and one-half of a common share purchase warrant.

Subsequent to year ended April 30, 2007 the company issued 700,000 stock options to officers and directors of the company at an exercise price of \$0.54 per share and an expiry date of June 21, 2012.

(e) Warrants

The following table summarizes warrants outstanding at April 30, 2007:

	Expiry Date	Exercise Price	2007 Warrants Outstanding	2006 Warrants Outstanding
Issued pursuant to private placement in September, 2005	September 27, 2007	\$ 0.85	674,616	709,581
Issued pursuant to private placement in February, 2006	February 28, 2008	\$ 1.50	2,400,000	2,400,000
			3,074,616	3,109,581

The weighted average exercise price of the outstanding warrants is \$1.36 (2006 - \$1.35).

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13. CONTRIBUTED SURPLUS

The following table summarizes the changes in contributed surplus:

	2007	2006
Balance, beginning of year	\$ 431,783	\$ 64,692
Stock based compensation issued to agents on private placements (Note 12d))	-	458,066
Fair value of options on exercise (Note 12(b))	(22,558)	(90,975)
Balance, end of year	\$ 409,225	\$ 431,783

14. CASH FLOW SUPPLEMENTARY INFORMATION

	2007	2006
Interest paid	\$ 293,501	\$ 318,402
Income taxes paid	\$ 103,230	\$ 244,384
Stock based compensation relating to options (issued to agents) reflected as share issuance costs	\$ -	\$ 305,377
Future income tax effect of share issuance costs	\$ -	\$ 208,242
Purchase of property and equipment by capital lease obligation	\$ 335,012	\$ -

15. FINANCIAL INSTRUMENTS

- a) The Company's financial instruments consist of cash and cash equivalents, accounts receivable, loan receivable, restricted cash, bank indebtedness, accounts payable and accrued liabilities, capital lease obligation, callable debt and long term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.
- b) The promissory note due to a director of the Company (included in long term debt (see Note 10)) in the amount of \$140,000 is non-interest bearing. As a result, the Company believes the fair value of this instrument to be less than its carrying value. Management has determined the fair value can not be measured reliably because there are no comparable debt instruments in the marketplace.
- c) The Company is exposed, in its normal course of business, to credit risk from customers. A significant portion (27%) of the outstanding accounts receivable at April 30, 2007 is due from two customers. No other single party accounts for a significant balance of accounts receivable.

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16. LEASE COMMITMENTS

The Company leases equipment and premises under long term operating leases. The leases for premises are exclusive of operating costs. Future minimum annual lease payments are as follows:

	2008	2009	2010	2011	2012
Equipment	\$ 580,452	\$ 558,706	\$ 377,860	\$ 31,614	\$ -
Premises	204,470	97,848	46,595	48,046	49,497
	<u>\$ 784,922</u>	<u>\$ 656,554</u>	<u>\$ 424,455</u>	<u>\$ 79,660</u>	<u>\$ 49,497</u>

17. RELATED PARTY TRANSACTIONS

During the year the Company had the following transactions with related parties:

- (a) Leased premises from a company controlled by a director, for total consideration of \$81,600 (2006 - \$81,600)
- (b) Paid or accrued management and consulting fees to a company controlled by a director in the amount of \$117,810 (2006 - \$160,380). The Company pays consulting fees of \$10,285, increasing by 10% per year, pursuant to a contract agreement expiring on November 14, 2009. In addition, if the Company's net earnings before tax reach \$500,000, the contract agreement requires a bonus payment of 5% on the first \$500,000 of the Company's earnings before tax, 6% on amounts between \$500,001 and \$800,000, 7% on amounts between \$800,001 and \$1,000,000 and 7.5% on amounts over \$1,000,000.
- (c) The Company is indebted to a former director of the Company for an amount of \$153,553 (2006 - \$245,402) (see note 10). With respect to this loan, interest of \$8,627 (2006 - \$12,463) has been paid during the year.
- (d) The Company is indebted to a director of the Company for an amount of \$140,000 (2006 - \$140,000) (see note 10).

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

18. SUBSEQUENT EVENTS

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 comprised of \$1,500,000 cash, \$375,000 promissory note, and 92,592 common shares valued at \$0.54 per share totaling \$50,000. The deemed value consideration per share was determined based on the market price of the shares on the date of execution of the purchase agreement. The promissory note bears interest at 6% per annum and is repayable in equal monthly installments over three years. The following table summarizes the estimated fair value of the assets acquired assumed at the date of acquisition.

Property and equipment	\$ 1,680,500
Intangible asset	50,000
Goodwill	<u>194,500</u>
Total assets acquired	<u>\$ 1,925,000</u>

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19. COMPARATIVE FIGURES

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

Share issuance costs of \$139,215 have been reclassified from contributed surplus to share issuance costs for the year ended April 30, 2006.
