

# Consolidated Interim Financial Statements

(Unaudited)

Dalmac Energy Inc.

July 31, 2011

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## Dalmac Energy Inc. Consolidated Statements of Financial Position

As at (unaudited)	July 31 2011	April 30 2011 (Note 17)	May 1 2010 (Note 17)
<b>Assets</b>			
Current			
Cash	\$ 168,775	\$ 52,485	\$ -
Accounts receivable	4,917,574	6,627,121	3,361,114
Inventories	654,180	520,319	396,864
Current portion of note receivable	18,389	18,389	-
Prepays	<u>218,284</u>	<u>142,740</u>	<u>104,659</u>
	<b>5,977,202</b>	<b>7,361,054</b>	<b>3,862,637</b>
Property, plant and equipment (Note 5)	15,249,716	15,137,588	16,523,807
Note receivable	164,407	168,859	-
Intangible asset	<u>7,500</u>	<u>10,000</u>	<u>20,000</u>
	<b><u>\$ 21,398,825</u></b>	<b><u>\$ 22,677,501</u></b>	<b><u>\$ 20,406,444</u></b>
<b>Liabilities</b>			
Current			
Bank indebtedness (Note 6)	\$ 3,066,570	\$ 3,381,572	\$ 1,760,338
Accounts payable and accrued liabilities (Note 7)	3,202,741	3,539,232	3,031,756
Callable debt (Note 8)	-	-	3,226,730
Current portion of finance lease obligations	62,360	41,466	171,207
Current portion of long term debt	2,449,435	2,520,593	1,732,371
Current portion of preferred shares	<u>152,878</u>	<u>152,878</u>	<u>152,878</u>
	<b>8,933,984</b>	<b>9,635,741</b>	<b>10,075,280</b>
Finance lease obligations (Note 9)	232,463	136,625	-
Long term debt (Note 10)	3,460,538	3,901,557	3,411,863
Deferred tax liabilities	265,378	265,378	-
Preferred shares (Note 12)	<u>229,317</u>	<u>267,537</u>	<u>420,415</u>
	<b><u>13,121,680</u></b>	<b><u>14,206,838</u></b>	<b><u>13,907,558</u></b>
<b>Shareholders' Equity</b>			
Share capital (Note 12)	8,851,367	8,831,329	8,766,698
Warrants (Note 12)	145,227	148,765	160,800
Contributed surplus	654,503	651,708	641,915
Deficit	<u>(1,373,951)</u>	<u>(1,161,139)</u>	<u>(3,070,527)</u>
	<b><u>8,277,146</u></b>	<b><u>8,470,663</u></b>	<b><u>6,498,886</u></b>
	<b><u>\$ 21,398,825</u></b>	<b><u>\$ 22,677,501</u></b>	<b><u>\$ 20,406,444</u></b>

Going concern (Note 1)  
Commitments (Note 15)  
Post-reporting event (Note 18)

On behalf of the Board

See accompanying notes to the consolidated interim financial statements.

**Dalmac Energy Inc.**  
**Consolidated Statements of Loss and Comprehensive**  
**Loss**

Three months ended (unaudited)	July 31 2011	July 31 2010 (Note 17)
Revenue		
Service	\$ 5,362,940	\$ 3,577,710
Product	<u>197,013</u>	<u>236,080</u>
	<u>5,559,953</u>	<u>3,813,790</u>
Direct costs		
Service	3,997,822	2,504,398
Product	<u>189,747</u>	<u>182,873</u>
	<u>4,187,569</u>	<u>2,687,271</u>
Gross margin	<u>1,372,384</u>	<u>1,126,519</u>
Expenses		
Wages and benefits	535,605	440,780
Amortization of property, plant and equipment	503,100	476,403
General and administrative	349,233	240,945
Interest on long term debt	107,679	79,696
Interest on callable debt and other	59,473	69,266
Interest on obligations under finance lease	7,593	2,893
Amortization of intangible asset	2,500	2,500
Loss on disposal of property, plant and equipment	9,821	27,994
Preferred share dividend expense	<u>10,192</u>	<u>13,948</u>
	<u>1,585,196</u>	<u>1,354,425</u>
Loss before income taxes	(212,812)	(227,906)
Income tax	<u>-</u>	<u>-</u>
Net loss and comprehensive loss	<u>\$ (212,812)</u>	<u>\$ (227,906)</u>
Loss per share basic and diluted (Note 13)	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>

See accompanying notes to the consolidated interim financial statements.

**Dalmac Energy Inc.**  
**Consolidated Statements of Changes in Equity**  
(unaudited)

	Share capital	Warrants	Contributed surplus	Deficit	Total Equity (Note 17)
Balance at May 1, 2011	\$8,831,329	\$ 148,765	\$ 651,708	\$ (1,161,139)	\$ 8,470,663
Issue of share capital on exercise of warrants	20,038	(3,538)	-	-	16,500
Employee share-based payment options	-	-	2,795	-	2,795
Net loss	-	-	-	(212,812)	(212,812)
Balance at July 31, 2011	\$8,851,367	\$ 145,227	\$ 654,503	\$ (1,373,951)	\$ 8,277,146

	Share capital	Warrants	Contributed surplus	Deficit	Total Equity (Note 18)
Balance at May 1, 2010	\$8,766,698	\$ 160,800	\$ 641,915	\$ (3,070,527)	\$ 6,498,886
Employee share-based payment options	-	-	352	-	352
Net loss	-	-	-	(227,906)	(227,906)
Balance at July 31, 2010	\$8,766,698	\$ 160,800	\$ 642,267	\$ (3,298,433)	\$ 6,271,332

See accompanying notes to the consolidated interim financial statements.

# Dalmac Energy Inc.

## Consolidated Statements of Cash Flows

Three months ended  
(unaudited)

July 31  
2011

July 31  
2010  
(Note 17)

Increase (decrease) in cash and cash equivalents

### Operating

Net loss	\$ (212,812)	\$ (227,906)
Items not affecting cash:		
Amortization of property, plant and equipment	503,100	476,403
Loss on disposal of property, plant and equipment	9,821	27,994
Amortization of intangible asset	2,500	2,500
Share-based payment	<u>2,795</u>	<u>352</u>
	305,403	279,343
Change in non-cash operating working capital:		
Accounts receivable	1,709,546	314,446
Inventories	(133,861)	(90,064)
Prepays	(75,544)	(80,312)
Note receivable	4,452	-
Accounts payable and accrued liabilities	<u>(336,491)</u>	<u>296,365</u>
	<u>1,473,505</u>	<u>719,778</u>

### Financing

Net proceeds from the issuance of shares	16,500	-
Repayment of callable debt	-	(298,596)
Repayment of long term debt	(512,177)	(344,199)
Repayment of obligations under finance lease	(28,571)	(18,064)
Repayments on bank indebtedness	(315,002)	(39,208)
Redemption of preferred shares	<u>(38,220)</u>	<u>(38,219)</u>
	<u>(877,470)</u>	<u>(738,286)</u>

### Investing

Purchase of property, plant and equipment	(508,621)	(91,190)
Proceeds on disposal of property, plant and equipment	<u>28,875</u>	<u>94,489</u>
	<u>(479,746)</u>	<u>3,299</u>

Net increase (decrease) in cash and cash equivalents 116,290 (15,209)

Cash and cash equivalents

Beginning of period	<u>52,485</u>	-
End of period	<u>\$ 168,775</u>	<u>\$ (15,209)</u>

Supplemental cash flow information (Note 14)

See accompanying notes to the consolidated interim financial statements.

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

July 31, 2011  
(unaudited)

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### 1. Description of operations and going concern

Dalmac Energy Inc. (the "Company") was incorporated under the Canada Business Corporations Act and is listed on the TSX Venture Exchange trading under the symbol "DAL". The Company is a provider of hot oiler, hydro vac, vacuum, pressure and tanker truck services to the oil and gas industry in Alberta and north-eastern British Columbia.

These consolidated interim financial statements have been prepared on a going concern basis, which contemplates that the Company will be able to continue operations for the foreseeable future, and to realize on its assets and settle its liabilities in the normal course of business. At July 31, 2011, the Company has a working capital deficiency of \$2,956,782 (July 31, 2010 - \$6,450,145) and a deficit of \$1,373,951 (July 31, 2010 - \$3,298,433). The Company's ability to continue as a going concern is dependent on its ability to generate positive cash flow from operations going forward.

The above factors may adversely impact the Company's ability to continue as a going concern. Notwithstanding the foregoing, management is of the opinion that the following will contribute to remedying the foregoing concern.

During the current year,

- The Company has a long-term debt to equity ratio of 0.45:1 as of April 30, 2011 (Note 11) with a target of 0.30:1.
- Refinanced callable debt from 24% to lender prime plus 3.5% during 2011 and
- The Company has amended its maximum operating line of credit from \$4,000,000 to \$5,000,000 during 2011.

Going forward, the Company will work towards rectifying the working capital deficiency and deficit through cash flow from operations and net income. An improvement in the Company's gross margin coupled with the Company's focus on cost control and operational efficiencies will assist in reducing the working capital deficiency and deficit.

The financial statements do not reflect adjustments necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, reported revenue and expenses, and the balance sheet classifications used. These adjustments could be material.

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### 2. Basis of presentation

The Company is required to present the annual audited Consolidated Financial Statements for the year ended April 30, 2012 under International Financial Reporting Standards ("IFRS"). In conjunction with this, these interim Consolidated Financial Statements present the Company's initial financial results of operations and financial position under IFRS as at and for the three months ended July 31, 2011, including 2010 comparative periods. They have been prepared in accordance with IFRS 1, "First-time Adoption of International

# **Dalmac Energy Inc.**

## **Notes to the Interim Consolidated Financial Statements**

July 31, 2011  
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### **2. Basis of presentation (cont'd)**

Financial Reporting Standards” and with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. The accounting policies adopted in these interim consolidated financial statements are consistent with the accounting policies the Company expects to adopt in its IFRS consolidated financial statements for the year ending April 30, 2012, and are based on IFRS as issued by the IASB that the Company expects to be applicable at that time. These interim financial statements do not include all disclosures required by IFRS for annual consolidated financial statements and accordingly should be read in conjunction with the Company’s audited consolidated financial statements for the year ended April 30, 2011 presented under Canadian generally accepted accounting principles (“CDN GAAP”) and in conjunction with the IFRS transition disclosures in Note 17 to these interim financial statements.

Two comparative periods are presented for the consolidated balance sheets to comply with initial adoption of IFRS standards.

The significant accounting policies that have been applied in the preparation of these consolidated financial statements are summarized in Note 3 below. These accounting policies have been used throughout all periods presented in the interim consolidated financial statements except where the Company has applied certain accounting policies and exemptions upon transition to IFRS. The exemptions applied by the Company and the effects of transition to IFRS are presented in Note 17.

### **3. Summary of significant accounting policies**

#### **3.01 IFRS pronouncements adopted**

The Company’s first interim reporting period under IFRS is July 31, 2011. Accounting standards effective for periods beginning on or after May 1, 2011 have been adopted as part of the transition to IFRS.

#### **3.02 Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Dalmac Oilfield Services Inc. and 1421771 Alberta Ltd. All intercompany balances and transactions are eliminated on consolidation. The Company has applied uniform accounting policies throughout all consolidated entities and reporting dates of subsidiaries are consistent with the parent.

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

July 31, 2011  
(unaudited)

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### 3.03 Financial instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognized when they are extinguished, discharged, cancelled, or expire.

All financial instruments and certain non-financial derivatives are initially measured at fair value. Financial assets and financial liabilities are measured subsequently as described below.

The Company categorizes its fair value measurements for financial asset and financial liabilities measured at fair value according to a three level hierarchy which prioritizes the inputs used in the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input significant to the overall fair value measurement. The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

#### 3.03 a) *Financial assets*

The Company's financial assets are comprised of cash and cash equivalents and accounts receivable and have been classified as loans and receivables for initial recognition. Loans and receivables are subsequently measured at amortized cost using the effective interest method.

Financial assets measured at amortized cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Accounts receivable are also assessed for impairment on a collective basis. This is determined by reference to industry and past experience, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the accounts receivables is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are

# **Dalmac Energy Inc.**

## **Notes to the Interim Consolidated Financial Statements**

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### 3.03 a) *Financial assets (cont'd)*

credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit and loss.

### 3.03 b) *Financial liabilities*

The Company's financial liabilities include bank indebtedness, accounts payable and accrued liabilities, callable debt, long term debt and preferred shares, and have been classified as other financial liabilities. Financial liabilities are measured subsequently at amortized cost using the effective interest method.

## **3.04 Critical accounting judgments in applying accounting policies**

The following are significant management judgments, apart from those involving estimation uncertainty, in applying the accounting policies of the Company that have the most significant effect on the financial statements.

### 3.04 a) *Leases*

Management uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards of ownership. Management evaluates the lease terms and in some cases the lease transaction is not always conclusive in its classification as a finance lease.

### 3.04 b) *Deferred tax assets*

Management estimates the probability of future taxable income in which deferred tax assets can be utilized based on the Company's forecasted budget. The Company also takes into consideration non-taxable income and expenses and the various tax rules in effect or expected to be in effect at a future date. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, that deferred tax asset is recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific circumstances.

## **3.05 Estimation uncertainty**

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosures 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 estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The actual results may differ from the estimates and assumptions made by management.

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 3.05 Estimation uncertainty (cont'd)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### 3.05 a) *Impairments*

An impairment loss is recognized when the amount of an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and the value in use. Management estimates expected future cash flows from each asset or cash-generating unit when determining the value in use. Management makes assumptions about future operating results in the process of measuring expected future cash flows which are based on future events and circumstances. Actual results may vary from these estimates and may cause significant adjustments to the Company's assets in following years.

#### 3.05 b) *Useful lives and residual values of depreciable assets*

Management reviews the useful lives and residual values of depreciable assets at each reporting date to determine that the useful lives and residual values represent the expected utility of the assets to the Company. Actual useful lives and residual values may vary.

#### 3.05 c) *Inventories*

Inventories are measured at the lower of cost and net realizable value. Management uses the most reliable evidence available at the time in determining the net realizable values of the inventories.

#### 3.05 d) *Share-based compensation*

The Company uses the Black-Scholes Option Pricing Model for valuing its stock options to employees and directors at the date of issue. Management uses estimates of the expected life, the risk-free rate, expected volatility, and expected forfeiture rate when calculating the value of the options issued. These estimates may vary from the actual expense incurred and are updated at each reporting period based on information available at that time.

#### 3.05 e) *Fair value of financial instruments*

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 3.06 Cash and cash equivalents

Cash and cash equivalents consist of cash and balances with banks net of outstanding cheques. Bank indebtedness and long term borrowings are considered to be financing activities.

### 3.07 Inventory

Chemical inventory is valued at the lower of cost and net realizable value with cost being determined on average cost basis. Parts inventory is valued at the lower of cost and net realizable value with cost being determined on a first-in first-out basis. Cost includes the direct purchase price of the goods and transportation costs from vendors. Cost of inventory sold is included on the income statement as 'direct costs – product'.

### 3.08 Property, plant and equipment

Property, plant and equipment are initially recorded at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment losses. The Company provides for amortization using methods and rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives, net of residual values.

Residual values, method of amortization and useful lives of the assets are reviewed at least annually and adjusted if appropriate.

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
Motor vehicles	8 years straight-line method
Plant equipment	10 years straight-line method
Shop equipment	5 years straight-line method
Leasehold improvements	Term of lease straight-line method
Computer equipment	3 years straight-line method
Furniture and fixtures	4 years straight-line method
Rental equipment	12 years straight-line method

Included above in service vehicles, shop equipment and computer equipment are assets under finance lease.

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 3.09 Intangible asset

The finite-life intangible asset represents the cost assigned to a non-competition agreement. Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. Intangible assets with finite useful lives are amortized over their estimated useful lives. The Company has no intangibles with indefinite useful lives.

The amortization method and estimated useful life of the intangible asset, which is reviewed at least annually, is as follows:

Non-competition agreement	5 years straight-line method
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### 3.10 Impairment of long-lived assets

Long-lived assets are comprised of property, plant and equipment and the finite-life intangible asset.

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

### 3.11 Lease obligations

Finance leases, which transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement.

Leased assets are amortized over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is amortized over the shorter of the estimated useful life of the asset and the lease term.

All other leases are classified as operating leases whereby payments are recognized as an expense on a straight-line basis over the lease term.

# **Dalmac Energy Inc.**

## **Notes to the Interim Consolidated Financial Statements**

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### **3.12 Income taxes**

Tax expense comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method of tax allocation. Under this method, deferred income tax assets and liabilities are determined based on the differences between the accounting and income tax bases of an asset or liability. These are measured based on the tax jurisdictions' substantively enacted income tax rates that will be in effect when the differences are expected to reverse. The effect on deferred income tax assets and liabilities of a change in rates is included in the period during which the change is considered substantively enacted. Deferred income tax assets are recorded in the financial statements if realization is considered probable.

### **3.13 Share-based payments**

The Company has established a stock option plan for the Executive and Board of Directors, and employees as described in Note 12. The Company uses the fair value method of accounting for stock options. The fair value of the option grants is calculated on the grant date for employees using the Black-Scholes Option Pricing Model and recognized as compensation expense over the vesting period of those granted options, adjusted for estimated forfeitures. The corresponding adjustment is recorded to contributed surplus. The fair value of the option grants to non-employees is calculated based on the value of the services provided in exchange for the option issue. When the options are exercised the proceeds received by the Company, together with the related amount in contributed surplus, are added to share capital. Forfeited or expired options are put back into the pool of available stock options for future grants. No adjustment is recorded for stock options that expire unexercised. Compensation expense related to forfeited options is reversed on the forfeiture date provided the options have not vested.

### **3.14 Warrants**

Warrants are measured and recognized using the fair value method whereby the fair value of the warrants is determined at the warrant issue date using the Black-Scholes Option Pricing Model. When warrants are issued in combination with equity securities, these warrants are valued and accounted for based on the relative fair value of the warrants in relation to the total value assigned to the debt or equity securities and warrants combined.

### **3.15 Revenue recognition**

The Company's services are provided based upon orders and contracts with customers that include fixed or determinable prices and are based upon daily, hourly or contracted rates. Contract terms do not include the provision for post-service obligations. Revenue is recognized when services are rendered and when collectability is reasonably assured.

Product sales revenue is recognized when the products are shipped, at which time title passes to the customer. No right of return exists for products.

# **Dalmac Energy Inc.**

## **Notes to the Interim Consolidated Financial Statements**

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(unaudited)

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### **3.16 Earnings (loss) per share**

Basic earnings (loss) per share is calculated by dividing the net income applicable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share reflects the assumed conversion of all dilutive securities using the treasury stock method. Diluted earnings (loss) per share figures are equal to those of earnings (loss) per share if the effects of stock options and warrants have been excluded since they are anti-dilutive. For warrants and stock options, the treasury method is used whereby the number of additional common shares is calculated by assuming that outstanding warrants and stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the fiscal year.

### **3.17 Provisions, contingent liabilities and contingent assets**

Provisions are recognized when present obligations as a result of a past event will most likely lead to an outflow of economic resources from the Company that can be estimated reliably. The timing or amount of the liability may still be uncertain. Provisions are measured at the estimated amount required to settle the present obligation, taking into consideration the most reliable evidence available at the reporting date. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

When a business combination is undertaken, the Company initially measures any of the acquired company's contingent liabilities at the acquisition date fair value. The contingent liabilities are subsequently measured at the higher of the amount that would be recognized above, and the amount initially recorded.

In the normal course of business, the Company enters into agreements that include indemnities in favour of third parties, such as engagement letters with advisors and consultants. The Company has also agreed to indemnify its directors and officers in accordance with the Company's corporate bylaws. Certain agreements do not contain any limits on the Company's liability and therefore it is not possible to estimate the Company's potential liability under these circumstances. In certain cases, the Company has recourse against third parties with respect to these indemnities. The Company maintains insurance policies that may provide coverage against certain claims under these indemnities.

# **Dalmac Energy Inc.**

## **Notes to the Interim Consolidated Financial Statements**

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### **3.18 Recent IFRS pronouncements**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

The Company will be required to adopt the first phase of IFRS 9 – Financial Instruments as of January 1, 2013. The new standard was issued as part of the IASB plan to replace IAS 39 – Financial Instruments with a more robust set of standards for the reporting of financial instruments used by the Company. The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

### **4. Seasonality of operations**

Weather conditions can affect the sale of the Company's services. The ability to relocate heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of the spring break-up has a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern Western Canadian Sedimentary Basin ("WCSB") are accessible only in winter months when the ground is frozen hard enough to support the weight of heavy equipment. The timing of freeze-up and spring break-up affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period.

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 5. Property, plant and equipment

	<u>July 31, 2011</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
Land	\$ 32,657	\$ -	\$ 32,657
Service vehicles	13,166,359	5,619,441	7,546,918
Service equipment	9,116,068	3,676,788	5,439,281
Buildings	22,404	2,781	19,623
Motor vehicles	275,012	100,028	174,984
Plant equipment	356,707	241,433	115,274
Shop equipment	289,827	193,655	96,172
Leasehold improvements	311,931	257,328	54,603
Computer equipment	158,357	117,117	41,240
Furniture and fixtures	217,846	206,475	11,371
Rental equipment	<u>2,265,223</u>	<u>547,630</u>	<u>1,717,593</u>
	<u>\$26,212,391</u>	<u>\$10,962,675</u>	<u>\$15,249,716</u>

Included in the above categories are the following amounts for assets under finance lease:

- service vehicles with a cost of \$624,299 (July 31, 2010 - \$336,393) and accumulated amortization of \$170,664 (July 31, 2010 - \$121,666);
- computer equipment with a cost of \$40,898 (July 31, 2010 - \$40,898) and accumulated amortization of \$40,898 (July 31, 2010 - \$39,815); and
- shop equipment with a cost of \$57,648 (July 31, 2010 - \$57,648) and accumulated amortization of \$56,311 (July 31, 2010 - \$48,492).

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 5. Property, plant and equipment (cont'd)

	<u>April 30, 2011</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
Land	\$ 32,657	\$ -	\$ 32,657
Service vehicles	12,642,418	5,340,793	7,301,625
Service equipment	9,112,738	3,549,804	5,562,934
Buildings	22,404	2,582	19,822
Motor vehicles	239,240	92,344	146,896
Plant equipment	348,707	234,370	114,337
Shop equipment	285,665	180,189	105,476
Leasehold improvements	311,931	250,088	61,843
Computer equipment	154,987	112,158	42,829
Furniture and fixtures	217,846	203,385	14,461
Rental equipment	<u>2,236,223</u>	<u>501,515</u>	<u>1,734,708</u>
	<u>\$25,604,816</u>	<u>\$10,467,228</u>	<u>\$15,137,588</u>

Included in the above categories are the following amounts for assets under finance lease:

- service vehicles with a cost of \$506,901 (2010 - \$335,012) and accumulated amortization of \$155,147 (2010 - \$113,370);
- computer equipment with a cost of \$40,898 (2010 - \$40,898) and accumulated amortization of \$40,898 (2010 - \$38,731); and
- shop equipment with a cost of \$57,648 (2010 - \$57,648) and accumulated amortization of \$54,356 (2010 - \$44,509).

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

July 31, 2011  
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### 5. Property, plant and equipment (cont'd)

	<u>May 1, 2010</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
Land	\$ 198,321	\$ -	\$ 198,321
Service vehicles	11,919,177	4,309,355	7,609,820
Service equipment	8,777,592	3,024,009	5,753,583
Buildings	490,604	47,093	443,511
Motor vehicles	161,041	69,622	91,419
Plant equipment	382,697	222,553	160,144
Shop equipment	246,278	130,631	115,647
Leasehold improvements	269,350	224,489	44,861
Computer equipment	121,343	90,104	31,239
Furniture and fixtures	217,846	188,141	29,705
Rental equipment	<u>2,367,385</u>	<u>321,830</u>	<u>2,045,555</u>
	<u>\$25,151,633</u>	<u>\$ 8,627,827</u>	<u>\$16,523,807</u>

Included in the above categories are the following amounts for assets under finance lease:

- service vehicles with a cost of \$335,012 (May 1, 2009 - \$335,012) and accumulated amortization of \$113,370 (May 1, 2009 - \$80,233);
- computer equipment with a cost of \$40,898 (May 1, 2009 - \$40,898) and accumulated amortization of \$38,731 (May 1, 2009 - \$26,235); and
- shop equipment with a cost of \$57,648 (May 1, 2009 - \$57,648) and accumulated amortization of \$44,509 (May 1, 2009 - \$32,979).

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

July 31, 2011  
(unaudited)

### 5. Property, plant and equipment (cont'd)

	Cost			Carrying Amount	
	Balance at May 1, 2010	Additions	Disposals	Balance at April 30, 2011	Balance at April 30, 2011
Land	198,321	-	(165,665)	32,657	32,657
Service vehicles	11,919,177	762,239	(38,996)	12,642,418	7,301,625
Service equipment	8,777,592	335,146	-	9,112,738	5,562,934
Building	490,604	-	(468,200)	22,404	19,822
Motor vehicles	161,041	78,199	-	239,240	146,896
Plant equipment	382,697	1,160	(35,150)	348,707	114,337
Shop equipment	246,278	39,386	-	285,665	105,476
Leasehold improvements	269,350	42,581	-	311,931	61,843
Computer equipment	121,343	33,644	-	154,987	42,829
Furniture and fixtures	217,846	-	-	217,846	14,461
Rental equipment	2,367,384	-	(131,161)	2,236,223	1,734,708
<b>Total</b>	<b>25,151,633</b>	<b>1,292,355</b>	<b>(839,172)</b>	<b>25,604,816</b>	<b>15,137,588</b>

	Accumulated amortization and impairment				
	Balance at May 1, 2010	Amortization	Disposals	Balance at April 30, 2011	
Land	-	-	-	-	-
Service vehicles	4,309,355	1,038,912	(7,474)	5,340,793	
Service equipment	3,024,009	525,795	-	3,549,804	
Building	47,093	13,512	(58,023)	2,582	
Motor vehicles	69,622	22,722	-	92,344	
Plant equipment	222,553	31,443	(19,626)	234,370	
Shop equipment	130,631	49,559	-	180,189	
Leasehold improvements	224,489	25,600	-	250,088	
Computer equipment	90,104	22,054	-	112,158	
Furniture and fixtures	188,141	15,243	-	203,385	
Rental equipment	321,830	187,401	(7,716)	501,515	
<b>Total</b>	<b>8,627,827</b>	<b>1,932,241</b>	<b>(92,838)</b>	<b>10,467,228</b>	

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 5. Property, plant and equipment (cont'd)

	Cost			Balance at July 31, 2011	Carrying Amount
	Balance at May 1, 2011	Additions	Disposals		Balance at July 31, 2011
Land	32,657	-	-	32,657	32,657
Service vehicles	12,642,418	523,941	-	13,166,359	7,546,918
Service equipment	9,112,738	49,678	(46,349)	9,116,068	5,439,280
Building	22,404	-	-	22,404	19,624
Motor vehicles	239,240	35,772	-	275,012	174,984
Plant equipment	348,707	8,000	-	356,707	115,274
Shop equipment	285,665	4,163	-	289,827	96,172
Leasehold improvements	311,931	-	-	311,931	54,603
Computer equipment	154,987	3,370	-	158,357	41,240
Furniture and fixtures	217,846	-	-	217,846	11,371
Rental equipment	2,236,223	29,000	-	2,265,223	1,717,593
<b>Total</b>	<b>25,604,816</b>	<b>653,924</b>	<b>(46,349)</b>	<b>26,212,391</b>	<b>15,249,716</b>

	Accumulated amortization and impairment			Balance at July 31, 2011
	Balance at May 1, 2011	Amortization	Disposals	
Land	-	-	-	-
Service vehicles	5,340,793	278,647	-	5,619,441
Service equipment	3,549,804	134,637	(7,653)	3,676,788
Building	2,582	198	-	2,780
Motor vehicles	92,344	7,684	-	100,028
Plant equipment	234,370	7,063	-	241,433
Shop equipment	180,189	13,466	-	193,655
Leasehold improvements	250,088	7,239	-	257,328
Computer equipment	112,158	4,958	-	117,117
Furniture and fixtures	203,385	3,089	-	206,475
Rental equipment	501,515	46,117	-	547,630
<b>Total</b>	<b>10,467,228</b>	<b>503,100</b>	<b>(7,653)</b>	<b>10,962,675</b>

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

July 31, 2011  
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### 6. Bank indebtedness

On August 17, 2010, the Company completed a financing arrangement with a new primary lender consisting of a \$4,000,000 revolving operating line of credit margined on acceptable accounts receivable. The new facility, which is fixed for 2 years (expiring on August 17, 2012) carries an interest rate based on the lender's prime plus 3.75%. Extending the facility for a further term(s) is negotiable. On February 2, 2011, the Company signed an amendment increasing the \$4,000,000 revolving operating line of credit to \$5,000,000. At July 31, 2011, \$3,066,570 (April 30, 2011 - \$3,381,572, May 1, 2010 - \$Nil) has been drawn on this facility. The May 1, 2010, bank indebtedness balance of \$1,760,338 corresponds to the previous demand revolving operating overdraft facility which was replaced by the August 17, 2010 financing arrangement.

Security for the revolving operating line of credit consists of a general security agreement providing a first security interest in all assets, with the exception of a subrogated position on certain assets pursuant to the secondary lender revolving loan for \$2,000,000 (Note 10).

### 7. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities recognized in the consolidated balance sheets can be analyzed as follows:

	<u>July 31</u> <u>2011</u>	<u>April 30</u> <u>2011</u>	<u>May 1</u> <u>2010</u>
Accounts payable	\$ 2,263,313	\$2,427,179	\$ 2,300,167
Accrued liabilities	929,257	1,108,745	719,663
Other payables	10,171	3,308	11,926
	\$ <u>3,202,741</u>	<u>\$3,539,232</u>	\$ <u>3,031,756</u>

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

July 31, 2011  
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8. Callable debt	<u>July 31</u> <u>2011</u>	April 30 <u>2011</u>	May 1 <u>2010</u>
Demand bank loan, payable \$38,095 per month principal, plus interest at prime plus 3.50% (2010 – 3.50%). Maturity date July 8, 2010.	\$ -	\$ -	\$ 1,078,796
Demand bank loan, payable \$25,000 per month principal, plus interest at prime plus 3.50% (2010 – 3.50%). Maturity date October 5, 2012.	-	-	800,000
Demand bank loan, payable \$18,133 per month principal, plus interest at prime plus 3.50% (2010 – 3.50%). Maturity date September 9, 2013.	-	-	779,733
Demand bank loan, payable \$3,646 per month principal plus interest at prime plus 3.50% (2010 – 3.50%). Maturity date July 31, 2012.	-	-	324,479
Demand bank loan, payable \$7,026 per month principal, plus interest at prime plus 3.50% (2010 – 3.50%). Maturity date October 16, 2012.	-	-	224,806
Demand bank loan, payable \$451 per month principal, plus interest at prime plus 3.50% (2010 – 3.50%). Maturity date October 24, 2012.	-	-	14,417
Demand bank loan, payable \$902 per month principal, plus interest at prime plus 3.50% (2010 – 3.50%). Maturity date July 25, 2010.	<u>-</u>	<u>-</u>	<u>4,499</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,226,730</u>

On August 17, 2010, the Company refinanced its callable debt with an interim mezzanine lender. The facility consisted of a \$3,260,000, non-revolving term loan which bears interest at 24% per annum. For the first 3 months subsequent to August 17, 2010, the repayment was interest only followed by monthly payments consisting of both interest and principal. The facility was to mature on August 17, 2011 with payments based on a 4 year amortization.

In March 2011, this facility was repaid using the non-revolving term facility with the new primary lender (Note 10) and the proceeds from the sale lease-back agreement of \$400,000 (Note 16.02(e)).

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

July 31, 2011  
(unaudited)

### 9. Finance lease obligations

	<u>July 31</u> <u>2011</u>	April 30 <u>2011</u>	May 1 <u>2010</u>
Service vehicle lease, with monthly payments of \$3,900 including interest at 14.5%, expiring July 2015. Secured by specific equipment with a net book value of \$157,720.	\$ 148,098	\$ 155,213	\$ -
Shop equipment leases, with payments from \$176 to \$958 per month at a weighted average interest rate of 20% maturing between November 2011 to December 2015. Secured by equipment with a net book value of \$24,246.	19,139	22,878	-
Service vehicle lease, with monthly payments of \$2,095 including interest at 9.44%, expiring June 2016. Secured by specific equipment with a net book value of \$114,463.	97,431	-	-
Motor vehicle lease, with monthly payments of \$591 including interest at 6.81%, expiring July 2016. Secured by specific equipment with a net book value of \$33,156.	30,155	-	-
Service vehicle lease, with monthly payments of \$5,603 including interest at 6.65%, expiring January 2012. Secured by specific equipment with a net book value of \$180,220. The balance was refinanced under the non-revolving term facility in March 2011 (Note 10).	-	-	165,438
Computer equipment leases, with payments of \$434 and \$968 per month at average interest rates of 13.74%, maturing in July 2010 and November 2010. Secured by equipment with a net book value of \$nil (2010 - \$2,167).	-	-	5,769
	<u>294,823</u>	178,091	171,207
Less amounts due within one year	<u>(62,360)</u>	<u>(41,466)</u>	<u>(171,207)</u>
	<u>\$ 232,463</u>	<u>\$ 136,625</u>	<u>\$ -</u>

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

July 31, 2011  
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### 9. Finance lease obligations (cont'd)

	Minimum Lease Payments Due			
	Within one year	One to Five Years	After Five Years	Total
July 31, 2011				
Lease Payments	\$ 91,642	\$ 268,976	\$ -	\$ 360,618
Finance Charges	29,281	36,514	-	65,795
Net Present Value	\$ 62,360	\$ 232,463	\$ -	\$ 294,823

	Minimum Lease Payments Due			
	Within one year	One to Five Years	After Five Years	Total
April 30, 2011				
Lease Payments	\$ 61,324	\$ 160,701	\$ -	\$ 222,025
Finance Charges	19,858	24,076	-	43,934
Net Present Value	\$ 41,466	\$ 136,625	\$ -	\$ 178,091

	Minimum Lease Payments Due			
	Within one year	One to Five Years	After Five Years	Total
May 1, 2010				
Lease Payments	\$ 185,020	\$ -	\$ -	\$ 185,020
Finance Charges	13,813	-	-	13,813
Net Present Value	\$ 171,207	\$ -	\$ -	\$ 171,207

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

July 31, 2011  
(unaudited)

### 10. Long term debt

	<u>July 31</u> <u>2011</u>	April 30 <u>2011</u>	May 1 <u>2010</u>
On March 7 <sup>th</sup> , 2011, the Company completed its refinancing of the mezzanine debt with its new primary lender (Note 6). The facility consisted of a \$2,640,000 non-revolving demand term loan which bears interest at lender's prime plus 3.50% per annum. The repayment is based on a 36 month loan amortization with \$73,333 per month principal plus interest payments, with an interest rate renewal after one year and maturity date of March 25, 2012. The facility is secured by a first charge on specific equipment (Note 10(a)).	\$ 2,346,668	\$ 2,566,667	\$ -
Vehicle conditional sales contracts, with interest rates of 6.59% and 5.99% per annum repayable in monthly blended payments that vary over the term of each contract, maturing on March 2016 and October 2015, secured by specific service vehicles with a carrying value of \$31,498 and \$30,717.	62,026	65,015	-
Conditional sales contracts, with interest rates of 6.50% or 6.95% per annum, repayable in monthly blended payments that vary over the term of each contract, maturing on dates between January 2012 to May 2013, secured by specific service vehicles and service equipment with a carrying value of \$3,153,676 (2010 - \$3,055,123).	1,283,106	1,476,952	2,724,893
Revolving loan and security agreement, bearing interest at 90 day bankers' acceptance rate plus 5.90% per annum. Secured by first charge on specific equipment with interest only payments in the first year, with an option to term out over 36 months at the end of the first year. On December 10, 2010, the Company amended the facility and opted for a second year of interest only with four equal \$50,000 quarterly payments, after which the loan will term out over 24 to 30 months if not renegotiated with the lender. Interest on this amended facility is the Bankers Acceptance 90 day rate plus 5.90%. Principal repayment can be made at any time in increments of \$100,000.			

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

July 31, 2011  
(unaudited)

### 10. Long term debt (cont'd)

	<u>July 31</u> <u>2011</u>	April 30 <u>2011</u>	May 1 <u>2010</u>
The lender has taken a first security interest in select equipment, with a second security interest in all remaining equipment. As of July 31, 2011, \$1,900,000 (April 30, 2011 - \$2,000,000) had been drawn on this facility and the Company was in compliance with required debt covenants for this facility (Note 10(b)).	<b>1,900,000</b>	2,000,000	2,000,000
Promissory note, with no set terms of repayment bearing interest at 6.0%, no set maturity date, secured by a general security agreement against the assets of the Company, subrogated to existing charges (Note 16.02(e)).	<b>318,173</b>	313,516	295,303
Promissory note, payable at \$13,889 per month principal plus 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.	-	-	83,333
Promissory note due to a director of the Company, payable in equal monthly principal and interest payments of \$4,144 over thirty-six months, to bear interest commencing March 2008 at a rate of 4.25% per annum, unsecured. Repaid in February 2011.	-	-	40,705
	<b>5,909,973</b>	6,422,150	5,144,234
Less amount due within one year	<b><u>(2,449,435)</u></b>	<u>(2,520,593)</u>	<u>(1,732,371)</u>
	<b><u>\$ 3,460,538</u></b>	<b><u>\$ 3,901,557</u></b>	<b><u>\$ 3,411,863</u></b>

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

2012	\$ 2,449,435
2013	1,872,328
2014	1,195,808
2015	360,888
2016	30,894
2017	620
	<b><u>\$ 5,909,973</u></b>

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 10. Long term debt (cont'd)

- a) The facility includes a demand feature which allows the financial institution to demand repayment at any time. However, the financial institution has committed it does not intend to demand repayment prior to May 1, 2012. The facility matures March 25, 2012. The financial institution has committed its intention to renew the facility at same or similar terms with a maturity date subsequent to May 1, 2012. As a result, the Company has classified the facility as long term.
- b) As of July 31, 2011, all quarterly payments have been made as per the December 10, 2010 amendment.

### 11. Capital management

The Company's strategy is to a) maintain a level of capital for operations and to sustain future growth of the business and b) meet the debt covenants imposed by our banking institution. The Company strives to maintain a healthy balance between debt and equity to ensure the continued access to capital to fund growth and ensure long-term viability. The Company defines capital as long-term debt, long-term capital lease obligations, callable debt due beyond one year and shareholders' equity. The Company monitors its capital balance through regular evaluations of its long-term debt to equity ratio. Callable debt is treated as long term debt for the purpose of this calculation. The components of capital used in the long-term debt to equity ratio as of July 31, 2011 and April 30, 2011 are shown in the table below.

	<u>July 31, 2011</u>	<u>April 30, 2011</u>	<u>May 1, 2010</u>
Long-term debt	<b>\$ 3,460,538</b>	\$ 3,901,557	\$ 3,411,863
Capital lease obligations – long term	<b>232,463</b>	136,625	-
Callable debt due beyond one year	<u>-</u>	<u>-</u>	<u>3,226,730</u>
Total long-term debt	<b>3,693,001</b>	4,038,182	6,638,593
Shareholders' equity	<u><b>8,277,146</b></u>	<u>8,470,663</u>	<u>6,498,886</u>
Total capital	<u><b>\$11,970,147</b></u>	<u>\$ 12,508,845</u>	<u>\$13,137,479</u>
Long-term debt to equity	<b>0.45</b>	0.48	1.02

The Company is subject to externally imposed capital requirements in the form of: fixed charge coverage and tangible net worth ratios. The Company reviews these ratios on a monthly basis to assess the ongoing status of its financial condition. These covenants are required to be tested monthly. As at July 31, 2011 and April 30, 2011, the Company is fully compliant with both these bank covenants.

The Company is satisfied that it has sufficient access to capital resources for its operations and to fund the future growth of the business.

**Dalmac Energy Inc.**  
**Notes to the Interim Consolidated Financial Statements**  
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**12. Share capital**

**Authorized:**

Unlimited common voting shares  
 Unlimited preferred non-voting shares, issuable in series

**Common shares issued:**

	<u>Shares</u>	<u>Amount</u>
Balance, May 1, 2010	17,974,522	\$ 8,766,698
Add shares issued:		
On exercise of warrants	374,220	64,631
	<hr/>	<hr/>
Balance, April 30, 2011	<u>18,348,742</u>	<u>\$ 8,831,329</u>
Balance, May 1, 2011	18,348,742	\$ 8,831,329
Add shares issued:		
On exercise of warrants	110,000	20,038
	<hr/>	<hr/>
Balance, July 31, 2011	<u>18,458,742</u>	<u>\$ 8,851,367</u>

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 12. Share capital (cont'd)

#### Preferred shares

The preferred shares are outstanding in 142771 Alberta Ltd., a wholly owned subsidiary. The preferred shares were issued to the former owner of Tinky Rentals LP and Tinky Trucking LP as part of the consideration on acquisition on September 15, 2008. As of the date of issue, the preferred shares carried a cumulative dividend at the rate of six percent (6%) per annum and were redeemable or retractable. On February 1, 2010, the former owner and the Company entered into an amended agreement wherein the preferred shares would be redeemed prior to the repayment of the promissory note which was also issued as part of the acquisition. The cumulative dividend rate on the preferred shares increased to 10% per annum from 6% per annum and the redemption/retraction feature was modified such that the shares are now being paid with required monthly redemptions of \$12,740. The current portion of the preferred share liability is \$152,878 (April 30, 2011 - \$152,878, May 1, 2010 - \$152,878), and the long-term portion is \$229,317 (April 30, 2011 - \$267,537, May 1, 2010 - \$420,415).

#### Preferred shares issued:

	<u>Shares</u>	<u>Amount</u>
Balance, May 1, 2010	573,293	\$ 573,293
Preferred shares redeemed	<u>(152,878)</u>	<u>(152,878)</u>
Balance, April 30, 2011	<u>420,415</u>	<u>\$ 420,415</u>
Balance, May 1, 2011	420,415	\$ 420,415
Preferred shares redeemed	<u>(38,220)</u>	<u>(38,220)</u>
Balance, July 31, 2011	<u>382,195</u>	<u>\$ 382,195</u>

#### 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 have an expiry date which exceeds 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 exchanges on which the Company's common shares are then listed.

On August 26, 2010 the Company granted 306,000 options to its employees under the stock option plan. These options are vested equally over three years starting August 26, 2010. The fair value of the options was calculated using a risk free interest rate of 1.18%, the expected life of the options was five years, the expected volatility was 125%, and the expected forfeiture rate estimate was 15%.

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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(unaudited)

### 12. Share capital (cont'd)

On May 13, 2011 the Company granted 50,000 options to an employee under the stock option plan. These options are vested equally over three years starting May 13, 2011. The fair value of the options was calculated using a risk free interest rate of 1.69%, the expected life of the options was five years, the expected volatility was 121%, and the expected forfeiture rate estimate was nil.

The total cost of options vested in the current period resulted in stock-based compensation expense and an addition to contributed surplus of \$2,795 (July 31, 2010 - \$352).

The following summarizes activity related to stock options:

	Number	Weighted Average Exercise Price
Balance, May 1, 2011	956,000	\$ 0.41
Granted	50,000	0.43
Outstanding, July 31, 2011	1,006,000	\$ 0.41
Exercisable, July 31, 2011	650,000	\$ 0.53

	Number	Weighted Average Exercise Price
Balance, May 1, 2010	650,000	\$ 0.53
Granted	306,000	0.15
Outstanding, April 30, 2011	956,000	\$ 0.41
Exercisable, April 30, 2011	633,000	\$ 0.53

The following summarizes stock options outstanding as at July 31, 2011.

Expiry Date	Number Outstanding	Exercise Price
June 21, 2012	600,000	\$ 0.54
May 1, 2013	50,000	\$ 0.40
August 25, 2015	306,000	\$ 0.16
May 13, 2016	50,000	\$ 0.43
	<b>1,006,000</b>	

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 12. Share capital (cont'd)

#### Warrants

##### Warrants issued:

	<u>Warrants</u>	<u>Amount</u>
Balance, May 1, 2010	5,000,000	\$ 160,800
Exercise of warrants	<u>(374,200)</u>	<u>(12,035)</u>
Balance, April 30, 2011	<u>4,625,800</u>	<u>\$ 148,765</u>
Balance, May 1, 2011	4,625,800	\$ 148,765
Exercise of warrants	<u>(110,000)</u>	<u>(3,538)</u>
Balance, July 31, 2011	<u>4,515,800</u>	<u>\$ 145,227</u>

All warrants issued and outstanding have an exercise price of \$0.15 per warrant.

The amount allocated to the warrants issued as part of the private placement on January 25, 2010, was calculated by taking the total net cash proceeds of the shares issued in the private placement on a pro-rata basis with the fair value of the warrants issued using the Black-Scholes Option Pricing Model using the following assumptions, and the market value of the shares issued in the private placement. The fair value of the warrants was calculated using the Black-Scholes Option Pricing Model using a weighted average risk-free interest rate of 1.18%, a weighted average expected life of two years and a weighted average expected volatility of 88%.

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# Dalmac Energy Inc.

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### 13. Loss per share

The following table sets forth the computation of basic and diluted loss per share:

	<u>July 31</u> <u>2011</u>	July 31 <u>2010</u>
<b>Numerator for basic and diluted loss per share:</b>		
Net loss attributable to common shareholders	\$ (212,812)	\$ (227,906)
<b>Denominator for basic and diluted loss per share:</b>		
Basic weighted average number of common shares	18,360,481	17,974,522
Stock options	256,358	-
Warrants	3,447,175	-
Diluted weighted average number of common shares	22,064,014	17,974,522
<b>Basic loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>

The effects of the following stock options and warrants outstanding are not included in the diluted loss per share calculation as the impact would be anti-dilutive:

	<u>July 31</u> <u>2011</u>	July 31 <u>2010</u>
Options issued and outstanding	-	650,000
Warrants issued and outstanding	-	5,000,000

### 14. Supplemental cash flow information

(a) Supplemental information	<u>July 31</u> <u>2011</u>	July 31 <u>2010</u>
Interest paid	<u>\$ 174,745</u>	<u>\$ 151,855</u>

#### (b) Non-cash financing and investing activities

Acquisition of property, plant and equipment with finance leases of \$145,303 (July 31, 2010- \$nil).

# Dalmac Energy Inc.

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### 15. 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 two management contracts.

- (a) The Company pays consulting fees of \$10,000 per month (2011 - \$10,000 per month), pursuant to a contract agreement expiring on September 15, 2011.
- (b) The Company pays consulting fees of \$12,445 per month (2011 - \$12,445 per month) pursuant to a contract agreement expiring on November 14, 2014. The contract automatically renews every 5 years for an additional 5 year term. In addition, when 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.

Future minimum annual payments are as follows:

	Minimum Lease Payments Due			
	Within one Year	Two to Five Years	After Five Years	Total
Equipment	\$ 10,371	\$ 16,669	\$ -	\$ 27,040
Premises	\$ 780,282	\$ 1,277,841	\$ 14,000	\$ 2,072,123
Management Contracts	\$ 209,338	\$ 342,233	\$ -	\$ 551,572
<b>Total</b>	<b>\$ 999,992</b>	<b>\$ 1,636,743</b>	<b>\$ 14,000</b>	<b>\$ 2,650,735</b>

	Minimum Lease Payments Due			
	Within one Year	Two to Five Years	After Five Years	Total
July 31, 2011	\$ 999,992	\$ 1,636,743	\$ 14,000	\$ 2,650,735
April 30, 2011	\$ 769,430	\$ 816,462	\$ -	\$ 1,585,892
May 1, 2010	\$ 748,564	\$ 1,075,142	\$ -	\$ 1,823,706

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 16. Related party transactions

The related party transactions are conducted on the terms and conditions agreed to by the related parties.

#### 16.01 Compensation of key management personnel

The remuneration of directors and other key members of management personnel during the period include the following expenses:

	July 31, 2011	July 31, 2010
Salaries including bonuses	\$ 67,335	\$ 62,299
Director's fees	1,750	500
Benefits	<u>3,484</u>	<u>3,358</u>
Total	<u>\$ 72,569</u>	<u>\$ 66,157</u>

The remuneration of directors and key executives is determined by the executive compensation committee having regard to the performance of individuals and market trends.

#### 16.02 Transactions with related entities

During the period ended July 31, 2011, the Company incurred the following expenses in the normal course of operations with affiliated companies, which certain directors have significant influence, and are as follows:

- (a) Leased premises from a company controlled by a director for \$62,113 (July 31, 2010 - \$41,112).
- (b) Paid management and consulting fees to a company controlled by a director in the amount of \$39,885 (July 31, 2010 - \$38,449).
- (c) Paid consulting fees to a member of senior management in the amount of \$30,000 (July 31, 2010 - \$30,000) (Note 15(a)).
- (d) The Company is indebted to a member of senior management for the amount of \$318,173 (July 31, 2010 - \$299,754) (Note 10) in a promissory note in addition to \$382,195 (July 31, 2010 - \$535,074) in preferred shares (Note 12). Preferred share dividend expense of \$10,192 (July 31, 2010 - \$11,592) was recorded in the quarter.
- (e) On March 1, 2011, the Company entered into a sale lease-back agreement with a company controlled by a director. The property was sold for \$590,165 comprised of \$400,000 cash and a note receivable of \$190,165. The monthly lease-back payment is \$7,000 comprised of \$4,200 paid to the director and a monthly payment of \$2,800 applied to the promissory note.

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 17. First time adoption of IFRS

As disclosed in Note 2, these statements comprise the Company's first consolidated financial statements prepared in accordance with IFRS in conjunction with the Company's annual consolidated financial statements to be issued under IFRS as at and for the year ended April 30, 2012. The Company previously prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP. The date of transition from previous GAAP to IFRS standards was May 1, 2010.

The financial statements presented for the periods ended July 31, 2011, April 30, 2011, and the comparative information and the opening balance sheet at the date of transition have all been prepared using the Company's IFRS accounting policies as presented in Note 2 above.

The Company has applied IFRS 1 – First time adoption of International Financial Reporting Standards in preparing these first IFRS consolidated financial statements. The effects of the transition on equity, total comprehensive income, and reported cash flows are presented in this section.

#### 17.1 First time adoption exemptions applied

Mandatory exemptions applied by the Company:

- The Company's estimates in accordance with IFRS are consistent with estimates used under previous GAAP reporting (with adjustments for accounting policy differences) unless there is objective evidence that those estimates were in error.
- The Company has not recognized any financial assets and liabilities that had been derecognized prior to May 1, 2010 under previous GAAP.

Optional exemptions applied by the Company:

- The Company has elected not to apply IFRS 3 – Business Combinations retrospectively to past business combinations that occurred before the date of transition.
- The Company has elected to apply the transitional provisions in IFRIC 4 – Determining whether an Arrangement contains a Lease in order to use the facts and circumstances existing at the date of transition to determine whether an arrangement contains a lease.
- The Company has elected not to apply IFRS 2 – Share Based Payments to equity instruments granted to employees and non-employees that vested on or before the date of transition.

The remaining IFRS 1 – First-time Adoption of International Financial Reporting Standards exemptions were not applicable or not material to the preparation of the Company's consolidated balance sheet at the date of transition to IFRS on May 1, 2010.

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 17.2 Equity reconciliation

	May 1, 2010		
	Previous GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>			
<b>Current</b>			
Cash	\$ -	\$ -	\$ -
Accounts receivable	3,361,114	-	3,361,114
Inventories	396,864	-	396,864
Current portion of note receivable	-	-	-
Prepays	104,659	-	104,659
	<u>3,862,637</u>	-	<u>3,862,637</u>
Property, plant and equipment	16,848,679	(324,872)	16,523,807
Note receivable	-	-	-
Intangible asset	20,000	-	20,000
	<u>\$ 20,731,316</u>	<u>(\$324,872)</u>	<u>\$ 20,406,444</u>
<b>Liabilities</b>			
<b>Current</b>			
Bank indebtedness	\$ 1,760,338	\$ -	\$ 1,760,338
Accounts payable and accrued liabilities	3,031,756	-	3,031,756
Callable debt	3,226,730	-	3,226,730
Current portion of finance lease obligations	171,207	-	171,207
Current portion of long term debt	1,732,371	-	1,732,371
Current portion of preferred shares	152,878	-	152,878
	<u>10,075,280</u>	-	<u>10,075,280</u>
Finance lease obligations	-	-	-
Long term debt	3,411,863	-	3,411,863
Deferred tax liabilities	-	-	-
Preferred shares	420,415	-	420,415
	<u>13,907,558</u>	-	<u>13,907,558</u>
<b>Shareholders' Equity</b>			
Share capital	8,766,698	-	8,766,698
Warrants	160,800	-	160,800
Contributed surplus	642,267	(352)	641,915
Deficit	(2,746,007)	(324,520)	(3,070,527)
	<u>6,823,758</u>	<u>(324,872)</u>	<u>6,498,886</u>
	<u>\$20,731,316</u>	<u>(\$324,872)</u>	<u>\$20,406,444</u>

Notes to the reconciliations (Note 17.5)  
Deferred tax (Note 17.6)

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

July 31, 2011  
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### 17.2 Equity reconciliation (cont'd)

	July 31, 2010		
	Previous GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>			
<b>Current</b>			
Cash	\$ -	\$ -	\$ -
Accounts receivable	3,046,668	-	3,046,668
Inventories	486,928	-	486,928
Current portion of note receivable	-	-	-
Prepays	184,971	-	184,971
	<u>3,718,567</u>	-	<u>3,718,567</u>
Property, plant and equipment	16,332,294	(316,182)	16,016,112
Note receivable	-	-	-
Intangible asset	17,500	-	17,500
	<u>\$ 20,068,361</u>	<u>(\$316,182)</u>	<u>\$ 19,752,179</u>
<b>Liabilities</b>			
<b>Current</b>			
Bank indebtedness	\$ 1,736,339	\$ -	\$ 1,736,339
Accounts payable and accrued liabilities	3,328,121	-	3,328,121
Callable debt	2,928,134	-	2,928,134
Current portion of finance lease obligations	153,143	-	153,143
Current portion of long term debt	1,870,097	-	1,870,097
Current portion of preferred shares	152,878	-	152,878
	<u>10,168,712</u>	-	<u>10,168,712</u>
Finance lease obligations	-	-	-
Long term debt	2,929,939	-	2,929,939
Deferred tax liabilities	-	-	-
Preferred shares	382,196	-	382,196
	<u>13,480,847</u>	-	<u>13,480,847</u>
<b>Shareholders' Equity</b>			
Share capital	8,766,698	-	8,766,698
Warrants	160,800	-	160,800
Contributed surplus	642,662	(395)	642,267
Deficit	(2,982,646)	(315,787)	(3,298,433)
	<u>6,587,514</u>	<u>(316,182)</u>	<u>6,271,332</u>
	<u>\$20,068,361</u>	<u>(\$316,182)</u>	<u>\$19,752,179</u>

Notes to the reconciliations (Note 17.5)  
Deferred tax (Note 17.6)

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 17.2 Equity reconciliation (cont'd)

	April 30, 2011		
	Previous GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>			
Current			
Cash	\$ 52,485	\$ -	\$ 52,485
Accounts receivable	6,627,121	-	6,627,121
Inventories	520,319	-	520,319
Current portion of note receivable	18,389	-	18,389
Prepays	142,740	-	142,740
	<u>7,361,054</u>	-	<u>7,361,054</u>
Property, plant and equipment	15,427,700	(290,112)	15,137,588
Note receivable	168,859	-	168,859
Intangible asset	10,000	-	10,000
	<u>\$ 22,967,613</u>	<u>(\$290,112)</u>	<u>\$ 22,677,501</u>
<b>Liabilities</b>			
Current			
Bank indebtedness	\$ 3,381,572	\$ -	\$ 3,381,572
Accounts payable and accrued liabilities	3,539,232	-	3,539,232
Callable debt	-	-	-
Current portion of finance lease obligations	41,466	-	41,466
Current portion of long term debt	2,520,593	-	2,520,593
Current portion of preferred shares	152,878	-	152,878
	<u>9,635,741</u>	-	<u>9,635,741</u>
Finance lease obligations	136,625	-	136,625
Long term debt	3,901,557	-	3,901,557
Deferred tax liabilities	265,378	-	265,378
Preferred shares	267,537	-	267,537
	<u>14,206,838</u>	-	<u>14,206,838</u>
<b>Shareholders' Equity</b>			
Share capital	8,831,329	-	8,831,329
Warrants	148,765	-	148,765
Contributed surplus	653,738	(2,030)	651,708
Deficit	(873,057)	(288,082)	(1,161,139)
	<u>8,760,775</u>	<u>(290,112)</u>	<u>8,470,663</u>
	<u>\$22,967,613</u>	<u>(\$290,112)</u>	<u>\$22,677,501</u>

Notes to the reconciliations (Note 17.5)  
Deferred tax (Note 17.6)

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 17.2 Equity reconciliation (cont'd)

The total effect on retained earnings is further analyzed as follows:

	<u>April 30, 2011</u>	<u>July 31, 2010</u>	<u>May 1, 2010</u>
Adjustment to property, plant and equipment	\$ 290,112	\$ 316,182	\$ 324,872
Adjustment to stock-based compensation	<u>(2,030)</u>	<u>(395)</u>	<u>(352)</u>
Effect on transition to IFRS	<u>\$ 288,082</u>	<u>\$ 315,787</u>	<u>\$ 324,520</u>

The total effect on contributed surplus is further analyzed as follows:

	<u>April 30, 2011</u>	<u>July 31, 2010</u>	<u>May 1, 2010</u>
Adjustment to share based payments	\$ (2,030)	\$ (395)	\$ (352)
Effect on transition to IFRS	<u>\$ (2,030)</u>	<u>\$ (395)</u>	<u>\$ (352)</u>

# Dalmac Energy Inc.

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### 17.3 Total comprehensive income reconciliation

	July 31, 2010		
	Previous GAAP	Effect of transition to IFRS	IFRS
Revenue			
Service	\$ 3,577,710	\$ -	\$ 3,577,710
Product	236,080	-	236,080
	<u>3,813,790</u>	-	<u>3,813,790</u>
Direct costs			
Service	2,504,398	-	2,504,398
Product	182,873	-	182,873
	<u>2,687,271</u>	-	<u>2,687,271</u>
Gross margin	<u>1,126,519</u>	-	<u>1,126,519</u>
Expenses			
Wages and benefits	440,824	(44)	440,780
Amortization of property, plant and equipment	485,093	(8,690)	476,403
General and administrative	240,945	-	240,945
Interest on long term debt	79,696	-	79,696
Interest on callable debt and other	69,266	-	69,266
Interest on obligations under finance lease	2,893	-	2,893
Amortization of intangible asset	2,500	-	2,500
Loss on disposal of property, plant and equipment	27,994	-	27,994
Preferred share dividend expense	13,948	-	13,948
	<u>1,363,159</u>	<u>(8,734)</u>	<u>1,354,425</u>
Loss before income taxes	(236,640)	8,734	(227,906)
Income tax	-	-	-
Net loss and comprehensive loss	<u>(\$236,640)</u>	<u>\$8,734</u>	<u>(\$227,906)</u>

Notes to the reconciliations (Note 17.5)  
Deferred tax (Note 17.6)

Total basic and diluted EPS for the period ended July 31, 2010 are \$(0.01) and \$(0.01) respectively under IFRS, which is unchanged from previous GAAP.

**Dalmac Energy Inc.**  
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**17.3 Total comprehensive income reconciliation (cont'd)**

	April 30, 2011		
	Previous GAAP	Effect of transition to IFRS	IFRS
Revenue			
Service	\$ 24,304,666	\$ -	\$ 24,304,666
Product	1,929,392	-	1,929,392
	<u>26,234,058</u>	-	<u>26,234,058</u>
Direct costs			
Service	15,956,817	-	15,956,817
Product	1,730,123	-	1,730,123
	<u>17,686,940</u>	-	<u>17,686,940</u>
Gross margin	<u>8,547,118</u>	-	<u>8,547,118</u>
Expenses			
Wages and benefits	1,883,233	(2,030)	1,881,203
Amortization of property, plant and equipment	1,967,000	(34,758)	1,932,242
General and administrative	1,449,434	-	1,449,434
Interest on long term debt	711,623	-	711,623
Interest on callable debt and other	300,837	-	300,837
Interest on obligations under finance lease	13,907	-	13,907
Amortization of intangible asset	10,000	-	10,000
Loss on disposal of property, plant and equipment	24,855	-	24,855
Preferred share dividend expense	47,901	-	47,901
	<u>6,408,790</u>	<u>(36,788)</u>	<u>6,372,002</u>
Income before income taxes	<u>\$2,138,328</u>	<u>36,788</u>	<u>\$2,175,116</u>
Income tax	<u>265,378</u>	-	<u>265,378</u>
Net income and comprehensive income	<u>\$1,872,950</u>	<u>\$ 36,788</u>	<u>\$1,909,738</u>

Notes to the reconciliations (Note 17.5)  
Deferred tax (Note 17.6)

Total basic and diluted EPS for the period ended April 30, 2011 are \$0.11 and \$0.10 respectively under IFRS, an increase of \$0.01 and \$0.01 respectively from previous GAAP.

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 17.4 Presentation differences

Certain presentation differences between previous GAAP and IFRS have no impact on reported profit or total equity. Some assets and liabilities have been reclassified into another line item under IFRS at the date of transition.

Some line items are described differently (renamed) under IFRS compared to previous GAAP, although the assets and liabilities included in these line items are unaffected. These line items are as follows (with previous GAAP descriptions in brackets):

Deferred taxes (Future income taxes)  
Finance lease obligations (Capital lease obligations)  
Post-reporting date events (Subsequent events)

### 17.5 Notes to the reconciliations

Property, plant and equipment

The decrease in property, plant and equipment as at May 1, 2010 is a result of an impairment test performed on the tangible assets. The Company determined that \$324,872 of fixed asset impairments existed and were consequently removed from the balance sheet on transition date.

During the three months ended July 31, 2010, the amount of impairment on transition resulted in a decrease in amortization of property, plant and equipment expense of \$8,690, and a corresponding increase in property, plant and equipment of \$8,690.

During the year ended April 30, 2011, the amount of impairment on transition resulted in a decrease in amortization of property, plant and equipment expense of \$34,758, and a corresponding increase in property, plant and equipment of \$34,758.

Share-based payments

At May 1, 2010, the Company recorded a reduction of \$352 of expense related to stock options as at that date. Company stock options generally vest over three years and the Company previously recognized the expense equally over this period. As IFRS 2 requires each portion of the option to be expensed over its individual vesting period, this accelerates the recognition of the expense. In addition, a weighted average forfeiture rate of 9.5% was introduced into the calculation of expense.

During the three months ended July 31, 2010, the Company recorded a further reduction of \$44 in wages and benefits expense related to share-based payments and a corresponding increase of \$44 to contributed surplus.

During the year ended April 30, 2011, the Company recorded a reduction of \$2,030 in wages and benefits expense related to share-based payments and a corresponding increase of \$2,030 to contributed surplus.

### 17.6 Deferred tax

The deferred tax impact of the above impairment of property, plant and equipment was \$nil as it was determined that it is not probable that the deferred tax asset would reverse in the foreseeable future.

# Dalmac Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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### 17.7 Statement of cash flows presentation

For the period ended July 31, 2010	Previous GAAP	Effect of transition to IFRS	IFRS
Decrease in cash and cash equivalents			
<b>Operating</b>			
Net loss	(\$236,640)	\$8,734	(\$227,906)
Items not affecting cash:			
Amortization of property, plant and equipment	485,093	(8,690)	476,403
Loss on disposal of property, plant and equipment	27,994	-	27,994
Amortization of intangible asset	2,500	-	2,500
Share based payment expense	396	(44)	352
	279,343	-	279,343
Change in non-cash operating working capital:			
Accounts receivable	314,446	-	314,446
Inventories	(90,064)	-	(90,064)
Prepays	(80,312)	-	(80,312)
Note receivable	-	-	-
Accounts payable and accrued liabilities	296,365	-	296,365
	719,778	-	719,778
<b>Financing</b>			
Net proceeds from the issuance of shares	-	-	-
Repayment of callable debt	(298,596)	-	(298,596)
Repayment of long term debt	(344,199)	-	(344,199)
Repayment of obligations under finance lease	(18,064)	-	(18,064)
Repayments on bank indebtedness	(39,208)	-	(39,208)
Redemption of preferred shares	(38,219)	-	(38,219)
	(738,286)	-	(738,286)
<b>Investing</b>			
Purchase of property, plant and equipment	(91,190)	-	(91,190)
Proceeds on disposal of property, plant and equipment	94,489	-	94,489
	3,299	-	3,299
Net decrease in cash and cash equivalents	(15,209)	-	(15,209)
Cash and cash equivalents			
Beginning of period	-	-	-
End of period	(\$15,209)	-	(\$15,209)

# **Dalmac Energy Inc.**

## **Notes to the Interim Consolidated Financial Statements**

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### **18 Post-reporting date event**

On October 3, 2011, the Company received approval from the primary lender to reduce the interest rate on the line of credit facility from prime plus 3.75% to prime plus 2.75%. Furthermore, the unused line fee was reduced from 1% to .5% on the same facility.

### **19 Authorization of financial statements**

The consolidated interim financial statements for the period ended July 31, 2011 (including comparatives) were approved by the Board of Directors on October 27, 2011.