



First Quarter Interim Period Ended July 31, 2010 (“Q1’11”) MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

This Management Discussion and Analysis (“MD&A”) prepared September 22, 2010 focuses on key statistics from the unaudited consolidated financial statements of Dalmac Energy Inc. for the three months ended July 31, 2010 and pertains to known risks and uncertainties relating to Dalmac’s operations in the oilfield services industry. This MD&A should be read in conjunction with the Corporation’s corresponding financial statements for the same period and should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. The Corporation’s consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (“GAAP”). The Corporation’s MD&As and financial statements for earlier periods should also be considered relevant and are available on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com or on the Corporation’s web site at www.dalmacenergy.com. References made in this MD&A, to “Dalmac”, the “Corporation”, the “Company”, “us”, “we” and “our” mean Dalmac Energy Inc. and its subsidiaries Dalmac Oilfield Services Inc. and 1421771 Alberta Ltd.

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

Forward Looking Statements: *Statements in this MD&A relating to matters that are not historical facts are forward looking statements. Such forward-looking statements may involve known and unknown risks and uncertainties which may cause the actual results, performances or achievements of the Corporation to be materially different from any future results implied or contemplated by such forward looking statements. Some of the risks that may cause actual results to vary are described under the “Business Risks” section.*

Overview

Dalmac Energy Inc. (TSX Venture “DAL”) is an expanding oil and gas servicing company which specializes in, fluid hauling, well servicing, chemical sales, tank rentals and rig moving. With 162 pieces of rolling stock equipment consisting of tank, vacuum, hydro-vac, pressure, hot oiler, acid flush, steamer, picker and winch trucks in addition to a rental fleet of 250 pieces of 400 bbl oilfield tanks and rig matting, Dalmac’s operations have been servicing west central Alberta for over 53 years. Headquartered out of Edmonton, Dalmac currently has over 100 full time employees and has operating divisions in Fox Creek, Edson, Warburg and Pigeon Lake, Alberta.

Operating Results

The following analysis of the Company’s results of operations refers to the three months ended July 31, 2010 (“Q1’11”) and July 31, 2009 (“Q1’10”) along with the year ended April 30, 2010 (“YE’10”). Numerical abbreviations for million(s) and thousand(s) are referenced as “M” and “K” respectively.

Selected Financial Information

(000's Cdn Dollars, except per share)	Q1'11	Q1'10
Revenues	3,814	3,567
Gross Margin	1,127	453
Gross Margin %	30%	13%
General and administrative expenses*	241	323
EBITDAS (loss)	389	(376)
EBIDTAS per share - basic	0.03	(0.03)
Stock based compensation	0	4
Interest	166	162
Amortization	488	494
Net income (loss)	(236)	(805)
Net income (loss) per share - basic	(0.01)	(0.06)
Net income (loss) per share - diluted	(0.01)	(0.06)
Total assets	20,053	21,478
Total long-term financial liabilities**	4,839	6,708
Shareholders' equity	6,588	7,274
Weighted average common shares -basic	17,974,522	12,974,522
Weighted average common shares - diluted	17,974,522	12,974,522

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

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

Total revenue for Q1'11 increased 7% to \$3.8M from the \$3.6M reported at Q1'10. The first three months of 2010 began with strong drilling utilizations, however when spring commenced, the wet weather and rain plagued Dalmac's operations until the middle of June. This created delays in getting heavy equipment into the oilfields and thereby resulted in a protracting the spring breakup period. By mid June the ground in the foothills areas of Alberta begin to dry up until and activity levels began to pick up again. The gross margin for Q1'11 increased by 148% to \$1.1M from the \$453K reported in Q1'10. As a percentage of revenue the gross profit margin for the current quarter was 30% compared to 13% in previous year. This increase is attributed to the Company's commitment to trim costs and to confine the utilization of sub contractors to areas where company equipment cannot be deployed. EBITDAS for Q1'11 increased 203% to \$389K from \$(376)K reported in Q1'10 and net loss decreased by 71% to \$(236)K from \$(805)K.

Reconciliation of EBITDAS to Historical Results (GAAP)

(000's Cdn Dollars)	Q1'11	Q1'10
Net income (loss)	(236)	(805)
Add:		
Income tax (recovery)	0	(229)
Interest on short and long term debt	166	162
Amortization - tangible and intangible assets	488	494
Gain (loss) on sale of assets	(28)	(2)
Dividend expense	0	0
Stock - based compensation	0	4
Sub-total	625	657
EBITDAS	389	(376)

Expenses

Overall the expenses in Q1' decreased by 10% to \$1.4M from the \$1.5M reported in Q1'10. The amortization of property and equipment in Q1'11 decreased by 1% to \$488K from the \$494K reported for the same period in the previous year. This was consistent with the change in assets associated with acquisitions and dispositions made in the normal course of business. As a result of interest rate fluctuations, the total interest expenses increased by 2.3%, to \$166K from the \$162K reported in Q1'10. Callable debt relates to all financing completed through the Corporation's bank which was used for purchases of equipment and property.

Stock based compensation expense is a non-cash expense which is recorded in accordance with GAAP each time stock options are issued. The stock based compensation in the current quarter was nil. In Q1'10 the Company recorded a stock based compensation expense of \$3.6K. The stock option expense has been calculated in accordance with the Black-Scholes option pricing model. Stock based compensation is not referenced independently in the financial statements but is included as part of wages and benefits. All the stock options relating to this stock based compensation expense are subject to a three year vesting period.

Income Taxes

At Q1'11 the company was not in a taxable position.

Summary of Quarterly Results

	Q1'11	Q4'10	Q3'10	Q2'10
	Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended
(000's Cdn Dollars, except per share data)	31-Jul-10	30-Apr-10	31-Jan-10	31-Oct-09
Revenue	3,814	4,788	4,661	3,557
Net income (loss)	(236)	424	(369)	(1,007)
Net income (loss) per share - basic	(0.01)	0.03	(0.03)	(0.08)
Income tax (recovery)	(0.01)	0.03	(0.03)	(0.07)

	Q1' 10	Q4' 09	Q3'09	Q2'09
	Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended
(000's Cdn Dollars, except per share data)	31-Jul-09	30-Apr-09	31-Jan-09	31-Oct-09
Revenue	3,567	5,821	6,535	5,167
Net income (loss)	(805)	(1,869)	236	148
Net income (loss) per share - basic	(0.06)	(0.19)	0.02	0.01
Net income (loss) per share - diluted	(0.06)	(0.19)	0.02	0.01

The effects of the recent economic downturn as it impacted Dalmac are clearly evident the results of the above quarters specifically from Q4'09 through to Q3'10.

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. Cash flow from operating activities increased in Q1'11 by 142% to \$223K from the \$(535)K reported in Q1'10. Non cash working capital variances decreased by 67% to \$440K from \$1.3M during the current quarter. A significant part of this change is consistent with the non-cash changes in accounts receivable reported during the comparative periods. Cash and cash equivalents at decreased by 108% or \$(15)K during Q1'11 from \$181K reported in the comparable quarter of the previous year.

On 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 \$3.3M, non-revolving term facility which bears interest at 24% per annum. Repayment terms are interest only commencing on

September 30, 2010 and maturing on August 17, 2011. This new financing was used to retire the previous callable bank debt that was due. The Company plans on refinancing this debt on more favorable terms over the course of the next 12 months. Also on the same date, the Company completed a financing arrangement with a new primary lender which consists of a \$4.4M 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%, with interest payable monthly. This facility is for a 2 year term expiring on August 17th 2012.

The covenants required by the main lender require that the Company maintain a minimum Net Tangible Worth Covenant of \$6.5M at closing and \$6.8M after October 31, 2010. The Company is also required to maintain a Fixed Charge Coverage Ratio of 1.1:1 after September 30, 2010 which is calculated on rolling forward basis. At the time of this MD&A the Company was in compliance with both covenants.

Long-Term Debt

In Q1'11 the long term debt, increased by 15%, to \$2.9M from the \$2.5M reported at Q1'10. Part of this increase is the result of reducing the non controlling interest in subsidiaries. The Company elected to pay down the non-controlling interest obligations which were associated with the acquisition of the assets of Tinky Rentals L.P. and Tinky Trucking L.P. ("Tinky") completed September 15, 2008. The other part of this increase is due to the refinancing of \$2.0M of current debt and subsequently reclassifying it as long term. In the current quarter callable debt decreased by 33%, to \$1.8M from the \$2.7M reported in Q1'10. Capital lease obligations also decreased by 40%, to \$91K from the \$151K reported in the same period last year. Total bank indebtedness on the operating line decreased by 37% or \$1.0M to \$1.7M from the \$2.7M reported in Q1'10.

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 with the timing 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 include a primary focus on reducing operating costs.

The working capital deficit in Q1'11 was \$6.4M as compared to \$7.3M in the same period in the prior year. This represents an improvement of 15%. The liability portion of this calculation includes the current portion of long term debt of \$1.9M, bank indebtedness of \$1.7M and callable debt of \$2.9M. Additional options to improve working capital, apart from increasing net earnings may include the disposition of non-essential assets, issuance of new shares and alternative financing arrangements or any combination thereof.

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. The Company's objectives in managing capital are:

- 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

In order to maintain or adjust the necessary capital structure, the Company may issue new shares, or sell assets to reduce debt.

Contractual Obligations

Dalmac leases equipment and premises under long term operating leases. The leases for premises are exclusive of operating costs. Future minimum annual lease payments are as follows:

Lease Commitments

	2011	2012	2013	2014	2015
Equipment	\$ 9,791	8,520	4,352	2,909	
Premises	371,333	354,126	109,633		
Management Contracts	202,004	239,338	149,338	149,338	80,892
	\$ 583,128	601,984	263,323	152,247	80,892

The Company pays consulting fees of \$10K per month, pursuant to a contract that expired on September 15, 2009 and was extended to continue on a month to month basis. The Company also 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.

Shareholders' Equity

Consistent with the losses reported on current operations, shareholders' equity decreased by 9% to \$6.6M from the \$7.3M reported in Q1'10.

Related Party Transactions

During Q1'11 the Company had the following transaction with related parties:

- a) Leased premises from a company controlled by a director for \$41,112 (2010 - \$41,112).
- b) Paid or accrued management and consulting fees to a company controlled by a director in the amount of \$40,371 (2009 - \$41,879).
- c) The Company is indebted to a director of the Company for an amount of \$28,663 (2010-\$76,018).
- d) The Company is indebted to a member of senior management for the amount of \$295,303 by way of a promissory note in addition to \$535,074 in mandatorily redeemable preferred shares.

The aforementioned transactions were entered into in the normal course of business 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 Corporation.

Common Shares	Options	Warrants
17,974,522	650,000	5,000,000

Subsequent Events

The Company has refinanced its callable debt and operating facilities with new lenders and has discharged the existing credit obligations of the previous primary lender. The new facility will increase the line of credit availability from \$2.0M to \$4.0M. The interest rate on this facility is lender prime plus 3.75%, with interest payable monthly. This facility is for a 2 year term expiring on August 17th 2012. One of the key advantages of this facility is that it will allow for quicker access to working capital when accounts receivable increase. Also as referenced earlier in this MD&A, the Company has entered into a new term agreement to refinance \$3.2 million of the existing callable debt. This facility consists of a \$3,300,000, non-revolving term facility which bears interest at 24% per annum. Repayment terms are interest only for 3 months commencing on August 31, 2010 and maturing on August 17, 2011. The Company plans on refinancing this debt on more favorable terms over the course of the next 12 months. Both these new facilities have been in place since August 17, 2010.

In connection with the refinancing arrangements, the Company entered into an agreement with a company control by the President for the sale and lease back of the Company's property in Fox Creek for a purchase price of \$650,000. The Company has the option to buy back the property within one year for the same price.

Outlook

The spring break up didn't end for Dalmac until the middle of June. The rain and muddy terrain stalled the movement of heavy equipment to oilfield locations. Since the middle of June drilling rig utilizations have bounced back to near record levels for the season. The Canadian Association of Oilwell Drilling Contractors ("CAODC") states that current drilling utilization in Alberta levels are 73% higher than they were in 2009. The Petroleum Services Association of Canada ("PSAC") is forecasting a 35% increase in wells drilled for this year as compared to last. This brings the total well tally for 2010 to about 11,587 as compared to the 8,350 in 2009.

With the increased activity in the Cardium zone, PSAC has predicted that 2010 will see more oil than gas wells drilled in Alberta for the first time in 40 years. Dalmac's core operations are situated in the geographical area of the Cardium zone and this is providing more opportunities for increased wells servicing activities. Dalmac's utilization levels do not hinge on the aggregate number of wells drilled but rather those being drilled in our operating areas. Many of the current wells being drilled in west central Alberta are the deeper kind which involves multi-stage fracturing. These wells are more capital intensive and take more time to complete thus requiring more of our products and services.

The long term fundamentals continue to point to an expanding demand for oil and gas. With the production rates in the Western Canadian Sedimentary Basin ("WCSB") continuously declining, the current production levels can only be maintained through more drilling.

The outlook for Dalmac's products and services continues to be more positive year over year. Over the past year, the majority of Dalmac's revenue was derived from existing production

services such as fluid hauling which usually exclude drilling and well workovers. Expected increased drilling and well servicing activity will further supplement the Company's existing revenue base by creating an additional demand for our products and services.

Dalmac's key focus is on developing more relationships with new customers in the Cardium zone while concurrently maintaining and strengthening established relationships with core customers in our existing area of operations. Dalmac's goal is to provide a select range of products and services that provide an optimum solution for all our customers' needs.

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. These include risks associated with the current crises in the financial sector in the United States, which is having an impact on commodity prices, the availability of credit, and other factors that affect the business of the Company. The Company plans to mitigate these risks by focusing on strong balance sheet fundamentals and remaining responsive to changes in industry dynamics. The Company has a comprehensive insurance policy to help safeguard its assets, operations, and employees. This is reviewed annually and revised as changes in circumstances warrant.

Credit Risks: The Company currently transacts 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 account receivables as normal for its industry.

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

Supplier Risk: 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 or labor disputes. This is currently no longer the case as there are now 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.

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

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 in such matters, including laws and regulations 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 Corporation's operations. Government regulations may change from time to time in response to economic or political 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 Corporation's services or increase its costs, either of which could have a material adverse impact on the Corporation.

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 were announced in February 2009 which were aimed to stimulate drilling activity in 2009. In March, 2010, the Government of Alberta announced that it will make further changes to the province's royalty framework with final changes anticipated to be released in May, 2010. These changes to the royalty regime in Alberta are subject to certain risks and uncertainties, and may result in a material adverse effect on the industries in which the Corporation 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 Corporation 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 Corporation's services. Management is unable to predict the impact of these initiatives on the Corporation and it is possible that they will adversely affect the Corporation's business, financial condition, results of operations and cash flows.

CRITICAL ACCOUNTING ESTIMATES

The Corporation prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). In preparing its financial statements, management is required 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 Corporation'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 Corporation's financial reporting results are set out below.

Allowance for Doubtful Accounts Receivable

The Corporation 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 Corporation'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 Corporation'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 Corporation'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 Corporation follows the asset and liability method of accounting for income taxes. Under this method, the Corporation 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 Corporation's future tax assets.

Changes in Accounting Policies

Effective May 1, 2009, the Company adopted CICA Section 3064 "Goodwill and Intangibles Assets". This standard supersedes Sections 3062 "Goodwill and Intangible Assets" and Section 3450 "Research and Development Costs". The new section establishes standards for the recognition, measurement and disclosure of goodwill, intangible assets and research and development costs. It also includes requirements for recognizing internally generated intangibles. There were no adjustments to goodwill and intangible assets in the adoption of this section.

Future accounting policies

In January 2009, the CICA issued Section 1582 "Business Combinations", Section 1601 "Consolidations", and Section 1602 "Non-controlling Interests". These new standards are harmonized with IFRS. Section 1582 specified a number of changes including: an expanded

definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interest at fair value or proportionate share of identifiable net assets, and requirement to recognize acquisition related costs as expenses. Section 1601 establishes the standards of preparing consolidated financial statements. Section 1602 specifies that non-controlling interest be treated as a separate component of equity, not as a liability or other item of equity. The new standards will become effective in 2011. Early adoption is permitted. This new Section will only have an impact on the Company's consolidated financial statements for future acquisitions that may be made in periods subsequent to the date of adoption.

In February 2008, the ASB confirmed the Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011 with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required for the Company for interim and annual consolidated financial statements beginning on May 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP but there are significant differences on recognition, measurement and disclosures. The Company is currently conducting and evaluating its scoping efforts in order to prepare for the adoption of IFRS with regards to the significant areas that IFRS will have an impact on its consolidated financial statements. Given the economic recession and the low activity levels in the oil and gas sector over the previous year, the Company has found it necessary to prioritize its focus on operational and business issues during this period. Management expects that the prioritized operational issues will abate over the new fiscal year and this will allow for more focused time and effort to be directed at the IFRS implementation. Management is currently structuring a plan to have the Company in IFRS compliance for 2011.

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