



**Second Quarter Interim Report
For the Three and Six Months Ended October 31, 2006**

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This Management Discussion and Analysis (MD&A) dated December 27, 2006 focuses on key statistics from the consolidated financial statements for Dalmac Energy Inc. for the three and six month periods, ("Q2'07" and "YTD' 2007"), ended October 31, 2006. It also, 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.

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 subsidiaries 750761 Alberta Ltd. and McClelland Oil Services Inc.

Corporate Overview

Dalmac Energy Inc. provides "hot oiler", "hydro vac", "vacuum", "pressure" and "tanker truck" services to the west central Alberta energy sector. Other products and services provided by the Company include "methanol/glycol", and "KCL" distribution and delivery. The Company presently has a total of 67 service units. Dalmac has committed to a \$5.0 million procurement of new equipment, via direct purchase and or lease, the delivery of which is expected the third quarter of fiscal 2007 ("Q3'07"). This purchase will increase the number of service units to 89.

On April 30, 2005 the Company changed its year end date from December 31 to April 30 resulting in a 16 month year for the financial period ended April 30, 2005. This new year end date will represent the basis for all future financial reporting. This change of year end, however, had the effect of creating dissimilar quarters. Therefore, for the sake of clarity, the comparison of quarters, are referenced by the term "Period Ended" (See Summary of Quarterly Results).

Revenue

The revenue for Q2'07 decreased by \$1.2 million to \$2.2 million or 36% from the \$3.5 million reported in the same quarter last year. Revenues were impacted by weather, decrease in drilling activity and longer road closures than last year. The year to date revenues have decreased by \$1.8 million to \$4.4 million or 30% from the \$6.3 million reported at the same period last year. Over the past six months about 45% of the Company equipment was assigned to the drilling sector. The slow down in drilling activity along with concurrent weather and road closures, has had compounding impact on Dalmac's utilization levels. While striving to maintain a healthy balance between servicing the drilling and production sectors, Dalmac has allocated the \$5.0 million purchase of new equipment, scheduled to be delivered in Q3'07, to the production sector. This is expected to provide for increased and more stabilized utilization levels. The Company has current

commitments for the deployment of this equipment. In preparation for receiving this new equipment ordered for Q3' 07, Dalmac has reduced the number of sub contractors utilized during this quarter. Sub contractors were primarily utilized in production operations. This production work will be picked up by Company equipment, which will yield higher revenues and bigger margins.

Gross Margin

Gross margin for Q2'07 decreased by \$0.5 million to \$510,110 or 48% from the \$981,522 in the previous year. The year to date (YTD' 2007) gross margin also decreased by \$0.5 to \$1.0 million or 33% from \$1.6 million in the previous year. The Company's second quarter is traditionally a marginal quarter following up on the heels of decreased summer activity. It is also a ramping up period for the busy winter season ahead. In preparation for the increased winter activity, the Company normally increases its hiring and training programs along with final winter equipment preparations. The decrease in gross margin is a reflection of both lower activity levels as a result of weather, road bans, decreased drilling activity and fewer sub contractors.

General and Administrative ("G&A") Expenses

General and administrative ("G&A") costs for Q2'07, which represent all non-direct operational costs, increased marginally by \$14,864 to \$287,997 or 5% from the \$273,133 reported in the previous year. The year to date (YTD' 2007), G&A costs, slightly increased by \$3,195 to 489,174 or 1% from the \$485,979 reported in the previous year. Wages & Benefits for Q2'07 decreased \$142,178 to \$274,233 or 34% from the \$416,411 reported last year. Improved efficiencies in personnel utilization enabled Dalmac to decrease Q2'07 G&A and wages by \$127,314 to \$562,230 or 18% from the 689,544 reported in the same period last year.

Amortization of Property and Equipment

Amortization of property and equipment, for Q2'07 decreased by \$15,181 to \$202,467, or 7%, from the \$218,119 in the same period last year. The six month amortization, for the quarter ended October 31, 2006, decreased by \$194,134 to \$415,403 or 32% from the \$609,537 reported at the same period last year. Amortization calculations are dependant on the timing of additions and dispositions to any property and equipment.

Interest Expense

In Q2'07, the interest expense for long term decreased by \$15,181 to \$60,294 or 20% from the \$75,475 in same quarter of the previous year.. The six month year to date amount, for the same expenses, decreased by \$19,168 to \$127,601 or 13% from the \$146,769 reported in the previous year.

Income Taxes

The Company was not in a taxable position in Q2'07. The company has utilized tax loss carry forwards as at April 30, 2006, the benefit of which has been recognized in the consolidated financial statements. At the six months ended at Q2' 07, the future tax liability increased by \$64,193 to \$375,825 or 20% from the \$311,632 reported for the same period last year.

Summary of Quarterly Results

	Q2' 07 Period Ended 31-Oct-06	Q1' 07 Period Ended 31-Jul-06	Q4' 06 Period Ended 30-Apr-06	Q3' 06 Period Ended 31-Jan-06
(000's Cdn Dollars, except per share)				
Revenue	2,226	2,195	4,018	4,533
Net income (loss)	(255)	(86)	535	411
Net income per share - basic	(0.02)	(0.01)	0.08	0.06
Net income per share - diluted	(0.02)	(0.01)	0.07	0.05

	Q2' 06 Period Ended 30-Oct-05	Q1' 06 Period Ended 31-Jul-05	*Q6' 05 Period Ended 30-Apr-05	Q5' 05 Period Ended 31-Mar-05
(000's Cdn Dollars, except per share)				
Revenue	3,472	2,807	784	4,442
Net income (loss)	33	(238)	(296)	628
Net income per share - basic	0.01	(0.04)	(0.07)	0.15
Net income per share - diluted	0.01	(0.04)	(0.07)	0.13

* The quarter endings do not conform to a normal fiscal year due to the year end changes associated with the qualifying transaction which resulted in a 16 month year.

Net income for Q2'07 was (\$255,356) or (\$0.02) per share compared to \$32,798 or \$0.01 per share in the same period last year.

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.

In Q2' 07 the Company expanded its banking facility to \$9.0 million, which consists of a \$3 million line of credit and a \$6 million demand Revolving Term Loan. 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%) and the rate on the term loan is a floating rate equal to 1.25% above the bank's prime lending rate. In addition, the Company has a secured \$5.0 million leasing line of credit with Daimler Chrysler Financial Services Ltd. At October 31, 2006, bank indebtedness was zero compared to \$597,000 at the same period last year.

The long term debt, as of October 31, 2006, increased by \$131,322 to \$2.6 million or 5% from the \$2.4 million at the year ending April 30, 2006. The callable debt consisted of, bank loans payable for equipment purchases and remains at \$200,868.

On September 27, 2005 the Company completed a short form offering of 1,428,571 units at a price of \$0.70 per unit, for total proceeds of \$1 million. Each unit consists of one common share and one half share purchase warrant; each whole share purchase warrant entitles the holder to purchase on additional common share at a price of \$0.85 per share if exercised by September 27, 2007. The Company also granted agents' options to purchase a total of 142,857 units at a price of \$0.70 per unit as part of the agent's compensation in connection with this offering.

On February 28, 2006, Dalmac completed a bought deal private placement with Research Capital Company for total proceeds of \$6,000,000 through the sale of 4,800,000 units at \$1.25 per unit. Each unit consists of one common share and one half of one common share purchase warrant of the Company. Each common share purchase warrant entitles the holder to purchase one common share at \$1.50 and is valid for 24 months from closing. Underwriting fees consisted of 8% cash commission on the gross proceeds with options to acquire 480,000 units at an exercise price of \$1.25, such options expire February 28, 2008.

Working Capital

As of October 31, 2006, the Company had a positive working capital of \$5.6 million, an increase of \$69,488 million over \$5.5 million reported at the year ended April 30, 2006. The Company believes that it has adequate capital resources available to meet its 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

		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Equipment	\$	651,177	597,913	569,425	380,475	38,949
Premises		<u>215,494</u>	<u>215,494</u>	<u>66,505</u>	<u>0</u>	<u>0</u>
	\$	866,671	813,407	635,930	380,475	38,949

Shareholders' Equity

At the six months ended October 31, 2006, the shareholders' equity decreased by \$352,606 to \$9.2 million or 3% from the year ended April 30, 2006. Retained earnings decreased \$363,244 to \$629,022 or 37% from the \$992,266 reported at April 30, 2006.. The major components of this decrease were the \$255,356 net income loss reported in Q2' 07.

Summary of securities as at the end of the reporting period

	Amount Authorized	Outstanding as at 31-Oct-06	Outstanding as at 30-Apr-06
Common Shares	Unlimited	12,427,833	12,373,978
Preferred Shares	Unlimited	Nil	Nil

As of the date of this MD&A the following table summarizes the issued and outstanding shares options and warrants:

Common Shares	Options	Warrants
12,427,933	904,189	3,069,986

Related Party Transactions

During the six months ended at Q2' 07, the Company leased premises from 1010417 Alberta Ltd., a company owned by a director of the Company, for a total consideration of \$40,800. (2006-\$40,800). As of October 31, 2006, the Company was indebted to a director of the Company for an amount of \$140,000. There was no interest due on this loan during Q2'07. The aforementioned transactions are in the normal course of operations and have been valued in the April 30, 2006 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 Principals (GAAP) and sometimes 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, to be delivered in Q3' 07. Due to manufacturing delays the receipt of the units has been pushed back two months. The revised delivery dates will be between January and February 2007. This equipment will consist of pressure trucks, sour sealed tri drive haulers, chemical trucks, combination vacs, sour sealed bulkers and various other equipment.

Subsequent Events

There have been no subsequent events of any significance since Q1' 07.

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 services can be 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.

The Company is focusing more on oil field production services rather than drilling related operations, which should insulate Dalmac somewhat from any changes in commodity prices. Oil and Gas Production provides a steady baseline demand for the company's services. However, some competitors that are affected initially by reduced exploration activity, may have idle

equipment which may be deployed into production activities. This could increase competition and put pressure on margins for Dalmac's core operations.

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 is confident that it has adequate working capital, cash flow from operations, and access to capital to fund its ongoing business requirements. The Company's current cost structure has sufficient variability to be able to adapt to the volatility of the industry. Dalmac has experienced management at all levels of operations who are motivated to achieve success for the Company

Q2' 07 has witnessed a temporary reduction in drilling activity due to gas commodity pricing and issues over day rates for drilling services. There has also been an extension of weather and road closure issues to deal with. A 3 month bridge closure on the Big Stone road north west of Fox Creek, Alberta has impaired revenue by about 24%. Also, the main ANC haul road south west of Fox Creek has experienced travel restrictions for about 79% of the time during the six months ended October 31, 2006. These issues are expected to rectify themselves in the winter months.

Activity levels in the third quarter have recovered from the end of the second quarter but are being impacted by early winter conditions during which rain and snowfall retards mobility and reduces the utilization of equipment. Commodity prices have improved since Q2' 07. Natural gas, which has been the main driver behind drilling activity, has gone through a period of reduced demand due to high storage levels. It is expected that drilling activity will recover as the surplus gas storage levels are diminished over the course of 2007. Oil prices, on the other hand, continue to remain high and reservoir declines tend to propagate continued activity. Exploration and production from the Western Canadian Sedimentary Basin is also continuing at near record levels. This, in turn, creates a healthy environment for Dalmac's services in the foreseeable future.

Higher commodity prices and increased drilling activity will continue to generate a steady and growing demand for Dalmac's services. The continuing demand to increase the extraction of production from field operations creates excellent growth opportunities for Dalmac. Continued demand for Dalmac's services in production activities encourages the expectation of ongoing growth in revenue.

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 these opportunities that may present themselves. In doing so the Company may incur debt, issue equity, or any combination of the foregoing.

Disclosure Controls and Procedures

As defined in Multilateral Instrument 52-109, disclosure controls and procedures require controls and other procedures be designed to provide reasonable assurance that financial and non-financial information required to be disclosed is duly recorded, processed, summarized, accumulated and

communicated to management. Such information must be disclosed on a timely basis and be in accordance with provincial and territorial securities legislation.

The Company has designed and evaluated the effectiveness of its disclosure controls and procedures, as defined, and has concluded they were effective as of the end of the period covered by this report.