

**DALMAC ENERGY INC.**  
**Consolidated Financial Statements**  
**Years Ended April 30, 2008 and 2007**



STOUT & COMPANY LLP

CHARTERED ACCOUNTANTS EDMONTON, CANADA

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## AUDITORS' REPORT

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To the Shareholders of Dalmac Energy Inc.

We have audited the consolidated balance sheets of Dalmac Energy Inc. as at April 30, 2008 and 2007 and the consolidated statements of loss and comprehensive loss, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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, 2008 and 2007 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  
July 11, 2008

Chartered Accountants

**DALMAC ENERGY INC.**  
**Consolidated Balance Sheets**  
**April 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b> <i>Restated</i>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents <i>(Note 4)</i>	\$ 1,580,903	\$ 5,455,443
Accounts receivable	3,409,466	2,571,197
Income taxes receivable	-	144,694
Inventory <i>(Note 5)</i>	287,319	110,801
Loan receivable <i>(Note 6)</i>	-	32,034
Prepaid expenses and deposits	258,142	606,508
	<b>5,535,830</b>	8,920,677
RESTRICTED CASH <i>(Notes 7, 13)</i>	-	100,000
INTANGIBLE ASSET <i>(Note 3(a))</i>	40,000	-
PROPERTY AND EQUIPMENT <i>(Note 8)</i>	15,384,309	8,014,714
GOODWILL <i>(Note 9)</i>	2,128,102	1,504,313
	<b>\$ 23,088,241</b>	<b>\$ 18,539,704</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Bank indebtedness <i>(Note 10)</i>	\$ 1,883,497	\$ 1,199,889
Accounts payable and accrued liabilities	1,926,532	1,132,566
Callable debt due within one year <i>(Note 11)</i>	514,606	106,212
Capital lease obligations due within one year <i>(Note 12)</i>	77,165	47,519
Current portion of long term debt <i>(Note 13)</i>	2,031,918	1,861,130
	<b>6,433,718</b>	4,347,316
Callable debt <i>(Note 11)</i>	1,738,444	94,656
Capital lease obligation <i>(Note 12)</i>	219,669	270,419
	<b>8,391,831</b>	4,712,391
CAPITAL LEASE OBLIGATIONS <i>(Note 12)</i>	22,826	-
LONG TERM DEBT <i>(Note 13)</i>	4,252,023	3,764,984
FUTURE INCOME TAXES <i>(Note 14)</i>	502,434	511,555
	<b>13,169,114</b>	8,988,930
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL <i>(Note 15)</i>	8,439,453	8,179,174
CONTRIBUTED SURPLUS <i>(Note 16)</i>	561,013	409,225
REPURCHASED COMMON SHARES <i>(Note 15(c))</i>	-	(75,725)
RETAINED EARNINGS	918,661	1,038,100
	<b>9,919,127</b>	9,550,774
	<b>\$ 23,088,241</b>	<b>\$ 18,539,704</b>

**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 Loss and Comprehensive Loss**  
**Years Ended April 30, 2008 and 2007**

	2008	2007 <i>Restated</i>
Revenue		
Service	\$ 14,028,247	\$ 8,827,177
Product sales	2,131,783	1,508,871
	<b>16,160,030</b>	10,336,048
Direct costs		
Service	10,352,892	7,113,176
Product sales	1,418,458	592,951
	<b>11,771,350</b>	7,706,127
	<b>4,388,680</b>	2,629,921
Expenses		
Wages and benefits	1,411,982	762,368
Amortization of property and equipment	1,338,104	883,247
General and administration	1,190,350	922,841
Interest on long term debt	425,167	245,120
Interest on callable debt and other	212,561	66,566
Interest on obligations under capital lease	30,369	5,339
Amortization of intangible asset	10,000	-
	<b>4,618,533</b>	2,885,481
	<b>(229,853)</b>	(255,560)
Other income		
Interest	101,294	234,123
Gain on disposal of property and equipment	-	9,035
	<b>101,294</b>	243,158
Loss before income taxes	<b>(128,559)</b>	(12,402)
Income tax expense <i>(Note 14(c))</i>		
Current (recovery)	-	(93,405)
Future (benefit)	(9,120)	148,454
	<b>(9,120)</b>	55,049
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>\$ (119,439)</b>	<b>\$ (67,451)</b>
<b>Basic and diluted net loss per common share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Basic and diluted weighted average number of common shares</b>	<b>12,662,100</b>	12,422,072

See accompanying notes

**DALMAC ENERGY INC.**  
**Consolidated Statements of Retained Earnings**  
**Years Ended April 30, 2008 and 2007**

	2008	2007 <i>Restated</i>
RETAINED EARNINGS - BEGINNING OF YEAR		
As previously reported	\$ 879,655	\$ 992,266
Prior period accounting error ( <i>Note 17</i> )	<u>158,445</u>	<u>113,285</u>
As restated	1,038,100	1,105,551
NET LOSS FOR THE YEAR	<u>(119,439)</u>	<u>(67,451)</u>
<b>RETAINED EARNINGS - END OF YEAR</b>	<b><u>\$ 918,661</u></b>	<b><u>\$ 1,038,100</u></b>

See accompanying notes

**DALMAC ENERGY INC.**  
**Consolidated Statements of Cash Flows**  
**Years Ended April 30, 2008 and 2007**

	2008	2007 <i>Restated</i>
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (119,439)	\$ (67,451)
Items not affecting cash and cash equivalents:		
Amortization of property and equipment	1,338,104	883,247
Gain on disposal of property and equipment	-	(9,035)
Future income taxes	(9,120)	148,454
Stock-based compensation	137,792	-
Amortization of intangible asset	10,000	-
	<b>1,357,337</b>	<b>955,215</b>
Changes in non-cash working capital:		
Accounts receivable	(838,269)	774,274
Inventory	(176,518)	(37,442)
Prepaid expenses and deposits	348,366	(91,684)
Accounts payable and accrued liabilities	793,967	(652,292)
Income taxes receivable	144,694	(197,470)
	<b>272,240</b>	<b>(204,614)</b>
	<b>1,629,577</b>	<b>750,601</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(3,866,699)	(3,477,615)
Proceeds on disposal of property and equipment	-	104,000
Purchase of North End	(1,510,959)	-
Purchase of KD	(2,778,830)	-
Decrease in restricted cash	100,000	-
Payments received on loan receivable	32,034	102,974
	<b>(8,024,454)</b>	<b>(3,270,641)</b>
<b>FINANCING ACTIVITIES</b>		
Increase in bank indebtedness	683,608	602,889
Proceeds from callable debt	2,382,673	-
Proceeds from obligations under capital lease	79,851	-
Proceeds from long term debt	2,171,804	3,308,393
Repayment of callable debt	(330,492)	(106,212)
Repayment of obligations under capital lease	(78,129)	(17,074)
Repayment of long term debt	(2,388,978)	(1,347,891)
Repurchase of common shares	-	(75,725)
Proceeds from issuance of share capital	-	40,138
	<b>2,520,337</b>	<b>2,404,518</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(3,874,540)</b>	<b>(115,522)</b>
Cash and cash equivalents at beginning of year	<b>5,455,443</b>	<b>5,570,965</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>\$ 1,580,903</b>	<b>\$ 5,455,443</b>
<b>SUPPLEMENTARY INFORMATION (Note 18)</b>		

See accompanying notes

**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended April 30, 2008 and 2007**

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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. 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.

(b) Recently adopted accounting pronouncements

On May 1, 2007, the Company adopted CICA Handbook Sections 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These new standards have been adopted on a prospective basis with no restatement of prior periods.

Sections 1530 and 3251 establish standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income includes unrealized gains and losses on financial assets classified as available for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The cumulative amount of other comprehensive income, accumulated other comprehensive income, is presented as a category of shareholders' equity in the consolidated balance sheets.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments, and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

As a result of adopting section 3855, the Company designated its 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 has reviewed its contracts and concluded there are no embedded derivatives at this time.

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

On May 1, 2007, the Company adopted the modified CICA Handbook Section 1400 "General Standards of Financial Statement Presentation." The section requires that management make an assessment of the Company's ability to continue as a going concern over a period which is at least, but is not limited to, twelve months from the balance sheet date. The new requirement only addresses disclosures and has no impact on the Company's financial results.

(c) Future accounting pronouncements

*Inventories*

In June 2007, the Accounting Standards Board ("AcSB") released Section 3031 "Inventories", which replaces Section 3030 "Inventories". It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") IAS2 "Inventories". This accounting standard is effective for the Company for interim and annual consolidated financial statements beginning on May 1, 2008. The Section prescribes the measurement of inventories at the lower of cost and net realizable value. It provides further guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and circumstances for their subsequent reversal. It also provides more restrictive guidance on the cost methodologies that are used to assign costs to inventories and describes additional disclosure requirements. The Company is currently evaluating the impact of this new standard.

*Capital Disclosures*

In December 2006, the AcSB issued Section 1535 "Capital Disclosures", which established standards for disclosing information about an entity's capital and how it is managed. The new accounting standard is effective for the Company for interim and annual consolidated financial statements beginning on May 1, 2008. The effect on the Company will be increased disclosure surrounding its objectives, policies and processes for managing capital.

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

*Financial Instruments*

Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation” replace Section 3861 “Financial Instruments – Recognition and Measurement”. This accounting standard is effective for the Company for interim and annual consolidated financial statements beginning on May 1, 2008. The new Section 3862 enhances disclosure requirements on the nature and extent of risks arising from financial instruments and how the Company manages those risks.

(d) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The significant areas requiring the use of management estimates relates to amortization of property and equipment and intangible assets, excluding goodwill, and the assumptions used in determining stock-based compensation. Actual results could differ from those estimates.

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash and guaranteed investment certificates held with a chartered bank with maturities of less than 90 days from the date of acquisition. Cash and cash equivalents are classified as HFT and are measured at fair value.

(f) Inventory

Chemical inventory is valued at the lower of cost and net realizable value with the cost being determined on an average cost basis.

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

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

## (g) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. The Company provides for amortization using methods at rates designed to amortize the cost of the property and equipment over their estimated useful lives net of salvage values. Salvage value for service vehicles and service equipment is calculated as 20% to 30% of original cost. The annual amortization rates and methods are as follows:

Buildings	4%	declining balance method
Service vehicles	8 years	straight-line method
Service equipment	12 years	straight-line method
Service vehicles under capital lease	8 years	straight-line method
Motor vehicles	8 years	straight-line method
Plant equipment	10 years	straight-line method
Shop equipment	5 years	straight-line method
Shop equipment under capital lease	5 years	straight-line method
Leasehold improvements	Term of lease	straight-line method
Computer equipment	3 years	straight-line method
Computer equipment under capital lease	3 years	straight-line method
Furniture and fixtures	4 years	straight-line method
Rental equipment	12 years	straight-line method
Office equipment	5 years	straight-line method

## (h) Intangible assets

The finite-life intangible asset represent the cost assigned to a non-competition agreement (Note 3(a)) and is amortized on a straight-line basis over its estimated useful life of five years.

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.

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

(i) Impairment of Long-Lived Assets

Long-lived assets are comprised of property and equipment and finite-life intangible assets.

Long-lived assets are tested for impairment when certain events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The recoverability test is performed using undiscounted future net cash flows that are directly associated with the asset's uses and eventual disposition. The amount of impairment, if any, is measured as the difference between the carrying value and the fair value of the impaired assets and is recorded in amortization.

(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) Future income taxes

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

A valuation allowance is recorded to reduce the carrying amount of future income tax assets when it is more likely than not that these assets will not be realized.

(l) Share issuance costs

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

(m) Stock-based compensation

Stock-based compensation is measured and recognized using the fair value method. Under this method, the estimated fair value of stock options 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 together with the consideration received.

(n) 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.

(o) Earnings per share

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

**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended April 30, 2008 and 2007**

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3. BUSINESS ACQUISITIONS

(a) North End Oil Industries Ltd. ("North End")

Effective May 1, 2007, the Company acquired certain assets of North End which operates a fleet of service vehicles and equipment used in the oil and gas industry in Central Alberta.

The purchase price was \$1,935,959 comprised of \$1,500,000 cash, a promissory note for \$375,000 and 92,592 common shares valued at \$0.54 per share totaling \$50,000 (note 15). Transaction costs of \$10,959 were also incurred.

The promissory note bears interest at 6% per annum and is repayable in equal monthly installments over three years (note 13).

As part of the acquisition, the Company obtained a five year non-compete agreement with the previous owner of North End valued at \$50,000. Amortization expense of \$10,000 has been recorded for the year ended April 30, 2008.

The following table summarizes the fair value of the assets acquired at the date of acquisition.

Property and equipment	\$ 1,680,000
Intangible asset	50,000
Goodwill ( <i>Note 9</i> )	<u>205,959</u>
	<u>\$ 1,935,959</u>

(b) KD Trucking (1989) Ltd. ("KD")

Effective October 1, 2007 the Company acquired certain assets of KD.

The purchase price was \$3,578,830 comprised of \$2,732,892 cash, a promissory note of \$500,000 and 590,597 common shares valued at \$0.51 per share totaling \$300,000 (note 15). Transaction costs of \$45,938 were also incurred.

The promissory note bears interest at the prime interest rate and is repayable in equal monthly installments of \$13,889 plus accrued interest over three years (note 13).

The following table summarizes the fair value of the assets acquired at the date of acquisition.

Property and equipment	\$ 3,161,000
Goodwill ( <i>Note 9</i> )	<u>417,830</u>
	<u>\$ 3,578,830</u>

The acquisitions have been accounted for using the purchase method of accounting and the results of operations of these acquisitions are included in the consolidated financial statements from their respective acquisition date.

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**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended April 30, 2008 and 2007**

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4. CASH AND CASH EQUIVALENTS

	<u>2008</u>	<u>2007</u>
Guaranteed investment certificate	\$ 1,308,545	\$ 3,514,196
Cash	<u>272,358</u>	<u>1,941,247</u>
	<u>\$ 1,580,903</u>	<u>\$ 5,455,443</u>

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5. INVENTORY

	<u>2008</u>	<u>2007</u>
Chemical	\$ 202,698	\$ 110,801
Parts	<u>84,621</u>	<u>-</u>
	<u>\$ 287,319</u>	<u>\$ 110,801</u>

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6. LOAN RECEIVABLE

During the year ended April 30, 2008, the Company received payment of \$32,034 (2007 - \$102,974) plus accrued interest at prime plus 1% on the outstanding loan receivable.

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7. RESTRICTED CASH

During the year ended April 30, 2008, the Company repaid the promissory note that was secured by a \$100,000 deposit held in trust by legal counsel (Note 13).

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**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended April 30, 2008 and 2007**

8. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2008 Net book value
Land	\$ 198,321	\$ -	\$ 198,321
Service vehicles	10,724,180	2,763,776	7,960,404
Service equipment	7,880,143	2,172,617	5,707,526
Buildings	468,200	9,364	458,836
Service vehicles under capital lease	335,012	47,096	287,916
Motor vehicles	263,546	45,506	218,040
Plant equipment	379,830	184,018	195,812
Shop equipment	122,870	18,956	103,914
Shop equipment under capital lease	57,649	21,449	36,200
Leasehold improvements	230,111	150,606	79,505
Computer equipment	49,095	9,930	39,165
Computer equipment under capital lease	40,898	11,466	29,432
Furniture and fixtures	181,354	143,863	37,491
Rental equipment	78,028	46,281	31,747
	<b>\$ 21,009,237</b>	<b>\$ 5,624,928</b>	<b>\$ 15,384,309</b>

	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
Service vehicles under capital lease	335,012	13,959	321,053
Plant equipment	368,184	146,521	221,663
Motor vehicles	167,246	18,041	149,205
Leasehold improvements	162,833	106,943	55,890
Furniture and fixtures	156,500	117,844	38,656
Rental equipment	78,028	40,087	37,941
Computer equipment	11,571	1,083	10,488
Office equipment	2,807	94	2,713
Shop equipment	844	155	689
	<b>\$ 12,301,538</b>	<b>\$ 4,286,824</b>	<b>\$ 8,014,714</b>

As at April 30, 2008, property and equipment presently under construction and excluded from amortization amount to \$575,716 (2007 - \$nil).

**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended April 30, 2008 and 2007**

9. GOODWILL

	2008	2007
Dalmac Oilfield Services Inc.	\$ 1,222,713	\$ 1,222,713
S. Young	281,600	281,600
KD (Note 3(b))	417,830	-
North End (Note 3(a))	205,959	-
	\$ 2,128,102	\$ 1,504,313

10. BANK INDEBTEDNESS

The Company's credit facility includes a demand revolving operating overdraft to a maximum of \$3,000,000 (2007 - \$3,000,000) margined to accounts receivable, at an interest rate of prime plus 1%. At April 30, 2008, \$1,883,497 (2007 - \$1,199,889) had been drawn on this facility. The Company also has a demand revolving term loan and leases (see notes 11 and 12) to a maximum of \$3,000,000 (2007 - \$1,500,000) at an interest rate of prime plus 1.25% or the banks fixed rate at time of issuance (margined to market value of property and equipment). At April 30, 2008, \$2,118,831 (2007 - \$518,806) has been drawn on this facility. In addition the Company has a demand non-revolving loan of \$404,688 (2007 - \$nil) at an interest rate of prime plus 1.25% to reduce by monthly principal payments of \$3,646 plus interest.

The following has been provided as collateral for bank indebtedness, callable debt and capital lease obligation (\$270,469) (see notes 11 and 12):

- i) general security agreement providing a first security interest in all present and after acquired property with a specific charge over equipment;
- ii) demand collateral mortgage in the amount of \$437,500 over specific land and building;
- iii) assignment and postponement of creditors claim from a director and former director; and
- vi) assignment of insurance coverage for full insurable values of all assets of the borrower.

As at April 30, 2008, certain debt covenants with respect to the Company's credit facility had not been met.

**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended April 30, 2008 and 2007**

11. CALLABLE DEBT

	2008	2007
Bank loan, payable \$25,000 per month principal, plus interest at prime plus 1.25%.	\$ 1,350,000	\$ -
Bank loan, payable \$3,646 per month principal, plus interest at prime plus 1.25%.	404,688	-
Bank loan, payable \$7,026 per month principal, plus interest at prime plus 1.25%.	379,378	-
Bank loan, payable \$7,292 per month principal, plus interest at prime plus 1.25%.	63,102	150,606
Bank loan, payable \$902 per month principal, plus interest at prime plus 1.25%.	24,343	35,167
Bank loan, payable \$451 per month principal, plus interest at prime plus 1.25%.	24,328	-
Bank loan, payable \$657 per month principal, plus interest at prime plus 1.25%.	7,211	15,095
	<b>2,253,050</b>	200,868
Less amount due within one year	<b>(514,606)</b>	(106,212)
	<b>\$ 1,738,444</b>	\$ 94,656

As at April 30, 2008, the approximate principal repayments due within each of the next five years are as follows:

2009	\$ 514,606
2010	444,292
2011	436,163
2012	433,468
2013	238,583
Thereafter	185,938
	<b>\$ 2,253,050</b>

Collateral has been provided for the callable debt (see note 10).

As at April 30, 2008, certain debt covenants with respect to the Company's callable debt credit facility had not been met (see note 10).

**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
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12. CAPITAL LEASE OBLIGATIONS

	2008	2007
Service vehicle lease, with payments of \$5,603 including interest at 6.65%, expiring in January 2012. Collateral has been provided for the capital lease (see note 10)	\$ 270,469	\$ 317,938
Computer equipment leases, with payments from \$434 to \$968 per month at average interest rates of 14.24% maturing on various dates to November 2010.	33,525	-
Shop equipment leases, with payments from \$90 to \$900 per month at average interest rates of 7.96% maturing on various dates to July 2009	15,666	-
	319,660	317,938
Amounts payable within one year	(77,165)	(47,519)
	\$ 242,495	\$ 270,419
Future minimum capital lease payments are approximately:		
2009	\$ 99,017	
2010	85,430	
2011	73,201	
2012	111,407	
Total minimum lease payments	369,055	
Less: amount representing interest at various rates	(49,395)	
Present value of minimum lease payments	319,660	
Less: amounts payable within one year	(77,165)	
	\$ 242,495	
Represented by:		
Service vehicle lease	\$ 219,669	
Computer and shop equipment leases	22,826	
	\$ 242,495	

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

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

	2008	2007
Conditional sales contracts, with interest rates ranging from 6.5% to 8.5% per annum, repayable in monthly blended payments that vary over the term of each contract, maturing on various dates to March, 2013, secured by specific service vehicles and service equipment with carrying value of \$7,541,615.	<b>\$ 5,385,126</b>	\$ 5,067,656
Conditional sales contracts, with interest rates ranging from 6.00% to 10.95% per annum, repayable in monthly blended payments that vary over the term of each contract, maturing on various dates to March, 2010, secured by specific motor vehicles with carrying value of \$113,516.	<b>94,015</b>	138,889
Promissory note, payable at \$13,889 per month principal and interest at the prime interest rate, due October, 2010, secured by a general security agreement over all assets of the company subrogated to existing charges. <i>(Note 3(b))</i>	<b>416,667</b>	-
Promissory note, payable at \$11,408 per month principal and interest at 6%, due April, 2010, secured by a general security agreement over all assets of the company subrogated to existing charges. <i>(Note 3(a))</i>	<b>255,399</b>	-
Promissory note due to a director of the Company, payable in equal monthly principal and interest payments of \$4,144 over thirty-six months with the first such payment commencing one month after the promissory note in the amount of \$nil (2007 - \$153,553) was paid in full, being March 2008, to bear interest commencing from that date at a rate of 4.25% per annum.	<b>132,734</b>	140,000
Promissory note due to a former director of the Company, payable \$8,373 per month including principal and interest at 4.25%, paid out February, 2008, secured by a general security agreement and \$100,000 of monies in trust (see note 7).	-	153,553
Promissory note, payable \$11,701 per month including principal and interest at 4.25%, due March, 2008, secured by a charge against the assets of the Company, subrogated to existing charges.	-	126,016
	<b>6,283,941</b>	5,626,114
Less amount due within one year	<b>(2,031,918)</b>	(1,861,130)
	<b>\$ 4,252,023</b>	\$ 3,764,984

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

2009	\$ 2,031,918
2010	1,738,890
2011	1,266,079
2012	1,027,720
2013 and subsequent	219,334
	<b>\$ 6,283,941</b>

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

**DALMAC ENERGY INC.**  
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14. INCOME TAXES

(a) Non-capital losses

The Company has accumulated non-capital losses carried forward for income tax purposes of approximately \$2,641,000, 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	\$	<b>149,000</b>
2027		<b>515,000</b>
2028		<b><u>1,977,000</u></b>
	<b>\$</b>	<b><u>2,641,000</u></b>

(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:

	<u>2008</u>	<u>2007</u>
Income tax effect of taxable temporary differences:		
Net book value in excess of undepreciated capital cost for tax purposes	\$ 1,405,000	\$ 829,099
Non capital losses carried forward	(837,000)	(188,054)
Share issuance costs deductible for tax purposes	(87,000)	(138,456)
Book value of goodwill in excess of tax value	<b>21,434</b>	<b>8,966</b>
Recognized future income tax liability	<b>\$ 502,434</b>	<b>\$ 511,555</b>

(c) Income tax reconciliation

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 31.24% (2007 - 32.12%) to the net income (loss) for the year and is reconciled as follows:

	<u>2008</u>	<u>2007</u>
		<i>Restated</i>
Expected income tax recovery	\$ (40,162)	\$ (3,984)
Tax effect of expenses not deductible for income tax purposes	(570,290)	(210,071)
Stock-based compensation	43,046	-
Tax effect of current year losses not recognized	617,604	165,564
Tax effect of prior year losses recognized	(50,197)	(20,349)
Tax effect of changes in income tax rates	(32,923)	(11,020)
Tax effect of taxable temporary differences	<b>23,802</b>	<b>134,909</b>
Effective income tax expense (recovery)	<b>\$ (9,120)</b>	<b>\$ 55,049</b>

**DALMAC ENERGY INC.**  
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15. SHARE CAPITAL

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

- (b) Common shares issued:

	2008		2007	
	Shares	Amount	Shares	Amount
Balance, beginning of year	12,427,833	\$ 8,179,174	12,378,978	\$ 8,116,478
Issued on exercise of options	-	-	9,260	6,482
Repurchased shares ( <i>note 15 (c)</i> )	(136,500)	(89,721)	-	-
Issued on North End acquisition ( <i>note 3(a)</i> )	92,592	50,000	-	-
Issued on KD acquisition ( <i>note 3(b)</i> )	590,597	300,000	-	-
Issued on exercise of warrants	-	-	39,595	33,656
Fair value of options on exercise ( <i>note 16</i> )	-	-	-	22,558
Balance, end of year	<b>12,974,522</b>	<b>\$ 8,439,453</b>	12,427,833	\$ 8,179,174

- (c) Repurchased common 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 was 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, 2008, the aggregate cost of the common shares cancelled was \$75,725 of which \$89,721 was recorded as a charge against share capital for the average carrying value of the common shares of approximately \$0.66 with the balance of \$13,996 charged against contributed surplus.

- (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.

During the year ended April 30, 2008 the Company granted 700,000 options on June 21, 2007 to directors and management and 126,847 options on October 1, 2007 as part of a management contract. 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 4.6%, the weighted average expected life of the options was five years and the weighted average expected volatility was 65%. The options granted resulted in stock-based compensation expense and contributed surplus of \$137,792 during the year.

*(continues)*

**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
**Years Ended April 30, 2008 and 2007**

15. SHARE CAPITAL *(continued)*

The following table summarizes activity related to stock options:

	Number	Weighted Average Exercise Price 2008	Number	Weighted Average Exercise Price 2007
Balance, beginning of year	879,189	\$ 0.85	888,449	\$ 0.85
Granted	826,847	0.55	-	-
Expired	(18,407)	0.70	-	-
Expired	(480,000)	1.25	-	-
Exercised	-	-	(9,260)	0.70
Outstanding, end of year	<b>1,207,629</b>	<b>\$ 0.49</b>	879,189	\$ 0.85
Exercisable, end of year	<b>614,115</b>	<b>\$ 0.42</b>	879,189	\$ 0.85

The following table summarizes stock options outstanding at April 30, 2008:

Expiry Date	Number outstanding	Exercise Price
December 22, 2008	255,782	\$ 0.30
March 21, 2010	125,000	\$ 0.45
June 21, 2012	700,000	\$ 0.54
October 1, 2012	126,847	\$ 0.60
	<b>1,207,629</b>	

Subsequent to April 30, 2008, the Company issued 50,000 stock options with an exercise price of \$0.40 and a term of five years to a director of the Company.

(e) Warrants

The following table summarizes warrants outstanding at April 30, 2008:

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

The weighted average exercise price of the outstanding warrants is \$nil (2007 - \$1.36).

**DALMAC ENERGY INC.**  
**Notes to Consolidated Financial Statements**  
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16. CONTRIBUTED SURPLUS

The following table summarizes the changes in contributed surplus:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 409,225	\$ 431,783
Stock-based compensation ( <i>Note 15(d)</i> )	137,792	-
Repurchased shares below average carrying value ( <i>Note 15(c)</i> )	13,996	-
Fair value of options on exercise	-	(22,558)
	<hr/>	<hr/>
Balance, end of year	\$ 561,013	\$ 409,225

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17. PRIOR PERIOD ACCOUNTING ERROR

During the year ended April 30, 2008, the Company had not claimed GST input tax credits "(ITCs)" relating to payments made to subcontractors from June, 2003 to April, 2008. The portion of ITC's relating to the year ended April 30, 2007 are \$65,994 and prior to April 30, 2007 are \$164,754. As a result of this accounting error the prior period's financial statements have been restated to:

- increase accounts receivable by \$230,748;
  - increase future income taxes by \$72,303;
  - increase income tax provision by \$20,834;
  - decrease net loss for the year by \$45,160;
  - increase retained earnings at May 1, 2006 by \$113,285; and
  - increase retained earnings at April 30, 2007 by \$158,445.
- 

18. CASH FLOW SUPPLEMENTARY INFORMATION

	<u>2008</u>	<u>2007</u>
Interest paid	\$ 628,734	\$ 293,501
Income taxes paid	\$ -	\$ 103,230

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

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**19. FINANCIAL INSTRUMENTS**

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 (42%) of the outstanding accounts receivable at April 30, 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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**20. COMMITMENTS**

The Company leases equipment and premises under long term operating leases. The leases for premises are exclusive of operating costs.

The Company also has three management contracts.

Future minimum annual payments are as follows:

	2009	2010	2011	2012	2013
Equipment	\$ 522,782	\$ 348,672	\$ 39,623	\$ 3,462	\$ 1,443
Premises	233,603	228,024	229,475	230,926	123,338
Management contracts	283,550	87,114	-	-	-
	<u>\$ 1,039,935</u>	<u>\$ 663,810</u>	<u>\$ 269,098</u>	<u>\$ 234,388</u>	<u>\$ 124,781</u>

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

**DALMAC ENERGY INC.**  
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21. 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 \$81,600 (2007 - \$81,600).
- (b) Paid or accrued management and consulting fees to a company controlled by a director in the amount of \$129,591 (2007 - \$117,810). The Company pays consulting fees of \$11,314 per month, increasing by 10% per year, pursuant to a contract agreement expiring on November 14, 2009. In addition, if the Company's net income before tax reaches \$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 was indebted to a former director of the Company. This balance was paid out in February, 2008 (2007 - \$153,553) (note 13) and interest expense of \$3,682 (2007 - \$8,627) has been paid during the year.
- (d) The Company is indebted to a director of the Company for an amount of \$132,734 (2007 - \$140,000) (note 13). Interest expense of \$1,207 (2007 - \$nil) has been paid during the year. The promissory note was non-interest bearing until February, 2008.

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 based on standard commercial terms.

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22. COMPARATIVE FIGURES

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

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23. 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.

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