



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Year Ended April 30, 2007

Prepared August 27, 2007

This Management Discussion and Analysis (MD&A) dated August 27, 2007 focuses on key statistics from the audited consolidated financial statements for Dalmac Energy Inc. for the year ended April 30, 2007 and pertains to known risks and uncertainties relating to the oilfield services industry where Dalmac operates. This discussion and analysis should be read in conjunction with the Company's corresponding financial statements for the same period and should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. The MD&A and financial statements for earlier periods should also be considered relevant and are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. Additional information is also available at www.dalmacenergy.com.

Forward-looking information

Statements in this MD&A relating to matters that are not historical facts are forward looking statements. Such forward-looking statements may involve known and unknown risks and uncertainties which may cause the actual results, performances or achievements of the Company to be materially different from any future results implied by such forward looking statements. Some of the risks that may cause actual results to vary are described under the "Business Risks" section. References in this MD&A to "Dalmac", the "Corporation", "Company", "us", "we" and "our" mean Dalmac Energy Inc. and its subsidiary Dalmac Oilfield Services Inc.

Corporate Overview

Dalmac's operations have been servicing the west central Alberta region for over 50 years. The company operates a fleet of oilfield services units consisting of "hot oiler", "hydro vac", "vacuum", "pressure" and "tanker trucks." Other services include sales of "methanol", "glycol", and "KCL" products which are distributed from the Company's tank farms in Fox Creek and Hinton. The size of the Company's fleet, at April 30, 2007 consisted of 83 service units. In the fiscal year ended April 30, 2007 the Company ordered \$5.0 million in new equipment comprising of 22 new service units as described in our press release dated May 25, 2006. Of the \$5.0 million in new equipment orders the Company took possession of \$3.0 million (12 units) by April 30, 2007. The remaining 10 service units are on back order and scheduled for delivery in the first early part of fiscal 2008. The new purchases have specialized "sour sealed" tanks which are mandatory in production extraction and delivery.

The year ending April 30, 2007 witnessed a decrease in drilling activity due to low natural gas prices. According to the Canadian Association of Oilwell Drilling Contractors (COADC), drilling activity was down by 26%. Dalmac's operations were impacted by this decrease in activity because a majority of the Company's equipment was committed to the drilling sector. The Company has since refocused its efforts more on production related operations and has committed the bulk of the new purchases towards production work. However, the timing of the delivery of the new equipment didn't allow for its deployment during the busier winter season. Most of the production units were received during the spring breakup period which commenced March 2007, almost one month ahead of 2006. During spring breakup road bans are implemented and travel is restricted on most roads. This prevented the deployment of the new purchases during this period and resulted in a slower than normal fourth quarter.

Selected financial Year End Information

	April 30 2007	April 30 2006	April 30 2005*
(000's Cdn Dollars, except per share)			
Revenues	10,336	14,779	7,310
Gross Margin	3,074	4,365	2,711
Gross Margin %	29.74%	29.53%	37.09%
EBITDA (loss)**	1,098	1,950	1,370
EBIDTA/share - basic	0.09	0.25	0.33
EBIDA / share - diluted	0.09	0.24	0.28
Net income (loss)	(113)	742	267
Net income / share - basic	(0.01)	0.10	0.08
Net income /share - diluted	(0.01)	0.09	0.07
Total Assets	18,309	16,259	9,637
Total long-term liabilities***	4,130	2,642	3,409
Shareholder Equity	9,392	9,541	2,052
Weighted average common shares -basic	12,422	7,679	4,155
Weighted average common shares - diluted	12,422	8,106	4,817

* April 30, 2005 was a 16 month year due to a change in year end

** EBITDA (earnings before interest, taxes, depreciation and amortization) is a financial measure that does not have any standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other companies. EBITDA is used by the Company to provide an indication of the results generated by the Company's business activities prior to how these activities are financed, assets are amortized or how the results are taxed in various jurisdictions.

*** Long term liabilities includes callable debt, long term debt and capital lease obligations.

Results of Operations

The following analysis of the Company's results of operations refers to both the years ended April 30, 2007 ("2007") and April 30, 2006 ("2006") as well as the three months ended April 30, 2007 ("Q4'07") and April 30, 2006 ("Q4'06").

Revenue

Revenue for 2007 decreased by 30% to \$10.3 million from \$14.8 million reported in 2006. The 30% decrease in revenue can be attributed to:

- Lower natural gas prices contributed to decreased drilling activity which prompted the Company to concentrate more efforts on production activities.
- Timing of delivery of the new equipment – most of the \$3.0 million in new purchases arrived during the spring road ban period. Delivery had been delayed due to bottle necks in the manufacturing process. The production equipment wasn't available for the busy winter season.
- Production work requires specialized "sour sealed" equipment, most of which arrived in Q4'07 and during spring break up.

Revenue for Q4'07 decreased 32% to \$2.7 million from \$4.0 million in Q4'06. (See Summary of Quarterly Results section). Spring breakup came early in 2007 which resulted in wet weather and early road bans. These conditions contributed to a slower than normal March and April.

Gross Margin

The gross margin for 2007 decreased by 30% to \$3.1 million from \$4.4 million in 2006. The Gross profit margin as a percentage of revenue remained the same at 30% for both 2007 and 2006. The overall decrease in gross margin for 2007 over 2006 is due to:

- Lower revenues in 2007 compared to 2006.
- Delay in receipt of the new production equipment.

For Q4'07, gross margin decreased by 30% to \$956,243 from \$1.4 million in Q4'06. The gross margin is directly linked to the activity levels in the quarter. Given the early spring break up in Q4'07 the activity levels declined significantly. The spring break up and road bans can vary from year to year depending on the weather conditions. Road bans, depending on the severity of the weather, can take up to three months to be completely removed.

Basic net income (loss) per common share in Q4'07 was \$(0.01) compared to \$0.08 in Q4'06. This represents a net(loss) income of \$(150,716) compared to \$535,338 in the same period in the previous year.

General and Administrative (“G&A”) Expenses

General and administrative (“G&A”) costs, which represent all non-direct operational costs, were up by \$41,699 in 2007 to \$1.3 from \$1.2 million in 2006 due to increased sales and marketing efforts. Wages and Benefits decreased \$198,531 to \$0.9 million from the \$1.1 million reported in 2006.

Amortization of Property and Equipment

Amortization of property and equipment, increased by \$145,288 to \$883,247, or 20%, as opposed to \$737,959 in 2006. Amortization is dependant on the timing of additions to property and equipment. Disposals of equipment during the year ended April 30, 2007 were consistent with the normal course of business activities and resulted in a gain of \$9,035 compared to a loss of \$73,676 in the previous year.

Interest Expense

Interest expense for long term debt for 2007 decreased \$6,076 to \$245,120 or 2.42% over the \$251,196 reported in 2006. The long term debt is for equipment purchases and vendor take back financing which is associated with the acquisition of McClelland Oil Services Inc. and S Young Oilfield Ltd. Interest on callable debt decreased in 2007 by \$18,825 to \$48,381 from \$67,206 in 2006. Callable debt consists of bank loans which are categorized as demand loans. In 2007 the callable bank debt was \$200,868 compared to \$307,080 in 2006.

Income Taxes

The Company was not in a taxable position in 2007 on a consolidated basis. The current income tax receivable is the refund of tax installments paid during the year.

Summary of Quarterly Results

	Q4' 07 Ended 30-Apr-07	Q3' 07 Ended 31-Jan-07	Q2' 07 Ended 31-Oct-06	Q1' 07 Ended 31-Jul-06
(000's Cdn Dollars, except per share)				
Revenue	2,729	3,186	2,226	2,195
Net income (loss)	(151)	402	(278)	(86)
Net income (loss) / common share - basic	(0.01)	0.03	(0.02)	(0.01)
Net income (loss) / common share - diluted	(0.01)	0.03	(0.02)	(0.01)

	Q4' 06 Ended 30-Apr-06	Q3' 06 Ended 31-Jan-06	Q2' 06 Ended 30-Oct-05	Q1' 06 Ended 31-Jul-05
(000's Cdn Dollars, except per share)				
Revenue	4,018	4,533	3,472	2,807
Net income (loss)	535	411	30	(238)
Net income (loss) / common share - basic	0.08	0.06	0.01	(0.04)
Net income (loss) / common share - diluted	0.07	0.05	0.00	(0.04)

Description of Quarterly Results

Revenue by Quarter (000)

<u>Q4'07</u>	<u>Q4'06</u>
\$2,729	\$4,018

The fourth quarter, depending on when spring break up occurs, can be one of the busiest quarters. In 2007 the opposite was the case. Spring breakup began early, running from the 2nd week in March to the May long weekend. Major road bans were in effect resulting in operations coming to a near halt. In Q6'07, the road bans didn't begin until the second week in April. In March and April we received the bulk of the \$3.0 million in new equipment purchased during 2007. Road bans in the eastern slope of the Rocky Mountains tend to last longer than in other areas. Production hauls, incidentally, are given special preference during road ban season in that they are given permission to travel. This is another reason why Dalmac is pursuing more production related work.

<u>Q3'07</u>	<u>Q3'06</u>
\$3,186	\$4,533

The third quarter is generally the second busiest quarter. The activity levels during winter months are higher because the frozen ground allows for easier access into swamp and muskeg areas. Q3'07 was not as busy as Q3'06. The difference was due to reduced drilling activity. This decrease resulted in daily hour rates per unit being reduced from 16hrs /day – 10hrs /day on an average service unit.

<u>Q2'07</u>	<u>Q2'06</u>
\$2,226	\$3,472

The second quarter is traditionally Dalmac's 3rd busiest quarter. Usually activity levels begin to increase over Q1, in preparation for the winter drilling season. In Q2'07 the activity associated with winter preparedness didn't materializes due to continued low natural gas prices. This resulted in Q2'07 revenue being \$1.3 million less than in Q2'06.

Q1'07	Q1'06
\$2,195	\$2,807

Q1 is traditionally Dalmac's slowest quarter and it is usually impacted by the advent of spring breakup and road bans. In 2007, the spring break up season was a little longer than in 2006, it stretched from March – June. Usually road bans are lifted by the May long weekend. This contributed to the revenues being 22% lower in Q1'07 than in Q1'06.

Liquidity and Capital Resources

Dalmac's capital requirements consist primarily of working capital necessary to fund operations, capital expenditures related to the purchase and manufacture of operating equipment, and capital to finance strategic acquisitions. Sources of funds to meet these capital requirements include cash flow from operations, external lines of credit, equipment financing, term loans and equity financings.

On October 31, 2006, Dalmac announced the expansion of its current banking facility to \$9.0 million. This extended facility consists of a \$3 million line of credit, a \$1.5 million demand Revolving Term Loan and a Demand Reducing Term Loan for \$4.5 million. The interest rate on the line of credit is a floating rate of 1% above the bank's prime lending rate (which prime lending rate is presently 6.25%) and the rate on the term loan is a floating rate equal to 1.25% above the bank's prime lending rate. The \$4.5 million Demand Reducing Term Loan facility was intended for the 2007 capital expenditure program. Any portion of this facility funded by an alternative lender was subject to a commensurate reduction of the facility and any undrawn portion of the facility was scheduled for cancellation at March 31, 2007. No part of this facility was used. The Company has a \$5.0 million leasing line of credit with Daimler Chrysler Financial Services Ltd. As of April 30, 2007 approximately \$3.0 million of this facility has been drawn down to provide for the acquisition of new service units. Bank indebtedness, at April 30, 2007, was \$1,199,889 compared to \$597,000 at April 30, 2006. As of April 30, 2007 the company had cash and cash equivalents (Guaranteed Investment Certificate) of \$5.5 million.

Long term debt, for the year ended April 30, 2007, increased by \$1.9 million to \$5.6 million (of which the current portion is \$1.9 million) from the \$3.7 million at the previous year end. This is commensurate with the drawdown of the Daimler Chrysler leasing line of credit mentioned above. The callable debt consisted of bank loans payable for equipment purchases, and decreased by \$106,212 to \$200,868 from the \$307,080 at April 30, 2006.

Working Capital

At April 30, 2007, the working capital of the Corporation decreased by \$1.1 million to \$4.5 million, compared to a \$5.6 in the previous year. A substantial part of the working capital decrease resulted from a reduction in accounts receivables due to lower activity levels. The Company believes that it has adequate capital resources available to meet its anticipated working capital and capital expenditure requirements as they arise.

Contractual Obligations

Dalmac 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:

Lease Commitments

		2008	2009	2010	2011	2012
Equipment	\$	580,452	558,706	377,860	31,614	0
Premises		204,470	97,848	46,595	48,046	49,497
	\$	784,922	656,554	424,455	79,660	49,497

Shareholders' Equity

The 2007, shareholders' equity decreased by \$148,198 to \$9.4 million from \$9.5 million reported in 2006 which was the result of the Corporations net loss and repurchase of shares under a normal course issuer bid. Retained earnings decreased \$112,611 to \$879,655 from \$992,266 in the previous year.

Outstanding Share Data

Capital	Authorized	April 30, 2007	April 30, 2006
Dalmac Common Shares	Unlimited	12,427,833	12,378,978
Preferred Shares	Unlimited	Nil	Nil

The following are the issued and outstanding shares options and warrants as of the date this MD&A was written:

Common Shares	Options	Warrants
12,383,925	1,579,189	3,074,616

On June 21, 2007 the Company issued 700,000 directors and officers options.

Related Party Transactions

In 2007 the Company leased premises from a company controlled by a director for a total consideration of \$81,600 which remains unchanged from the previous year. At April 30, 2007, the Company was indebted to a former director of the Company for an amount of \$153,553 compared to \$245,402 in 2006. Also at 2007 year end the Company was indebted to a director of the Company for an amount of \$140,000. (See note 10 of the Consolidated Financial Statements) There was no interest due on this loan during 2007.

In 2007 the Company paid or accrued management and consulting fees to a company controlled by a director in the amount of \$117,810, compared to \$160,380 in the previous year. The Company pays consulting fees of \$10,285 per month, increasing by 10% per year, pursuant to an 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.

The aforementioned transactions are in the normal course of operations and have been valued in the April 30, 2007 financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Critical Accounting Policies

The Company's financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and may include estimates that reflect management's estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements for the period reported. Estimates are based upon historical experience and various other assumptions that reflect management's best judgments. These estimates are evaluated periodically and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenue and expenses. Actual results may differ.

Recent Developments

On May 25, 2006, Dalmac announced the acquisition of \$5.0 million of new operating equipment. As of this MD&A's date there remains an estimated \$2.0 million of this equipment yet to be delivered. This equipment will consist of pressure trucks, sour sealed tri drive haulers, chemical trucks, combination vacs, and sour sealed bulkers.

Dalmac announced on October 23, 2006 that it intends on carrying out a normal course issuer bid to purchase up to 621,391 of its common shares, which represents approximately 5% of its 12,427,833 common shares outstanding as of the announcement date. Purchases under this normal course issuer bid will be carried out through open market transactions through the facilities of the TSX Venture Exchange over a period of 12 months which ends on November 30, 2007. Any shares purchased by the Corporation under this issuer bid will be cancelled. As of April 30, 2007, the Company had repurchased 136,500 shares.

On October 25, 2006 Dalmac changed the name of its operating subsidiary McClelland Oil Services Inc. to Dalmac Oilfield Services Inc. This name change was consistent with the Company's aim of streamlining operations and establishing a higher profile for Dalmac.

On February 8, 2007, Dalmac announced the signing of a letter of intent (LOI) to purchase the business and assets of North End Oil Industries Ltd., a 30 year old oil field services company based in west-central Alberta, but outside of Dalmac's current area of operations. This acquisition closed on May 1, 2007. North End has operations similar to Dalmac's and is mainly focused on production services which are conducive to consistent year-round activity. The purchase price was \$1,925,000, payable by \$1.5 million cash, \$375,000 by vendor take back and \$50,000 in Dalmac shares. This acquisition is considered very accretive to Dalmac's operations and will increase the size of the Company's fleet by 15 operating service units. The Company also expects to benefit from this acquisition opportunity by deploying its existing assets into a new geographic market area.

Subsequent Events

On July 5, 2007, Dalmac announced the signing of an LOI to purchase another oilfield services company. This target company is situated in west central Alberta and is currently outside Dalmac's operating area. This acquisition's revenue projection for their fiscal year ended

December 31, 2006 was reported at \$4.4 with an EBITDA of approximately \$1.0 million. The purchase price is to be \$3.5 million, payable by \$2.7 million in cash, \$600,000 in vendor take back financing and \$200,000 in shares. This acquisition is expected to close on or before September 30, 2007.

Business Risks

Dalmac's business varies directly with production, exploration and drilling activity in northwestern Alberta and is subject to the risks and variables inherent in the oilfield services industry. The demand for Dalmac's products and services is directly affected by factors such as oil and gas commodity prices, weather, changes in legislation, exchange rates, the general state of domestic and world economies, concerns regarding fuel surpluses or shortages, substitution through imports or alternative energy sources, changes to taxation or regulatory regimes and the broad sweep of international political risks such as war, civil unrest, nationalization and expropriation or confiscation, which are all beyond the control of the Company and cannot be predicted. The oil market is influenced by global supply and demand considerations and by the supply management practices of OPEC. The natural gas market is primarily influenced by North American supply and demand and by the price of competing fuels.

As a result of lower exploration and drilling activity, the Company has refocused its efforts towards production services. By focusing on the production sector of the industry the Company's revenues will be more insulated from the affects of changes in commodity prices. Production and field work provides a steady baseline demand for the company's products and services. However, those competitors that are affected initially by reduced exploration activity will have idle equipment which they may attempt to redeploy into production activities. This could increase competition and put pressure on margins for Dalmac's core operations. The Company still has capacity to take advantage of increases in exploration and drilling activities when market conditions are right.

The risks associated with external competition are minimized by concentrating on activities in areas where the Company has demonstrated technical and operational advantages and by employing highly qualified professional staff. Environmental and safety standards and regulations are continually becoming more stringent in the industry and Dalmac is committed to maintaining its high standards. The Company also mitigates business risks by establishing strategic alliances with qualified partners, developing new technologies and methodologies as well as investigating new business opportunities.

Outlook

Dalmac believes it has sufficient working capital, cash flow from operations, and access to capital to fund its ongoing business requirements. Management believes the Company has a cost structure that has sufficient variability to be able to adapt to the volatility of the industry. Dalmac has experienced management at all levels of operations.

The industry activity level in Western Canada is typically measured by the number of wells drilled. The Canadian Association of Oilwell Drilling Contractors (COADC) forecasts the number of wells to be drilled in the 2007 calendar year, at 16,339 (on a completion basis), this represents a 26% decrease from the 2006 calendar year. The Petroleum Services Association of Canada (PSAC) forecasts the number of wells drilled in 2007 at 17,650 which represents a 24% decrease from 2006 levels.

Both COADC and PSAC are basing their forecasts on \$65/bbl (USD) oil prices and \$6.50 per mcf (USD) natural gas prices. Natural gas drilling is expected to see the biggest reduction in activity due to low commodity prices, weather, reduced capital expenditures, environmental regulations uncertainties, and provincial royalty regimes.

Dalmac earns revenue by providing specialized services required for the exploration, and production of petroleum resources. These petroleum resources are escalating in value and are plentiful in the areas in which the Company operates. The demand for the Company's services is linked to the economic conditions of the energy industry and general levels of drilling and production activities in Western Canada. While the general drilling activity levels are lower than in the previous year, the Company continues to maintain good relationships with its customer base and has balanced its exposure to drilling versus production work. The latter is less affected by reduced capital spending and drilling activity. The Company is encouraged by the indications of demand for its services.

Dalmac is currently reviewing expansion opportunities, including possible acquisitions, which may involve the requirement for capital expenditures beyond the normal course for the Company. Dalmac may pursue any or all opportunities that may present themselves. In doing so the Company may incur debt, issue equity, or any combination of the foregoing.

Disclosure Controls and Internal Controls over Financial Reporting

Management and the Board are committed to the promotion of investor confidence by ensuring that trading in the Company's securities takes place in an efficient, competitive and informed market. In accordance with the continuous disclosure requirements under the securities commission rules and TSX Venture Exchange policies, the Company has adopted a Corporate Disclosure Policy and has procedures in place to ensure that any sensitive information is identified, reviewed by management and disclosed in a timely manner to the regulatory authorities, shareholders and the public. The President of the Company has evaluated the Company's disclosure controls and procedures' relating to the information required to be prepared and disclosed and believes that these controls and procedures were operating effectively as of April 30, 2007.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Canadian Generally Accepted Accounting Principles. No material changes to the Company's internal control over financial reporting occurred during the year ended April 30, 2007.