

DALMAC ENERGY INC.
Consolidated Financial Statements
Nine Month Period Ended January 31, 2008
(Unaudited)

MANAGEMENT REPORT

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

The accompanying unaudited consolidated balance sheet of **Dalmac Energy Inc.** as at January 31, 2008 and the consolidated statements of income, retained earnings and cash flows for the nine month period then ended, have been prepared by management and approved by the Board of Directors of the Company.

These consolidated financial statements have not been reviewed by the Company's external auditors.

Edmonton, Canada
March 28, 2008

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

DALMAC ENERGY INC.

Consolidated Balance Sheet

January 31, 2008

(Unaudited)

	<i>January 31</i> 2008	<i>April 30</i> 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,567,051	\$ 5,455,443
Marketable securities	1,577	-
Accounts receivable	4,411,555	2,372,483
Inventory	623,630	110,801
Income taxes receivable	7,961	144,694
Prepaid expenses and deposits	373,180	606,508
	<u>6,984,954</u>	<u>8,689,929</u>
RESTRICTED CASH	153,502	100,000
PROPERTY AND EQUIPMENT, <i>net of accumulated amortization</i>	14,844,596	8,014,716
GOODWILL	2,129,849	1,504,313
	<u>\$ 24,112,901</u>	<u>\$ 18,308,958</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	\$ 2,282,909	\$ 1,199,889
Accounts payable and accrued liabilities	1,790,217	1,132,568
Current portion of obligations under capital lease	49,533	47,519
Callable debt due within the year	537,155	106,212
Current portion of long term debt	2,129,060	1,861,130
	<u>6,788,874</u>	<u>4,347,318</u>
Callable debt due after one year	1,850,815	94,656
	<u>8,639,689</u>	<u>4,441,974</u>
OBLIGATIONS UNDER CAPITAL LEASE, <i>net of current portion</i>	233,126	270,419
LONG TERM DEBT, <i>net of current portion</i>	4,458,521	3,764,984
FUTURE INCOME TAXES <i>(Note 1)</i>	633,608	439,252
	<u>13,964,944</u>	<u>8,916,629</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL <i>(Note 2)</i>	8,453,449	8,179,174
CONTRIBUTED SURPLUS <i>(Note 3)</i>	562,127	409,225
REPURCHASED SHARES	-	(75,725)
RETAINED EARNINGS	1,132,381	879,655
	<u>10,147,957</u>	<u>9,392,329</u>
	<u>\$ 24,112,901</u>	<u>\$ 18,308,958</u>

APPROVED ON BEHALF OF THE BOARD

Signed "John I. Babic"

Director

Signed "Shawn T. Szydlowski"

Director

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statement of Income (Loss)
Three and Nine Month Period Ended January 31, 2008
(Unaudited)

	January 31, 2008 (3 months)	January 31, 2007 (3 months)	January 31, 2008 (9 months)	January 31, 2007 (9 months)
Revenue				
Service revenue	\$ 4,980,993	\$ 2,784,865	\$ 10,309,836	\$ 6,625,262
Product sales	\$ 570,754	\$ 400,660	\$ 1,012,400	\$ 936,007
	<u>5,551,747</u>	<u>3,185,525</u>	<u>11,322,236</u>	<u>7,561,269</u>
Direct Costs				
Service	3,410,048	1,858,805	\$ 7,133,898	\$ 4,900,862
Product	494,124	224,845	\$ 686,071	\$ 542,532
	<u>3,904,172</u>	<u>2,083,650</u>	<u>7,819,969</u>	<u>5,443,394</u>
Gross profit	<u>1,647,575</u>	<u>1,101,875</u>	<u>3,502,267</u>	<u>2,117,875</u>
Expenses				
General and Administrative	299,437	273,725	796,410	872,254
Wages and benefits	451,475	208,066	1,165,434	623,763
Amortization	366,805	215,389	941,998	621,089
Interest on long term debt	198,730	54,890	475,231	182,491
	<u>1,316,447</u>	<u>752,070</u>	<u>3,379,073</u>	<u>2,299,597</u>
Income (loss) from Operations	331,128	349,805	123,194	(181,722)
Other income (expenses)				
Interest Income	11,678	96,923	80,297	177,219
Gain (loss) on disposal of assets	-	(6,137)	-	9,035
Recovery of Expenses	-	-	243,593	-
	<u>11,678</u>	<u>90,786</u>	<u>323,890</u>	<u>186,254</u>
Income (loss) before income taxes	<u>342,806</u>	<u>440,591</u>	<u>447,084</u>	<u>4,532</u>
Income taxes recovered (provision for)				
Current	-	18,816	-	155,531
Future	(140,495)	(57,765)	(194,356)	(121,958)
	<u>(140,495)</u>	<u>(38,949)</u>	<u>(194,356)</u>	<u>33,573</u>
Net income (loss) for the period	<u>202,311</u>	<u>401,642</u>	<u>252,728</u>	<u>38,105</u>
Retained earnings at beginning of period				
	\$ 930,072	\$ 628,429	\$ 879,655	\$ 992,266
Retained earnings at end of period	\$ 1,132,383	\$ 1,030,371	\$ 1,132,383	\$ 1,030,371
Net income per share				
Basic	\$ 0.02	\$ 0.03	\$ 0.02	\$ 0.00
Diluted	\$ 0.01	\$ 0.03	\$ 0.02	\$ 0.00
Weighted average number of shares				
Basic	12,647,125	12,381,096	12,647,125	12,381,096
Diluted	16,274,185	13,288,285	16,274,185	13,288,285

DALMAC ENERGY INC.

Consolidated Statement of Cash Flows

Three and Nine Month Period Ended January 31, 2008

(Unaudited)

	January 31, 2008 (3 months)	January 31, 2007 (3 months)	January 31, 2008 (9 months)	January 31, 2007 (9 months)
Operating Activities				
Net income (loss) for period	\$ 202,311	\$ 401,642	\$ 252,728	\$ 38,105
Items not affecting cash & cash equivalents:				
Amortization	366,805	215,389	941,998	621,089
Loss (gain on disposal of assets)	-	6,137	-	(9,035)
Future income taxes	140,495	57,765	194,356	121,958
Stock-based compensation	42,042	-	122,180	-
	<u>751,653</u>	<u>680,933</u>	<u>1,511,262</u>	<u>772,117</u>
Changes in non-cash working capital:				
Marketable securities	(1,577)	-	(1,577)	-
Accounts receivable	(1,329,186)	(793,577)	(2,039,072)	705,179
Inventory	(215,432)	95,465	(512,829)	33,152
Prepaid expenses and deposits	250,744	(79,778)	233,328	(28,775)
Accounts payable and accrued liabilities	(127,963)	15,781	657,647	(819,569)
Income taxes receivable	136,733	(24,504)	136,733	(317,664)
Prior period adjustment	-	(294)	-	-
	<u>(1,286,681)</u>	<u>(786,907)</u>	<u>(1,525,770)</u>	<u>(427,677)</u>
	<u>(535,028)</u>	<u>(105,974)</u>	<u>(14,507)</u>	<u>344,440</u>
Investing Activities				
Purchase of property and equipment	(651,834)	(1,322,904)	(7,771,879)	(1,679,830)
Disposal of property & equipment	-	14,000	-	104,000
Payments received on loan receivable	-	-	-	102,974
Purchase of goodwill	(6,921)	-	(625,536)	-
Restricted cash	225,894	(100,000)	(53,502)	-
	<u>(432,861)</u>	<u>(1,408,904)</u>	<u>(8,450,917)</u>	<u>(1,472,856)</u>
Financing Activities				
Proceeds from issuance of share capital	-	-	350,000	40,138
Share issuance costs	-	-	30,722	(29,500)
Share purchase costs	-	(27,500)	-	(27,500)
Proceeds from long term debt	623,107	1,038,260	2,722,937	1,221,499
Proceeds from callable debt	200,142	335,012	2,382,673	335,012
Repayment of callable debt	(131,528)	(32,156)	(195,571)	(85,262)
Repayment of long term debt	(595,659)	(302,201)	(1,761,470)	(992,576)
Repayment of obligations under capital lease	(11,938)	-	(35,279)	-
Increase (decrease) in bank indebtedness	739,286	-	1,083,020	-
	<u>823,410</u>	<u>1,011,415</u>	<u>4,577,032</u>	<u>461,811</u>
Increase (decrease) in cash and cash equivalents	(144,479)	(503,463)	(3,888,392)	(666,605)
Cash & cash equivalents at beginning of period	1,711,530	4,810,823	5,455,443	4,973,965
Cash & cash equivalents at end of period	<u>\$ 1,567,051</u>	<u>\$ 4,307,360</u>	<u>\$ 1,567,051</u>	<u>\$ 4,307,360</u>
Cash (Deficiency) Consists of:				
Cash & cash equivalents	1,567,051	4,307,360	1,567,051	4,307,360

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
Nine Month Period Ended January 31, 2008
(Unaudited)

1. INCOME TAXES

(a) Non-capital losses

The Company has accumulated non-capital losses carried forward for income tax purposes of approximately \$1,508,772, 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		\$	92,534
2026			154,278
2027			515,455
2028			746,505
			<u>1,508,772</u>
		\$	<u>1,508,772</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:

	<u>January 31, 2008</u>	<u>April 30, 2007</u>
Income tax effect of taxable temporary differences:		
Net book value in excess of undepreciated capital cost for tax purposes	\$ 1,200,902	\$ 829,099
Non capital losses carried forward	(484,618)	(260,357)
Share issuance costs deductible for tax purposes	(138,456)	(138,456)
Book value of goodwill in excess of tax value	55,780	8,966
	<u>\$ 633,608</u>	<u>\$ 439,252</u>
Recognized future income tax liability		

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
Nine Month Period Ended January 31, 2008
(Unaudited)

2. SHARE CAPITAL

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

- (b) Common shares issued:

	January 31, 2008		April 30, 2007	
	Shares	Amount	Shares	Amount
Balance, beginning of period	12,427,833	\$ 8,179,174	12,378,978	\$ 8,116,478
Issued on exercise of options	-	-	9,260	6,482
Issued on exercise of warrants	-	-	39,595	33,656
Fair value of options on exercise	-	-	-	22,558
Cancellation of repurchased shares	(136,500)	(75,725)	-	-
Issued pursuant to asset acquisition of North End Oil Industries	92,592	50,000	-	-
Issued pursuant to asset acquisition of KD Trucking (1989) Ltd.	592,199	300,000	-	-
Balance, end of period	12,976,124	\$ 8,453,449	12,427,833	\$ 8,179,174

In May 2007, the Company issued 92,592 common shares as part of an acquisition. *See Note 4*

In October 2007, the Company issued 592,199 common shares as part of an acquisition. *See Note 4*

In May 2007, the Company cancelled 136,500 shares which had been repurchased under a normal course issuer bid.

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DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
Nine Month Period Ended January 31, 2008
(Unaudited)

2. SHARE CAPITAL *(continued)*

(c) Stock options

The Company has a stock option plan under which directors, officers and employees of the Company and its affiliates are eligible to receive stock options. The maximum number of shares issuable pursuant to the exercise of outstanding options granted under the plan shall be 10% of the issued shares of the Company at the time of granting the options. The maximum number of common shares optioned to any one optionee shall not exceed 5% of outstanding common shares of the Company and options granted under the plan may not exceed five years. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policy or policies of the stock exchange(s) on which the Company's common shares are then listed.

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 period ended July 31, 2007, the Company granted 700,000 options on June 21, 2007 to directors and senior officials of the company. These options are vested equally over three years starting January 1, 2008. The fair value of the options granted was calculated assuming the risk free interest rate was 4.68%, the expected life of the options was five years and the expected volatility was 65%. The market price of the Company's shares at the grant date was equal to the option exercise price. The options granted resulted in stock based compensation expense and contributed surplus of \$122,180 for the nine month period.

During the period ended October 31, 2007, the Company granted 126,847 options on October 1, 2007 as part of the asset purchase and signing bonus to enter into a management contract. The fair value of the options granted was calculated assuming the risk free interest rate was 4.68%, the expected life of the options was five years and the expected volatility was 65%. The market price of the Company's shares at the grant date was lower than the option exercise price.

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DALMAC ENERGY INC.
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(Unaudited)

2. **SHARE CAPITAL** *(continued)*

The following table summarizes activity related to stock options:

	Number	Weighted Average Exercise Price January 31, 2008	Number	Weighted Average Exercise Price April 30, 2007
Balance, beginning of period	879,189	\$ 0.85	888,449	\$ 0.85
Granted	826,847	0.55	-	-
Expired	(18,407)	-	-	-
Exercised	-	-	(9,260)	0.70
Outstanding, end of period	<u>1,687,629</u>	<u>\$ 0.71</u>	<u>879,189</u>	<u>\$ 0.85</u>
Exercisable, end of period	<u>1,220,962</u>	<u>\$ 0.79</u>	<u>879,189</u>	<u>\$ 0.85</u>

The following table summarizes stock options outstanding at January 31, 2008:

Expiry Date	Number outstanding	Exercise Price
February 28, 2008	480,000	1.25
December 22, 2008	255,782	0.30
December 22, 2008	125,000	0.45
June 21, 2012	700,000	0.54
October 1, 2012	126,847	0.60
	<u>1,687,629</u>	

(d) **Warrants**

The following table summarizes warrants outstanding at January 31, 2008:

	Expiry Date	Exercise Price	Warrants Outstanding January 31, 2008	Warrants Outstanding April 30, 2007
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	<u>2,400,000</u>	<u>2,400,000</u>
			<u>2,400,000</u>	<u>3,074,616</u>

The weighted average exercise price of the outstanding warrants is \$1.50.

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
Nine Month Period Ended January 31, 2008
(Unaudited)

3. CONTRIBUTED SURPLUS

The following table summarizes the changes in contributed surplus:

	January 31, 2008	April 30, 2007
Balance, beginning of period	\$ 409,225	\$ 431,783
Stock based compensation issued to directors and senior officials	122,180	-
Fair value of options issued on acquisition	30,722	(22,558)
Balance, end of period	\$ 562,127	\$ 409,225

4. ACQUISITIONS

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 which comprised of \$1,500,000 cash, \$375,000 promissory note, and 92,592 common shares valued at \$0.54 per share totaling \$50,000.

Effective July 31, 2007 the Company acquired for cash and mortgage, a property with building located in Fox Creek. The purchase price was \$625,000 which comprised of \$187,500 cash and \$437,500 mortgage. The mortgage is a callable instrument bearing interest at prime rate plus 1.25% and is repayable over 10 years.

Effective October 1, 2007 the Company acquired for cash, a promissory note and common shares, the assets and business of KD Trucking (1989) Ltd. (KD). KD operates a fleet of service vehicles and equipment used in the oil and gas industry in Central Alberta. The purchase price was \$3,600,000 which comprised of \$2,800,000 cash, \$500,000 promissory note, and 592,199 common shares valued at an average of \$0.51 per share totaling \$300,000.

5. CHANGE IN ACCOUNTING ESTIMATE

Effective May 1, 2007, the Company has adopted a change in estimate in relation to the amortization of service vehicles and equipment to reflect a net book value comparable to fair market value.

6. RECOVERY OF EXPENSES

Recovery of expenses has been recognized in the quarter relating to unclaimed Goods and Services Tax input credits. This is an ongoing investigation and therefore the amount is estimated.

7. COMPARATIVE FIGURES

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