

Consolidated Financial Statements

Dalmac Energy Inc.

First Quarter Ended July 31, 2010

Contents

	Page
Management's report	3
Consolidated Balance Sheet	4
Consolidated Statements of Loss and Comprehensive Loss and Deficit	5
Consolidated Statement of Cash Flows	6
Notes to the Consolidated Financial Statements	7 – 10

Management's Responsibility for Consolidated Financial Statements

The accompanying unaudited consolidated financial statements and the information in the Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's best estimates and judgments. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances. Management has prepared the financial information presented elsewhere in the Management's Discussion and Analysis and ensured it is consistent with the financial statements.

Dalmac Energy Inc. maintains a system of internal controls to provide reasonable assurance that transactions are properly authorized, financial records are accurate and reliable and the Company's assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out its responsibility for the consolidated financial statements through its Audit Committee. The Committee meets periodically with management and the external auditors to review the financial statements and the annual report and to discuss audit, financial and internal control matters. The Company's external auditors have full and unrestricted access to the Audit Committee.

Signed "John I. Babic"
Chief Executive Officer

Signed "John Beasley"
Chief Financial Officer

September 28, 2010

Dalmac Energy Inc.

Consolidated Balance Sheet

As at	July 31, 2010 (unaudited)	April 30, 2010 (audited)
Assets		
Current		
Cash and cash equivalents	\$ (15,209)	\$ -
Accounts receivable	3,046,668	3,361,114
Inventories	486,928	396,864
Prepays	<u>184,971</u>	<u>104,659</u>
	3,703,358	3,862,637
Property, plant and equipment	16,332,294	16,848,679
Intangible asset	<u>17,500</u>	<u>20,000</u>
	<u>\$ 20,053,152</u>	<u>\$ 20,731,316</u>
Liabilities		
Current		
Bank indebtedness (Note 2)	\$ 1,721,130	\$ 1,760,338
Accounts payable and accrued liabilities	3,328,121	3,031,756
Callable debt	2,928,134	3,226,730
Current portion of capital lease obligations	153,143	171,207
Current portion of long term debt	1,870,097	1,732,371
Current portion of preferred shares	<u>152,878</u>	<u>152,878</u>
	10,153,503	10,075,280
Capital lease obligations	-	-
Long term debt	2,929,939	3,411,863
Future income taxes	-	-
Preferred shares (Note 4)	<u>382,196</u>	<u>420,415</u>
	<u>13,465,638</u>	<u>13,907,558</u>
Shareholders' Equity		
Share capital (Note 4)	8,766,698	8,766,698
Warrants	160,800	160,800
Contributed surplus	642,662	642,267
Deficit	<u>(2,982,646)</u>	<u>(2,746,007)</u>
	<u>6,587,514</u>	<u>6,823,758</u>
	<u>\$ 20,053,152</u>	<u>\$ 20,731,316</u>

Going concern (Note 1)
Subsequent event (Note 5)

On behalf of the Board

Signed "John I. Babic"
Director

Signed "Shawn Szydlowski"
Director

See accompanying notes to the consolidated financial statements.

Dalmac Energy Inc.
Consolidated Statements of Loss, Comprehensive Loss
and Deficit

Three months ended	July 31, 2010 (unaudited)	July 31, 2009 (unaudited)
Revenue		
Service	\$ 3,577,710	\$ 3,415,748
Product	<u>236,080</u>	<u>151,293</u>
	<u>3,813,790</u>	<u>3,567,041</u>
Direct costs		
Service	2,504,398	2,962,493
Product	<u>182,873</u>	<u>151,255</u>
	<u>2,687,271</u>	<u>3,113,748</u>
Gross margin	<u>1,126,519</u>	<u>453,293</u>
Expenses		
Wages and benefits	440,824	507,202
Amortization of property, plant and equipment	485,093	491,022
General and administrative	240,945	322,831
Interest on long term debt	93,644	84,346
Interest on callable debt and other	69,266	73,419
Interest on obligations under capital lease	2,893	4,218
Amortization of intangible asset	2,500	2,500
(Gain) loss on disposal of property, plant and equipment	27,994	1,728
	<u>1,363,159</u>	<u>1,487,266</u>
Loss before income taxes	(236,640)	(1,033,973)
Income tax recovery	<u>-</u>	<u>(229,456)</u>
Net loss and comprehensive loss	<u>\$ (236,640)</u>	<u>\$ (804,517)</u>
(Deficit) retained earnings, beginning of year	\$ (2,746,007)	\$ (990,339)
Net loss	<u>(236,640)</u>	<u>(804,517)</u>
Deficit, end of period	<u>\$ (2,982,647)</u>	<u>\$ (1,794,856)</u>
Loss per share basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.06)</u>

See accompanying notes to the consolidated financial statements.

Dalmac Energy Inc.

Consolidated Statement of Cash Flows

Three months ended

July 31, 2010
(unaudited)

July 31, 2009
(unaudited)

Increase (decrease) in cash and cash equivalents

Operating

Net loss	\$ (236,640)	\$ (804,517)
Items not affecting cash:		
Amortization of property, plant and equipment	485,093	491,022
(Gain) loss on disposal of property, plant and equipment	(27,994)	1,728
Future income tax recovery	-	(229,456)
Amortization of intangible asset	2,500	3,629
Stock based compensation expense	396	2,500
	<u>223,355</u>	<u>(535,094)</u>
Change in non-cash operating working capital:		
Accounts receivable	314,446	1,866,532
Inventories	(90,064)	(34,302)
Prepays	(80,312)	123,639
Accounts payable and accrued liabilities	296,365	(620,046)
	<u>440,435</u>	<u>1,335,823</u>

Financing

Repayment of callable debt	(298,596)	(279,759)
Repayment of long term debt	(344,199)	(436,688)
Repayment of obligations under capital lease	(18,064)	(18,109)
(Repayments) advances on bank indebtedness	(39,208)	(82,590)
Redemption of preferred shares	(38,219)	-
	<u>(738,286)</u>	<u>(817,146)</u>

Investing

Purchase of property, plant and equipment	87,281	(2,274)
Proceeds on disposal of property, plant and equipment	(27,994)	368
	<u>59,287</u>	<u>(1,906)</u>

Net decrease in cash and cash equivalents (15,209) (18,323)

Cash and cash equivalents

Beginning of year	<u>-</u>	<u>199,706</u>
End of period	<u>\$ (15,209)</u>	<u>\$ 181,383</u>

See accompanying notes to the consolidated financial statements.

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

July 31, 2010 (unaudited)

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 west central Alberta and surrounding area.

The consolidated 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 operations. As at July 31, 2010, the Company was in violation of its covenants with its primary lender, and as a result the primary lender has the right to request repayment of the bank indebtedness of \$1,721,130 and callable debt of \$2,928,134 on demand. As a result, these debt balances have been shown as current liabilities in the financial statements. At July 31, 2010, the Company had working capital deficiency of \$6,450,145 (July 31, 2009 - \$6,212,643). Consequently, for the first quarter, the Company was in breach of its financial covenants. Subsequent to the fiscal 2010 year-end, the Company entered into a forbearance agreement with the primary lender whereby it has agreed not to enforce their right to demand repayment until August 17, 2010 at which time alternative financing was to be in place. The Company's ability to continue as a going concern is dependent on its ability to generate positive cash flow from operations going forward, and to obtain alternative financing.

Management is of the opinion that the following developments will have contributed to maintaining the Company's ability to continue as a going concern:

- Improving debt to equity ratio of 0.89:1
- August 17, 2010, received \$4,000,000 operating line of credit from a new lender;
- August 17, 2010, refinanced existing callable debt with a new lender;
- \$2,000,000 of additional financing from another lender obtained in October 2009;
- \$500,000 raised in a private placement completed in January 2010;

2. Bank indebtedness

On October 8, 2009, the Company's demand revolving operating overdraft was reduced by its primary lender to a maximum of \$2,000,000 (2009 - \$4,000,000) margined to accounts receivable, at an interest rate of lender prime plus 3.5% (2009 – prime plus 2%). At July 31, 2010, \$1,721,130 (April 30, 2010 - \$1,760,338) had been drawn on this facility. Security for the demand revolving operating overdraft and callable debt consists of a general security agreement providing a first security interest in all present and after acquired property and equipment with a specific charge over specific equipment; a demand collateral mortgage in the amount of \$437,500 over specific land and building; assignment and postponement of creditors claim from a director and former director; and assignment of insurance coverage for full insurable values of all assets of the borrower.

On October 16, 2009, the Company signed an additional revolving loan and security agreement with a secondary lender for \$2,000,000. This facility is a 366 day long term facility with interest only payments in the first year, with an option to term out over 36 months at the end of the first year, or opt for a second year of interest only after which term out will be negotiated at 24 to 30 months. Interest on this facility is Bankers Acceptance 90 Days plus 5.90%. Principal repayment can be made at any time in increments of \$100,000.

Dalmac Energy Inc.
Notes to the Consolidated Financial Statements
July 31, 2010 (unaudited)

2. Bank indebtedness (cont'd)

The secondary lender has taken a first security interest in select equipment, with a second security interest in all remaining equipment. The Company's primary lender subrogated their first security position on certain assets pursuant to the new revolving loan and security agreement. As of July 31, 2010, \$2,000,000 had been drawn on this facility and the Company was in compliance with required debt covenants for this facility.

As at July 31, 2010, certain debt covenants with respect to the Company's existing primary credit facility had not been met. As a result of the foregoing, the existing primary lender has the ability to demand repayment of the facility. Subsequent to year-end, the Company entered into a forbearance agreement with the primary lender whereby it has agreed not to enforce their right to demand repayment until August 17, 2010 at which time alternative financing was scheduled to be in place.

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.

Also on August 17, 2010, the Company refinanced its callable debt with a new lender. The new facility consists of a \$3,300,000, non-revolving term loan which bears interest at 24% per annum. For the first 3 months subsequent to August 17, 2010, the repayment is interest only followed by monthly payments consisting of both interest and principle. The facility matures in one year on August 17, 2011 but the payments are based on a 4 year amortization.

3. 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 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, 2010 and April 30, 2010 are shown in the table below.

	<u>July 31, 2010</u>	<u>April 30, 2010</u>
Callable debt	\$ 2,928,134	\$ 3,226,730
Long-term debt	<u>2,929,939</u>	<u>3,411,863</u>
Total long-term debt	5,858,073	6,638,593
Shareholder's equity	6,587,514	6,823,758
Long-term debt to equity	0.89	0.97

Dalmac Energy Inc.
Notes to the Consolidated Financial Statements
July 31, 2010 (unaudited)

3. Capital management (cont'd)

The Company is subject to externally imposed capital requirements, from its existing lender, in the form of: working capital, cash flow coverage, and debt to tangible net worth ratios. These ratios are reviewed on a monthly basis to assess the ongoing status of the Company's financial condition. As per the agreement with the existing lender, covenants are required to be tested annually on the year-end financial statements.

As of August 17, 2010, the Company completed a financing arrangement with a new primary lender for a \$4,000,000 revolving operating line of credit margined on acceptable accounts receivable. The interest rate on this facility is the lender's prime rate plus 3.75%. This facility is for a two year term expiring on August 17, 2012.

Also as of August 17, 2010, the Company completed a financing arrangement with a new term lender to refinance its callable debt. The new financing consists of a \$3,300,000, non-revolving term facility which bears interest at 24% per annum. This facility matures in one year on August 17, 2011.

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

4. Share capital

Authorized:

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

Common shares issued:

	<u>July 31, 2010</u>		<u>April 30, 2010</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Balance, beginning of period	17,974,522	\$ 8,766,698	12,974,522	\$ 8,439,453
Issued for cash:				
Private placement cash	-	-	5,000,000	500,000
Less financing costs paid in cash net of future tax	-	-	-	(11,955)
Less deemed allocation to warrants	-	-	-	(160,800)
Balance, end of period	<u>17,974,522</u>	<u>\$ 8,766,698</u>	<u>17,974,522</u>	<u>\$ 8,766,698</u>

Dalmac Energy Inc.
Notes to the Consolidated Financial Statements
July 31, 2010 (unaudited)

4. Share capital (cont'd)

Preferred shares

The preferred shares are outstanding in 142771 Alberta Ltd., a wholly owned subsidiary of Dalmac Energy Inc. During the first quarter 38,217 of the preferred shares were redeemed for \$38,217.

Preferred shares issued:

	<u>July 31, 2010</u>		<u>April 30, 2010</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Balance, beginning of period	573,293	\$ 573,293	900,000	\$ 900,000
Preferred shares issued	-	-	-	-
Preferred shares redeemed	<u>(38,217)</u>	<u>(38,217)</u>	<u>(326,707)</u>	<u>(326,707)</u>
Balance, end of period	<u>535,074</u>	<u>\$ 535,074</u>	<u>573,293</u>	<u>\$ 573,293</u>

The current portion of the preferred share liability is \$152,878, and the long-term portion is \$382,196.

Stock options

The total cost of options vested in the current period resulted in stock-based compensation expense and a corresponding increase in contributed surplus of \$396 (April 30, 2010 - \$16,269).

5. Subsequent events

As referenced in notes 2 and 3 above, on August 17, 2010 the Company refinanced its revolving operating line of credit with a new primary lender. The callable debt, which was previously financed by the prior primary lender, was refinanced with a new lender under the terms set out in the aforementioned notes.