



First Quarter Interim Period Ended July 31, 2011 (“Q1’12”) MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

This Management Discussion and Analysis (“MD&A”) prepared October 28, 2011 focuses on key statistics from the unaudited interim consolidated financial statements of Dalmac Energy Inc. for the three months ended July 31, 2011 and considers known risks and uncertainties relating to Dalmac’s operations in the oilfield services industry. This MD&A should be read in conjunction with the Company’s corresponding financial statements for the same period and should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. As of May 1, 2011 Dalmac, adopted International Financial Reporting Standards (“IFRS”) as pertains to Canadian publically accountable enterprises and accordingly the Company’s consolidated financial statements for this reporting period have been prepared in accordance with IFRS standards and International Accounting Standard 34. Previously the Company’s consolidated audited and unaudited financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (“CGAAP” or “GAAP”). 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 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 the Company’s interim financial statements dated July 31, 2011.

The Company’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 or on the Company’s web site at www.dalmacenergy.com. References made in this MD&A, to “Dalmac”, the “Company”, “us”, “we” and “our” mean Dalmac Energy Inc. and its subsidiaries Dalmac Oilfield Services Inc. and 1421771 Alberta Ltd.

Non-IFRS Measures: *Dalmac uses certain non-IFRS measures as indicators of financial performance and believes that these non-IFRS measures provide useful information to shareholders. EBITDAS and gross margin are measures used by the Company and which have no standardized meaning under IFRS. 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 in accordance with IFRS 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 Company 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 “Risk Management” section.*

Overview

Dalmac Energy Inc. (TSX Venture “DAL”) is a growing oil and gas servicing company which specializes in fluid hauling, well servicing, chemical sales, tank rentals and rig moving. Currently the Company has 169 pieces of rolling stock which consists of tank, vacuum, hydro-vac, pressure, hot oiler, acid flush, steamer, picker and winch trucks in addition to 250 pieces of oilfield tank and rig matting rental equipment. Operating out of Fox Creek, Edson, Warburg and Pigeon Lake, Alberta, Dalmac’s continuing operations have been servicing west central Alberta for over 56 years. With its head office situated in Edmonton, Dalmac currently employs about 130 people and has been a reporting issuer since 2003.

Operating Results

Selected Financial Information

(000's Cdn Dollars, except per share data)	Q1'12	Q1'11
Revenues	5,560	3,814
Gross Margin	1,372	1,127
Gross Margin %	25%	30%
General and administrative expenses*	349	241
EBITDAS (loss)	490	445
EBIDTAS per share - basic	0.03	0.02
Dividend expense	10	14
Share-based payments	3	0
Interest	175	152
Amortization	506	479
Net income (loss)	(213)	(228)
Net income (loss) per share - basic	(0.01)	(0.01)
Net income (loss) per share - diluted	(0.01)	(0.01)
Total assets	21,399	22,678
Total long-term debt	3,461	3,902
Shareholders' equity	8,277	8,471
Weighted average common shares -basic	18,360,481	17,974,522
Weighted average common shares - diluted	22,064,014	17,974,522

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

The following analysis of the Company's results of operations refers to:

- the three months ended July 31, 2011 ("Q1'12") and July 31, 2010 ("Q1'11")
- the year ended April 30, 2011 ("YE'11")

Numerical abbreviations for million(s) and thousand(s) are referenced as "M" and "K" respectively.

In spite of the spring road bans, forest fires, and an extremely rainy spring and summer Dalmac posted an impressive 46% revenue increase over the same period in the previous year. Revenues for Q1'12 increased \$1.7M to \$5.6M as compared to \$3.8M in Q1'11. Much of this increase in revenue stems from Dalmac's commitment to safety and customer service (as represented in earlier MD&As) which has continued to result in increasing demand for our products and services

Dalmac implemented its safety program overhaul in Q1'12 which included major revisions to operating and working procedures, hazard assessments, orientation-training policies and procedures. These revisions also included compliance related certifications of all operating equipment and their constituent parts as referenced by the National Safety Code. The majority of this safety and equipment related audit and overhaul was completed in Q1'12 and most of these nonrecurring costs, which amounted to \$660K was captured in this quarter. About \$410K of this cost was capitalized and \$250K was expensed. Dalmac views the safety compliance commitment as an integral component of its operational policy and it is pivotal to securing healthy and profitable working relationships with our existing and future customers.

Also in anticipation of a busy fall and winter drilling season, Dalmac has hired approximately 25 new employees during Q1'12. These new hires were processed through our revised training program as outlined in the aforementioned safety policy. It takes about 3-6 weeks to fully train new employees before they are deemed qualified to work on their own. Normally the hiring of new employees would be spread out proportionately over the course of the year but given the anticipation of increasing well servicing activity for the balance of the year Dalmac decided to get

an early start on the process. This scheduling impacted the current quarter by increasing the training costs by approximately \$75K .

The increased activity in the energy sector has also led to increased labour costs due to greater demand and competition for skilled labour. As a result, Dalmac's labour costs, as a percentage of revenue, increased by 4% or \$92K over YE'11. The Company is confident that these increased costs can be absorbed in the form of increased billing rates but there is usually a lag time of a couple months before it can be passed on to our customers.

In spite of the aforementioned increase in costs, Dalmac managed to decrease its loss by 7% to \$213K from the \$228K reported in Q1'11. Stemming to a large degree from the nonrecurring costs referenced above, the direct service costs as a percentage of revenue increased by 6% as compared to Q1'11. Despite the foregoing, the overall gross margin increased by 22% to \$1.4M from the \$1.1M reported in Q1'11.

Reconciliation of EBITDAS to Historical Results (IFRS)

(000's Cdn Dollars)	Q1'12	Q1'11
Net income (loss)	(213)	(228)
Add:		
Income tax (recovery)	0	0
Interest on debt	175	152
Amortization - tangible and intangible assets	506	479
Loss (Gain) on sale of assets	10	28
Dividend expense	10	14
Share - based payments	3	0
Sub-total	703	673
EBITDAS	490	445

EBITDAS for Q1'12 increased by 10% to \$490K from the \$445K reported in Q1'11. The EBITDAS for the period represented 9% of revenue, compared to 12% in Q1'11.

Expenses

Overall, Q1'12 expenses increased by 19%, or \$253K, as compared to Q1'11. Consistent with the previously mentioned investment in revamping our safety program, the following cost categories have been directly affected in comparison to Q1'11:

- Wages and benefits increased 6%, or \$16K, to \$258K
- Management salaries increased 39%, or \$77K, to \$274 (largely from hiring temporary HSE training personnel)
- Travel and automotive increased 99%, or \$39K, to \$79K (ibid)

The quarterly amortization expense increased 6%, or \$27K, to \$506K which is a reflection of new asset purchases. Interest expense increased by 15%, or \$23K, to \$174K from the \$152K reported in Q1'11 which largely attributable to increased working capital demands due to higher activity levels which in turn resulted in a greater utilization of our line of credit. . Share-based payments increased \$2K to \$2.8K from Q1'11. Share-based payments is a non-cash expense which is recorded in accordance with IFRS each time stock options are granted and is calculated in accordance with the Black-Scholes Option Pricing Model as described in the notes to the financial statements. Share-based payments are not referenced independently in the financial statements but are included as part of wages and benefits. All the stock options relating to this share-based payments expense are subject to a three year vesting period.

Income Taxes

At Q1'12 the Company was not in a taxable position.

Summary of Quarterly Results

	Q1'12 Quarter Ended 31-Jul-11	Q4'11 Quarter Ended 30-Apr-11	Q3'11 Quarter Ended 31-Jan-11	Q2'11 Quarter Ended 31-Oct-10
(000's Cdn Dollars, except per share data)				
Revenue	5,560	8,291	8,219	5,910
Net income (loss)	(213)	366	1,129	651
Net income (loss) per share – basic	(0.01)	0.03	0.06	0.04
Net income (loss) per share – diluted	(0.01)	0.03	0.06	0.03

	Q1'11 Quarter Ended 31-Jul-10	Q4'10 Quarter Ended 30-Apr-10	Q3'10 Quarter Ended 31-Jan-10	Q2'10 Quarter Ended 31-Oct-09
(000's Cdn Dollars, except per share data)				
Revenue	3,814	4,788	4,661	3,557
Net income (loss)	(228)	424	(369)	(1,007)
Net income (loss) per share – basic	(0.01)	0.03	(0.03)	(0.08)
Net income (loss) per share – diluted	(0.01)	0.03	(0.03)	(0.07)

Liquidity and Capital Resources

The Company's capital requirements consist primarily of working capital necessary to fund operations, capital expenditures related to the purchase of 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. Q1'12 cash flow from operating activities (excluding non-cash working capital) increased 9% or \$26K to \$305K.

The changes in non-cash working capital, which was greatly influenced by increasing accounts receivable, increased by 165%, or \$728K, to \$1.2M. Investing activities mainly stemming from the purchase and disposal of operating equipment increased by \$483K. Financing activities, mainly impacted by debt refinancing and the issuance of shares, decreased 19%, or \$(140)K, to \$(877)K. The year to date change in cash and cash equivalents resulted in an increase by \$184K to \$169K.

On February 2, 2011 the Company increased its operating line of credit with its new primary lender by \$1.0M to \$5.0M. On March 7, 2011 the Company completed the refinancing of its callable mezzanine term debt of \$2.6M, (carrying a 24% charge) with a new lender. This new non-revolving facility bears an interest rate of the lender's prime rate plus 3.5% per annum, is amortized over a 36 month term and is subject to annual interest rate reviews.

The financial covenant requirements on the borrowing facilities provided by the new primary lender require maintaining a minimum Net Tangible Worth of \$6.8M and a Fixed Charge Coverage Ratio of 1:1 calculated on a rolling forward basis. At the time of this MD&A the Company was in compliance with both covenants.

Long-Term Debt

The long-term debt, excluding finance leases, at Q1'12, decreased by 11%, or \$441K, to \$3.5M as compared to the \$3.9M at YE'11. Current liabilities also decreased by 7%, or \$702K, to \$8.9M from the \$9.5M reported at YE'11. Consistent with incoming collection of Q4'11 receivables, total bank indebtedness decreased by 9%, or \$315K, to \$3.1M from the \$3.4M reported at YE'11. Concurrent with the activity slow down resulting from spring breakup and coupled with the collection of the Q4'11 bulge in receivables, accounts payable decreased by 10%, or \$336K, to \$3.2M from the \$3.5M reported at the same period last year. Also, consistent with the

aforementioned collections, accounts receivables decreased by 26%, or 1.7M, to 4.9M from the \$6.6M reported at YE'11. The current portion of long term debt decreased by 3%, or \$71K, to \$2.4M from the \$2.5M reported in YE'11.

Working Capital

The Company continues to generate funds from operations sufficient to meet its primary monthly obligations. The Company's primary capital needs have been the funding of accounts receivable, debt service payments and capital expenditures. However, as working capital levels may vary primarily due to seasonal fluctuations and timing of payments and receipts, the Company utilizes its operating credit facility which assists in dealing with the timing differences of cash flows as required. Issues such as the ongoing worldwide financial crisis may have an impact on the Company's ability to renew its credit facility on existing or similar terms. Management will continue to monitor the impact of potential changes in the credit markets making necessary adjustments and continue to work on minimizing its working capital requirements, which includes a primary focus on reducing operating costs. The working capital deficit at Q1'12 increased by 30%, to \$(3.0)M, from the \$(2.3)M reported at YE'11.

Capital Management

With the governing objective to ensure sufficient capital to fund its ongoing business requirements, the Company evaluates the risk associated with its underlying assets by constantly evaluating the economic conditions and relevant business risks. Without limitation the Company's core objectives in managing capital include:

- to protect the Company's ability to function as a going concern
- to continue to provide value to the shareholders and other stakeholders
- to provide adequate return to shareholders by pricing its services appropriately
- to finance its operations properly in accordance with its growth strategies

Additional options to improve working capital, apart from increasing net income, may include the disposition of non-essential assets, issuance of new shares and alternative financing arrangements or any combination thereof.

Shareholders' Equity

Consistent with the loss reported from current operations, shareholders' equity decreased by 2% to \$8.3M from the \$8.5M reported at YE'11.

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 and management contractual obligations are listed as follows:

Lease and Contractual Commitments

		Within one Year	Two to Five Years	After Five Years	Total
Equipment	\$	10,371	16,669	0	27,040
Premises		780,282	1,277,841	14,000	2,072,123
Management Contracts		209,338	342,233	0	551,572
Total	\$	999,992	1,636,743	14,000	2,650,735

The Company pays a related party a consulting fee of \$12K per month pursuant to an agreement expiring on November 14, 2014. In addition, if the Company's net earnings before tax reach \$500,000, the 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 \$1,000,001.

Related Party Transactions

At Q1'12 the Company had the following transactions with related parties:

- a) Leased premises from a company controlled by a director for \$62K (Q1'12 - \$41K).
- b) Paid or accrued management and consulting fees to a company controlled by a director in the amount of \$37K (Q1'12 - \$37K). See Note 16(b) of the Company's audited year end financial statements.
- c) The Company paid consulting fees to a member of senior management in the amount of \$30K (Q1'11- \$3K).
- d) The Company is indebted to a member of senior management for the amount of \$318K (Q1'11 - \$299K) (see Note 10 of the Company's Q1'12 financial statements) under a promissory note in addition to \$382K (Q1'11- \$535K) in mandatorily redeemable preferred shares .Preferred share dividend expense of \$6K (Q1'11 - \$14K) is payable for YE'12.
- e) The Company has a sale – leaseback agreement with a company controlled by a director (see note 16.02(e) of the Company's Q1'12 financial statements) for \$7K per month (Q1'11 – nil).

The aforementioned transactions were entered into through the course of normal business practices, with the exception of (e) which was a required condition for the refinancing in fiscal 2011, and have been valued in the financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties and, in the opinion of management, were based on standard commercial terms.

Outstanding Share Data

As of the date of this MD&A, the following are the issued and outstanding shares, options and warrants of the Company.

Common Shares	Options	Warrants
18,458,742	1,006,000	4,515,800

Outlook

Activity levels in the Western Canadian Sedimentary Basin have continued to improve over the first half of 2011 which suggests that we can expect a very busy year ahead. As of September 29, 2012, drilling rig utilization, in Alberta, sits at 67% and service rig utilization sits at 62% . This is excellent utilization for this time of year. Contributing factors bringing this about include strong oil pricing and the ever increasing application of horizontal drilling in the oil and gas industry, which has witnessed year over year increases in all aspects of oilfield activity. Dalmac is developing solid relationships with major oil and gas producers and operators across west central Alberta by providing quality equipment, well trained safety conscious personnel and a competent group of managers that together combine to provide value to our customers both in superior customer service and efficient operations. Over the course of the current year we have experienced strong utilization rates for our equipment and improved financial performance. This increase in activity is expected to continue throughout our fiscal 2012 based on the forecasts for increased oil and gas production driven by stronger oil prices.

Dalmac's strategy to continue focusing on optimizing operating efficiencies, trimming costs, improving safety and service while forging ahead with building strong customer relationships is helping to position our Company as the first call choice. In summary, we are now more optimistic than ever that the dark clouds which hung over the energy industry in late 2009 and early 2010 have blown away. The increased activity levels experienced during the first half of 2011 are expected to stay the course throughout 2012.

Risk Management

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. They also include risks associated with the current crises in the financial sector in the United States and Europe, 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. However, the Company faces risks against which it may not be able, or may choose not, to insure.

Credit Risks: The Company currently transacts business 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 accounts receivable as normal and acceptable 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: In the past, the Company has had a large portion of its service equipment and associated equipment manufactured by a single provider. While this arrangement provides certain market advantages, it also exposed the Company to potential short-term vulnerability if this supplier experiences unusual production disruptions, labor disputes or other problems. This risk has been greatly reduced as the Company now has multiple providers for the manufacture, repair and maintenance of the Company's service equipment.

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. Such factors can also affect the timing and duration of road bans, which can negatively impact our operations.

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 (as opposed to straight drilling activity) and on longer term contracts.

Government Regulation

The oil and natural gas industry in Canada is subject to federal, provincial, and municipal legislation and regulation governing such matters as land tenure, prices, royalties, production rates, environmental protection controls, the exportation of crude oil, natural gas and other products, as well as other matters. The industry is also subject to regulation by governments relating to health and safety, the conduct of operations, the protection of the environment and the manufacture, management, transportation, storage and disposal of certain materials used in the Company's operations. Government regulations may change from time to time in response to economic, political or other conditions. The exercise of discretion by governmental authorities under existing regulations, the implementation of new regulations or the modification of existing regulations affecting the crude oil and natural gas industry could reduce demand for the Company's services or increase its costs, either of which could have a material adverse impact on the Company.

In October 2007, the Government of Alberta unveiled a new royalty regime. The new regime introduced new royalties for conventional oil, natural gas and bitumen effective January 1, 2009 that are linked to price and production levels and will apply to both new and existing oil sands projects and conventional oil and natural gas activities. In response to declining industry activity levels, in November 2008 the Government of Alberta also introduced a transitional royalty program for new wells drilled subsequent to January 1, 2009. This transitional royalty program will result in temporarily lower royalty rates for some new wells drilled subsequent to January 1, 2009. Further incentives announced in February 2009 were aimed at stimulating drilling activity in 2009. In 2011 the Government of Alberta has introduced additional changes to the province's royalty framework which are currently being implemented. The oil industry's reaction to the new royalty regime announcements has thus far been favourable. There is, however, a danger that the Alberta royalty regime may be subject to future changes and this possibility creates uncertainty concerning unforeseen risks that can result in a material adverse effect on the industries in which the Company operates.

On March 10, 2008, the Canadian Federal Government announced new regulations regarding carbon dioxide emissions and sequestration which will impact future oil sands projects and coal fired electrical generation plants. Any initiatives by governments in areas in which the Company operates to set legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases" may require the reduction of emissions or emissions intensity from the oil and natural gas industry. This may result in increased operating costs and capital expenditures for oil and natural gas producers, thereby decreasing the demand for the Company's services. Management is unable to predict the impact of these initiatives on the Company and it is possible that they will adversely affect the Company's business, financial condition, results of operations and cash flows.

Environmental risk

The Company has earned a good reputation for maintaining a high level of environmental responsibility while providing high quality products and services. The oil and gas servicing industry is highly competitive and activity levels are largely driven by customer demand. It is also impacted by matters such as economic trends, commodity prices, changing attitudes towards energy preferences and environmental awareness. A trend which is currently dominating the industry is the requirement that oil and gas service providers operate in a manner that demonstrates a high level of care for the environment while adopting and following environmentally responsible business practices. The Company endeavors to be environmentally responsible and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound sustainability management, including environmental stewardship. The Company has adopted internal policies and practices to address the environmental concerns of the oil and gas industry. Despite these efforts, evolving customer concerns could adversely impact the Company's reputation and financial performance. Claims of environmentally irresponsible practices could harm the reputation of the Company. Adverse publicity resulting from actual or perceived violations of environmental laws and regulations or from business practices considered environmentally irresponsible, may weaken the perception of the Company's reputation and negatively impact customer attitudes which in turn could decrease the demand for the Company's products and services. The consequences of this may lead to a decrease in results of operations and the Company's share price. These impacts may occur even if the allegations are not directed against the Company or are not valid, and even if the Company is not found liable.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses, as well as the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience and various other assumptions believed to be reasonable at the time and under the circumstances in existence when the financial statements were prepared. Anticipating future events cannot be done with certainty; therefore, these estimates may change as new events occur, more experience is acquired or the Company's operating environment changes. The accounting estimates believed by management to require the most difficult, subjective or complex judgments and which are material to the Company's financial reporting results are set out below.

Allowance for Doubtful Accounts Receivable

The Company periodically evaluates its accounts receivable on an individual and overall customer basis. This process consists of a review of historical collection experience, current aging status of the customer accounts and other factors. Based on its review of these factors, it establishes or adjusts allowances for specific customers. This process involves a high degree of judgment and estimation. Accordingly, the Company's results of operations can be affected by adjustments to the allowance due to actual write-offs that differ from estimated amounts.

Impairment of Long-Lived Assets

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

Goodwill Impairment

Goodwill represents the excess of purchase price for a company acquired over the fair market value of the acquired company's net assets. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is tested for impairment at least annually. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and performance of the second step of the impairment test is unnecessary. The second step compares the implied fair value of the reporting unit's goodwill with its carrying amount to measure the amount of the impairment loss, if any.

Depreciation and Amortization of Property and Equipment and Intangible Assets

Depreciation and amortization is calculated using either the straight-line or declining balance method over the estimated useful life of the asset. Management bases the estimate of the useful life and salvage value of equipment on expected utilization, technological change and effectiveness of maintenance programs. Although management believes the estimated useful lives and salvage values of the Company's equipment are reasonable, they cannot be certain that depreciation and amortization expense measures, with precision, the true reduction in value of assets over time.

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. There were no write-downs of inventory

or reversals of previously written down inventory during the year. Cost of inventory sold is included on the income statement as “direct cost – product”.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted tax rates. Valuation allowances are established to reduce future tax assets when it is more likely than not that some portion or all of the future tax asset will not be realized. Estimates of future taxable income and the continuation of ongoing prudent tax planning arrangements have been considered in assessing the utilization of available tax losses. Changes in circumstances and assumptions may require changes to the valuation allowances associated with the Company's future tax assets.

TRANSITION TO IFRS

As stated in Note 17 of the accompanying financial statements, these are Company's first interim financial statements for the period covered by the first annual consolidated financial statements prepared in accordance with *IFRS*.

The accounting policies in Note 17 have been applied in preparing the interim financial statements for the three months ended July 31, 2012, the comparative information for the three months ended July 31, 2011, the financial statements for the year ended April, 30, 2011, and the preparation of an opening IFRS statement of financial position on May 1, 2010, the Company's transition date.

The Company followed the provisions of *IFRS 1, First-Time Adoption of International Financial Reporting Standards* in preparing its opening IFRS balance sheet. Certain policies used for this opening balance sheet differed from its Canadian GAAP policies applied at the same date. The resulting adjustments arose from events and transactions before the date of transition to *IFRS*. Therefore as required by *IFRS 1*, those adjustments were recognized directly through retained earnings (or another category of equity where appropriate) as of May 1, 2010, in accordance with the general rules of *IFRS 1* which is to apply IFRS retrospectively. Outlined below, in conjunction with Note 17 of the financial statements, is an explanation of the principal adjustments made in restating Canadian GAAP statements.

IFRS 1 First-Time Adoption of International Financial Reporting Standards allows first-time adopters certain exemptions from the retrospective application of certain *IFRSs* effective for December 2011 year ends. The Company has applied the following exemptions:

Share-based payments exemption

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.

Business combinations exemption

The Company has elected not to apply IFRS 3 – Business Combinations retrospectively to past business combinations that occurred before the date of transition.

Leases exemption

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.

Share-based payments

Under previous GAAP the Company's share-based payments with employees were measured at their fair value at the grant date. This amount was expensed to share-based compensation on the income statement on a straight-line basis over the vesting period. Forfeitures were accounted for

as they occurred. Under IFRS, an estimate of forfeitures must be factored into the calculation of the expense at the grant date and is revised if subsequent information indicates a different expected forfeiture rate. On the vesting date, the estimate is revised to the actual number of options which vested. Further, IFRS requires a graded vesting method in the recognition of the expense. The effect on loss for the year ended April 30, 2011, is a decrease in share-based compensation, as recorded in general and administration expense by approximately \$2K with a corresponding change to contributed surplus.

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.

In 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.

Deferred taxes

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.

For further information, please contact:

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