



Year Ended April 30, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

*This Management Discussion and Analysis ("MD&A") prepared August 27, 2009 focuses on key statistics from the audited consolidated financial statements of Dalmac Energy Inc. for the year ended April 30, 2009 ("YE'09"), and pertains to known risks and uncertainties relating to Dalmac's operations in the oilfield services industry. This MD&A should be read in conjunction with the Corporation'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 Corporation's financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"). The Corporation's MD&As 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](http://www.sedar.com) or on the Corporation's web site at [www.dalmacenergy.com](http://www.dalmacenergy.com).*

**Non-GAAP Measures:** *Dalmac uses certain non-GAAP measures as indicators of financial performance and believes that these non-GAAP measures provide useful information to shareholders. EBITDAS and gross margin are measures used by the Company and which have no standardized meaning under GAAP. The Company's method of calculating EBITDAS and gross margin may differ from other companies and may not be comparable. EBITDAS is defined as earnings before interest, taxes, depreciation and amortization, gain or loss on sale of property, plant and equipment, and stock based compensation. Management believes that in addition to net income, EBITDAS is a useful supplemental measure which provides an indication of the operating cash flow generated by the Company. EBITDAS is not intended to represent an alternative to net income as determined with GAAP as an indicator of the Company's performance. Gross margin is defined as revenue less cost of sales. Cost of sales includes direct labor and costs directly associated with the provision of goods and services.*

**Forward Looking Statements:** *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 Corporation to be materially different from any future results implied or contemplated by such forward looking statements. Some of the risks that may cause actual results to vary are described under the "Business Risks" section. References made in this MD&A, to "Dalmac", the "Corporation", "Company", "us", "we" and "our" mean Dalmac Energy Inc. and its subsidiaries Dalmac Oilfield Services Inc., 1421771 Alberta Ltd. and 1353245 Alberta Ltd.*

### **Overview**

Dalmac Energy Inc. (TSX Venture "DAL") is a growing company which specializes oilfield servicing, fluid hauling, chemical sales, tank rentals and rig moving. Headquartered out of Edmonton, Dalmac's operations have been servicing west central Alberta for over 53 years. The Company's equipment consists of 167 pieces of rolling stock service equipment which includes, tank, vacuum, hydro-vac, pressure, hot oiler, acid flush, steamer, picker and winch trucks in addition to 250 pieces of oilfield tanks and matting which is rented out to customers. Dalmac currently employs over 110 people in its operations in Fox Creek, Hinton, Edson, Warburg and Pigeon Lake, Alberta.

### **Operating Results**

The following analysis of the Company's results of operations refer to the years ended April 30, 2009 and 2008 ("YE'09" and "YE'08") along with three month (fourth quarter) periods then ended referenced as "Q4'09" and "Q4'08". This MD&A uses abbreviations "M" for million(s) and "K" for thousand(s)".

## Selected Financial Information

(000's Cdn Dollars, except per share data)	YE' 09	YE' 08	Q4' 09	Q4' 08
Revenues	21,870	16,160	6,200	4,838
Gross Margin	5,757	4,389	1,322	886
Gross Margin %	26%	27%	21%	18%
General and administrative expenses*	1,353	1,190	373	299
EBITDAS (loss)	2,502	1,888	399	290
EBITDAS per share - basic	0.19	0.15	0.03	0.02
EBITDAS per share - diluted	0.19	0.15	0.03	0.02
Stock based compensation	65	138	4	42
Interest	716	668	141	199
Depreciation and amortization	1,790	1,348	460	377
Impairment of Goodwill	(2,128)	0	(2,128)	0
Net (loss)	(1,909)	(119)	(2,414)	(147)
Loss per share - basic	(0.15)	(0.01)	(0.19)	(0.01)
Loss per share - diluted	(0.15)	(0.01)	(0.19)	(0.01)
Total Assets	23,946	23,088	23,946	23,088
Total long-term financial liabilities**	6,033	6,233	6,033	6,233
Shareholder Equity	8,075	9,919	8,075	9,919
Weighted average common shares -basic	12,974,522	12,662,100	12,974,522	12,662,100
Weighted average common shares - diluted	12,974,522	12,662,100	12,974,522	12,662,100

\* General and administrative expenses include travel and automotive, advertising & promotion, telephone and utilities, insurance, business taxes and training.

\*\* Includes callable debt and callable capital lease obligations due beyond one year.

Total revenue for YE'09 increased by 35%, or \$5.7M, to \$22M from the \$16M reported at YE'08. Total revenues for Q4'09 increased by 28%, or \$1.4M, to \$6.2M from the \$4.8M reported in Q4'08. This increase in revenue was largely due to securing more production related contracts as a result of continuing efforts to expand operations into this market segment as well as from the acquisition of Tinky Rentals L.P. and Tinky Trucking L.P. (the "Tinky Group") of Edson, Alberta which was completed September 15, 2008. The Tinky Group acquisition contributed approximately \$3M to the total revenue.

The YE'09 gross margin increased by 31%, or \$1.4M, to \$5.8M from the \$4.4M reported at the same period last year. The gross margin for Q4'09 increased by 49% or \$436K to \$1.3M from the \$886K reported in Q4'08. On a year to date basis, the gross profit margin, as a percentage of revenue, decreased less than 1% from the previous year despite the rack rate cuts implemented due to the current competitive environment which placed downward pressure on pricing. The current quarter was materially affected by decreased drilling activity and increased competition in addition to customer requests for rate cuts. In Q3'09, the Company responded to customer demands for rate cuts, in the amount of 20-30%, by reverting to its 2005 rack rates. The YE'09 direct costs as a percentage of revenue, increased by 37% compared to the same period last year while revenue increased by 35%. Since YE'09 the Company has responded to this erosion of profit margins by reducing purchasing costs wherever possible, including without limitation, the elimination of 5 non-essential staff positions, restricting any non-essential overtime and restructuring overlapping start- stop times for shop and dispatch personnel. The Company is also committed to the continued review and implementation of additional salary or wage reductions should there be any further deterioration of margins or activity levels. Competitive factors and the timing of revenues, combined with infrastructure costs, may cause gross margins to vary from time to time.

At YE'09 the EBITAS increased by 33%, or \$615K, to \$2.5M from the \$1.9M reported at YE'08. EBITDAS for Q4'09 increased by 38%, or \$109K, to \$399K from the \$290K reported in Q4'08. The net loss at YE'09 after allowing for impairment of goodwill was \$1.9M compared to \$119K for the same period last year. The impairment of goodwill contributed to a \$2.1M reduction of income for YE'09. Without the goodwill impairment the net income for YE'09 would have been \$219K compared to loss of \$119K for YE'08. In Q4'09, before the goodwill impairment charge, the Company suffered a net loss of \$286K compared to a loss of \$147K reported in Q4'08. After goodwill impairment the net loss for Q4'09 was \$2.4M.

At YE'09, after allowing for the goodwill impairment, the Corporation's total assets increased by 4%, or \$857K, to \$24M as compared to \$23M for YE'08. Total liabilities increased by 14% , or \$1.8M to \$16M as compared to \$13M in the previous year. The current net book value of the Company's common shares is \$0.62 per share (basic).

### **Expenses**

The YE'09 expenses increased by 25%, or \$1.1M, to \$5.8M from the \$4.6M reported for the same period last year. In Q4'09 the expenses increased by 14%, or \$180K, to \$1.5M from the \$1.3M reported in Q4'08. This increase in expenses is consistent with the increased costs associated with the operational expansions and acquisitions made over the course of the year.

The amortization of property and equipment at YE'09 increased by 33%, or \$441K, to \$1.8M from the \$1.3M reported last year. Amortization for Q4'09 increased by 22%, or \$84K, to \$460K from the \$377K reported in Q4'08. Amortization is dependent on the timing of additions to property and equipment. This increase is also consistent with the additional operating equipment acquired through the acquisition described in this and earlier MD&As.

The total interest expense at YE'09 increased by 7%, or \$48K, to \$716K compared to the \$668K reported at YE'08. Total interest expenses for Q4'09 decreased by 29%, or \$57K, to \$141K from the \$199K reported in Q4'08. Much of the Q4'09 savings is directly attributable to the refinancing of various operating leases and other long term equipment debt at lower interest rates which in turn resulted in a significant monthly payment reduction.

All financing done through the Corporation's bank is referenced as callable debt. The callable debt was used for purchases of equipment and property referenced in this and earlier MD&A's for previous periods.

The bank charges at YE'09 decreased 26%, or \$14K, to \$40K compared to the \$53K reported at YE'08. Bank charges for Q4'09 increased by \$2K to \$3.1K from the \$1.3K reported in Q4'08. Bank charges are not referenced separately on the financial statements but are included under general and administrative expenses. Changes to the bank charges are consistent with the refinancing charges and debt repayments which were incurred over the course of the year.

Stock based compensation expense at YE'09 decreased by 53%, or \$73K, to \$65K compared to the \$138K reported at YE'08. In Q4'09 the stock based compensation expense decreased by 91%, or \$38K, to \$3.8K compared to the \$42K reported in Q4'08. Stock based compensation is a non-cash expense that is recorded in accordance with GAAP each time stock options are issued. The stock option expense has been calculated in accordance with the Black-Scholes option pricing model. Stock based compensation is not referenced independently in the financial statements but is included as part of wages and benefits (Note 14-d). All the stock options relating to this stock based compensation expense are subject to a three year vesting period.

At YE'09, the Company incurred a loss on the disposal of property and equipment in the amount of \$71K as compared to no such loss for the same period last year. The disposal of the aforementioned is associated with the sale of equipment which was deemed no longer useful to the Company's operations.

### Impairment of Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets of acquired businesses. Goodwill is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. The determination of fair value is based on estimates or normalized earnings, price earnings multiples, cash flow, discount rates and terminal values. Such estimates require judgment.

With the current economic conditions and the decrease in share value, the Company concluded that the carrying value of goodwill was impaired and as such took a charge of \$2.1M for YE'09. Economic conditions that mainly impacted the charge were:

- Low commodity prices which negatively impacted oil and gas producers
- Reduced levels of exploration and development activity by energy producers in Western Canada which negatively impacted oil and natural gas drilling
- Downward pricing pressure resulting from a more competitive environment

This charge is not tax deductible.

### Income Taxes

At YE'09 the company was not in a taxable position. The future tax benefit at YE'09 was \$273K as compared to a benefit of \$9K at YE'08. The accumulated future taxes as reported on the YE'09 balance sheet decreased \$273K, to \$229K as compared to the \$502K reported in the YE'08 statements. Future taxes are a liability which largely results from the differences between what is presented in the financial statements and the tax treatment of the affected transactions, assets and liabilities.

### Summary of Quarterly Results

	Q4' 09	Q3' 09	Q2'09	Q1'09
	Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended
(000's Cdn Dollars, except per share data)	30-Apr-09	31-Jan-09	31-Oct-08	31-Jul-08
Revenue	6,200	6,535	5,167	3,970
Net income (loss)	(2,414)	236	148	(425)
Net income (loss) per share - basic	(0.19)	0.02	0.01	(0.03)
Net income (loss) per share - diluted	(0.19)	0.02	0.01	(0.03)

	Q4'08	Q3'08	Q2'08	Q1'08
	Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended
(000's Cdn Dollars, except per share data)	30-Apr-08	31-Jan-08	31-Oct-07	31-Jul-07
Revenue	4,838	5,551	3,234	2,537
Net income (loss)	(147)	202	4	(198)
Net income (loss) per share - basic	(0.01)	0.02	0.00	(0.02)
Net income (loss) per share - diluted	(0.01)	0.01	0.00	(0.01)

#### *Q4'09 vs. Q4'08*

This quarter is very much dependent on prevailing weather conditions and road bans which can commence at any time during the months of March and April. These conditions affect the access to work areas and the timing of customer budget spending plans. Revenues in Q4'09 increased by 28%, or \$1.4M, to \$6.2M as compared to the \$4.8M reported in Q4'08. Despite the fact that the oilfield services industry was experiencing a record low in activity levels at this time, Dalmac managed to increase its revenues by 28% during this period. This is mainly due to greater focus on the production segment of the industry and the acquisition made in Q2 of this fiscal year. The net income in Q4'09 was adversely impacted by April road bans as a result of spring breakup conditions along with customer rate cuts of between 20 – 30% which were implemented during this period. When road ban and spring break up occur the Company usually takes advantage of this slow period to complete the necessary repairs, maintenance and certifications on its operating equipment.

#### *Q3'09 vs. Q3'08*

This is generally one of the busiest quarters for Dalmac. This is when the oil and gas drilling activity is at its highest levels during the year. The ground and unpaved roads are frozen which permits the Company to access and conduct work in the project areas. However in Q3'09 the drilling activity levels were very low compared to previous years. The drilling utilizations (based on the Canadian Association of Oilwell Drilling Contractors "CAODC") in Q3'09 were about 40% compared to about 49% in Q3'08. Dalmac was able to improve its performance in Q3'09 over the same quarter in the previous year because of its business acquisitions and new equipment purchases which enabled the Company to increase its market share of production operations.

#### *Q2'09 vs. Q2'08*

Q2'08 covers the period from August to October. It has traditionally been a breakeven quarter at best. This is because the Company was more synchronized with the drilling cycles. This quarter is also affected by prevailing weather conditions and the timing of customer capital budget expenditures. Activity levels improved for Dalmac in Q2'08 with the acquisition of KD Trucking and more production related work. Lower natural gas prices continued to plague the industry drilling sector.

#### *Q1'09 vs. Q1'08*

Q1 is traditionally Dalmac's slowest quarter due to the spring break up and road bans. As the ground thaws regulators and landowners prohibit the Company from accessing most work areas until the ground dries out and becomes passable to heavy equipment that may cause damage to the land. Traditionally road bans are lifted in May. The Company is further restricted from certain areas that protect various wildlife species during their migrations and calving seasons, which usually extend to the middle of June. Production related projects are often given a waiver with respect to road bans which include such things as limiting hauls to half loads etc. The combined breakup conditions and depressed drilling activity contributed to make for a worsening of circumstances. Continuations to repairs, maintenance and certifications are also made in Q1 due to much of the equipment being idle at this time. This places increased operating costs on a slower than normal quarter.

### **Liquidity and Capital Resources**

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

Liquidity and capital resources are dependent upon the results of operations, commodity prices, capital expenditures and debt service charges. Cash flow from operating activities, for YE'09,

increased by 11%, or \$177K, to \$1.8M from the \$1.6M reported in the previous year. Investing activities decreased 154%, or \$11M, to \$3.8M from the \$7.0M reported at YE'09. The financing activities for YE'09 decreased 59%, or \$909K, to \$636K from the \$1.6MM reported for YE'08.

On October 23, 2008 the Company renewed its finance facility with its major lender. The new agreement provides for a \$1.0M increase to the existing demand revolving operating overdraft segment and a further increase of \$1.0M to the demand revolving loan segment. The combined total facility is for \$8.0M which is comprised of \$4.0M for the operating overdraft segment and \$4.0M for the revolving loan segment. The unused portions of these facilities at YE'09 is about \$1.2M on the operating overdraft and about \$1.7M on the loan segment portion.

On December 11, 2008 the Company entered into a new finance facility with its major lender to increase its credit facilities by \$1.6M. This new facility was used to payout certain existing debt and operating leases with new term debt on more favorable terms. At YE'09 the unused portion of this facility was \$100K. This restructuring has reduced monthly payments by about \$38K. The total borrowing facilities with the major lender currently stands at \$9.6M.

### **Long-Term Debt**

At YE'09 the long term debt decreased by 34%, or \$1.4M, to \$2.8M from the \$4.3M reported at YE'08. Callable debt increased by 75%, or \$1.3M, to \$3.0M from the \$1.7M reported at YE'08. This is consistent with the refinancing referenced earlier in this MD&A. Property and equipment at YE'09 increased by 21%, or \$3.3M, to \$19M from the \$15M reported at YE'08. These balances reflect expenditures which were mainly for operating equipment purchases either directly or through acquisitions of business concerns. Capital lease obligations decreased by 25%, or \$54K, to \$165K from the \$220K reported at YE'08. The increase in callable is consistent with increasing balances on financings related to equipment purchases and acquisitions. As a result of increased operational activities, bank indebtedness on the operating line increased to by 49%, or \$918K, to \$2.8M from the \$1.9M reported at YE'08.

As part of the September 15, 2008 purchase of the Tinky Group, the Corporation authorized the issuance of 900,000 redeemable preferred shares from 1421771 Alberta Ltd., which is a wholly owned subsidiary of the Corporation. This transaction is recorded in the financial statements of the current period as a non-controlling interest in a subsidiary in the amount of \$900K.

At YE'09 certain debt covenants with respect to the Company's credit facilities had not been met. The current ratio requirement of 1:1 was at 0.64:1 and the debt service ratio of 1.10:1 was at 1.06:1. Dalmac is currently working with its bank to remedy these covenant breaches by restructuring its long term debt over a longer period.

### **Working Capital**

At YE'09, excluding callable debt and callable capital lease obligations due beyond one year, the Company had a working capital deficit of \$3.5M compared to a deficit of \$898K at YE'08. This deficit consists of \$2.8M draw down on the revolving credit line which supplements the working capital. The callable debt (bank financing for property mortgage and equipment purchases) has been excluded from the calculation of working capital and is considered long term for the purposes of this report. Capital lease obligations are also excluded from the working capital calculation. Dalmac believes it has sufficient working capital, cash flow from operations, and access to capital to fund its ongoing business requirements.

## 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

		2010	2011	2012	2013	2014
Equipment	\$	31,388	11,187	6,371	4,352	2,909
Premises		520,181	457,595	347,955	109,633	
Management Contracts		252,114	50,000	-	-	-
	\$	803,683	518,782	354,326	113,985	2,909

*Management contracts:* The Company pays consulting fees of \$10,000 per month, pursuant to a contract agreement expiring on September 1, 2010. In addition, if the Company's net income after tax reaches or exceeds \$800,000, the contract agreement requires a bonus payment of 2% of the Company's net income after tax. The Company pays consulting fees of \$10,000 per month, pursuant to a contract agreement expiring on September 15, 2009. In addition, the consultant is entitled to a bonus based upon EBITDA to a cumulative maximum bonus of \$200,000.

## Shareholders' Equity

Consistent with the results of operations, shareholders' equity decreased by \$2.2M to \$7.7M, from the \$9.9M reported at YE'08. The total assets of the Company increased by 4%, or \$857K, to \$24M from the \$23M reported at YE'08.

## Related Party Transactions

In YE'09 the Company leased premises from a company controlled by a director of the Company for a total consideration of \$109K which represents an increase of \$27K over the \$81K paid during YE'08. This increase is due to an expansion of the shop facilities which was required in the normal course of business and the subsequent lease arrangements entered into at fair market value. The Company is indebted to a director of the Company for an amount of \$88K (2008 - \$133K). An interest expense of \$4.5K (2008 - \$1.2K) has been paid to that director during the year.

At YE'09 the Company paid or accrued management and consulting fees to a company controlled by a director in the amount of \$156K, compared to \$130K in the previous year. The Company pays consulting fees of \$12K 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 2009 financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## Outstanding Share Data

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

Common Shares	Options	Warrants
12,974,522	775,000	0

**Subsequent Events**

The company is currently engaged in refinancing its existing debt on more favorable terms which should resolve the working capital and covenant compliance issues with its bank.

**Outlook**

Management believes that the long term outlook for its products and services remains positive. However, in the short term, clouds of uncertainty still loom over the oilfield services industry. Our industry is marred by the global economic crisis which has kept commodity prices depressed. This has also dried up the debt and equity markets which the oil and gas producers rely on to finance their operations. Producers have been forced to shore up their balance sheets by reigning in their spending to match realistic cash flows. The loosening of the purse strings by the producers is expected to occur when there is a likelihood of sustained periods of higher commodity prices especially, in our part of the world, gas prices. Increased sustainability of commodity prices should have a matching effect on drilling utilization levels which will in turn benefit the whole industry.

Dalmac has responded to reduced drilling utilization levels by focusing on production services, trimming unnecessary overhead and reducing costs. Dalmac expects that this will have a positive effect on revenue, profit margins and utilization levels during the normally slower spring and summer seasons.

Also, the Corporation's recent restructuring of its financing obligations on more favorable terms, along with reduced monthly payments, has given Dalmac greater flexibility to deal with unanticipated short term fluctuations in activity levels.

Dalmac's source of revenue stems from providing specialized oilfield fluid hauling, intervention, disposal, storage, and transportation services which are required for the exploration, development and production of oil and gas resources.

Presently, about 80% of Dalmac's revenues are derived from existing production services, which exclude drilling and well workovers. Any increased drilling, well workovers and additional production deriving there from will serve to further benefit the Company's revenue base. Dalmac continues to strive toward securing additional sources of production revenue while keeping a close eye on maintaining an optimal balance of commitment between production services and drilling activities. The Company is dedicated to maintaining and forging strong and healthy working relationships with our customers and vendors. Our objective is to provide our customers with a broader and more practical range of products and services in order to present a better solution for their needs.

In spite of the bleak short term outlook, management continues to believe in the long term fundamentals for the oil and gas services industry. The long term fundamentals still point to an increasing demand for oil and gas. Given the increasing decline in production rates in the Western Canadian Sedimentary Basin ("WCSB"), more drilling will be required to maintain current production levels.

Expansion opportunities are constantly subject to an ongoing review, which may include additional acquisitions that may involve the requirement for capital expenditures beyond the normal course for the Corporation. Dalmac may pursue any or all opportunities that may present themselves. In doing so the Corporation may incur debt, issue equity, or any combination of the foregoing.

## **Risk Management**

*Financial Instruments and Financial Risk Management:* 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.

As a result of adopting section 3855, the Company has designated its financial instruments as follows: 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 long 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.

Also on May 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3862 “Financial Instruments - Disclosures”, Section 3863 “Financial Instruments -Presentation” and Section 1535 “Capital Disclosures”. Section 3862 “Financial Instruments - Disclosures” and Section 3863 “Financial Instruments - Presentation” replace Section 3861 “Financial Instruments – Disclosures and Presentation”, revising disclosures related to financial instruments, including hedging instruments, and carrying forward unchanged presentation requirements. Section 1535 “Capital Disclosures” requires the Corporation to provide disclosures about the Corporation’s capital and how it is managed. The adoption of these new accounting standards did not impact the amounts reported in the Corporation’s financial statements; however, it did result in expanded note disclosure in the financial statements.(For more detail see Note 2 of YE’09 financial statements.)

*Business Risks:* Activity in the oil and gas industry is subject to a range of external factors that are difficult to manage, including resource demand, commodity pricing and climate. These include risks associated with the current crises in the financial sector in the United States, which is having an impact on commodity prices, the availability of credit, and other factors that affect the business of the Company. The Company plans to mitigate these risks by focusing on strong balance sheet fundamentals and remaining responsive to changes in industry dynamics. The Company has a comprehensive insurance policy to help safeguard its assets, operations, and employees. This is reviewed annually and revised as changes in circumstances warrant.

*Credit Risks:* The Company currently transacts with oil and gas exploration companies and is exposed to the associated credit risk. Management continually assesses the credit worthiness of these customers and monitors all outstanding balances. Management views the credit risk of its account receivables as normal for its industry.

*Financing Risk:* The ability of the Company to complete its budgeted capital acquisition program and meet its payment obligations as they become due will continue to be dependent on its ability to secure sufficient funds through additional debt and equity financing and to generate positive cash flow from operations.

*Supplier Risk:* The Company has a large portion of its service equipment and associated equipment manufactured by a single provider. While this arrangement provides certain market

advantages, it also exposes the Company to potential short-term vulnerability if this supplier experiences unusual production disruptions or labor disputes.

*Seasonal and Weather Risk:* Seasonal factors and unexpected weather patterns may lead to reduced oil and gas exploration activity and corresponding declines in the demand for the Company's services during various times of the year.

*Competitive Conditions:* The operating climate within the Western Canadian Sedimentary Basin is very competitive resulting in fluctuations of price and utilization rates. Dalmac attempts to mitigate these risks by creating good working relationships with its customers while focusing more on production operations and on longer term contracts.

### **Changes in Accounting Policies**

In February 2008, the Accounting Standards Board ("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 the 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.

For further information, please contact:

John Babic, President & CEO  
Telephone: 780-988-8510  
Facsimile: 780-988-8512  
E-mail: info@dalmacenergy.com