

DALMAC ENERGY INC.

Consolidated Financial Statements

Three Month Period Ended July 31, 2009

(Unaudited – See Management Report)

MANAGEMENT REPORT

To the Shareholders of **Dalmac Energy Inc.**

The accompanying unaudited consolidated balance sheet of **Dalmac Energy Inc.** as at July 31, 2009 and the consolidated statements of loss, comprehensive loss, deficit (retained earnings) and cash flows for the three month period then ended, have been prepared by management and approved by the Board of Directors of the Company.

These consolidated financial statements have not been reviewed by the Company's external auditors.

Edmonton, Canada
September 25, 2009

Signed "John I. Babic"
PRESIDENT AND CHIEF EXECUTIVE OFFICER

DALMAC ENERGY INC.
Consolidated Balance Sheets
July 31, 2009 and April 30, 2009

	July 31, 2009 <i>(unaudited)</i>	April 30, 2,009 <i>(audited)</i>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 181,383	\$ 199,706
Accounts receivable	2,363,359	4,229,891
Inventory	363,111	328,809
Prepaid expenses and deposits	375,863	499,502
	3,283,716	5,257,908
INTANGIBLE ASSET	27,500	30,000
PROPERTY AND EQUIPMENT (net of accumulated amortization)	18,166,949	18,657,793
	\$ 21,478,165	\$ 23,945,701
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	\$ 2,719,101	\$ 2,801,691
Accounts payable and accrued liabilities	2,344,508	2,964,554
Callable debt due within one year	1,119,024	1,119,035
Capital lease obligations due within one year	70,576	70,471
Current portion of long term debt	1,653,382	1,752,164
	7,906,591	8,707,915
Callable debt	2,760,476	3,040,224
Callable capital lease obligation	151,285	165,433
	10,818,352	11,913,572
CAPITAL LEASE OBLIGATIONS	1,703	5,769
LONG TERM DEBT	2,483,886	2,821,792
FUTURE INCOME TAXES (Note 4)	-	229,456
NON-CONTROLLING INTEREST IN SUBSIDIARY	900,000	900,000
	14,203,942	15,870,589
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)	8,439,453	8,439,453
CONTRIBUTED SURPLUS	629,626	625,998
DEFICIT	(1,794,856)	(990,339)
	7,274,223	8,075,112
	\$ 21,478,165	\$ 23,945,701

APPROVED ON BEHALF OF THE BOARD

Signed "John I. Babic" _____ Director

Signed "Shawn T. Szydlowski" _____ Director

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statements of Loss and Comprehensive Loss
Three Month Period Ended July 31, 2009
(Unaudited - See Management Report)

	July 31, 2009	July 31, 2008
Revenue		
Service	\$ 3,415,748	\$ 3,740,633
Product	151,293	228,930
	<u>3,567,041</u>	<u>3,969,563</u>
Direct costs		
Service	2,962,493	2,878,921
Product	151,255	145,032
	<u>3,113,748</u>	<u>3,023,953</u>
Gross margin	<u>453,293</u>	<u>945,610</u>
Expenses		
Amortization of property and equipment	491,022	402,877
Wages and benefits	507,202	395,374
General and administrative	322,831	290,584
Interest on long term debt	84,346	102,867
Interest on callable debt and other	73,481	59,042
Interest on obligations under capital lease	4,218	5,785
Amortization of intangible asset	2,500	2,500
	<u>1,485,600</u>	<u>1,259,029</u>
	<u>(1,032,307)</u>	<u>(313,419)</u>
Other income (expenses)		
Interest	62	10,635
Loss on disposal of property and equipment	(1,728)	(34,539)
	<u>(1,666)</u>	<u>(23,904)</u>
Loss before income taxes	<u>(1,033,973)</u>	<u>(337,323)</u>
Income taxes expense		
(Benefit) future	(229,456)	87,568
	<u>(229,456)</u>	<u>87,568</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	<u>\$ (804,517)</u>	<u>\$ (424,891)</u>
Basic and diluted net loss per common share	<u>\$ (0.06)</u>	<u>\$ (0.03)</u>
Basic and diluted weighted average number of common shares	<u>12,974,522</u>	<u>12,974,522</u>

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statements of (Deficit) Retained Earnings
Three Month Period Ended July 31, 2009
(Unaudited - See Management Report)

	July 31, 2009	July 31, 2008
(DEFICIT) RETAINED EARNINGS, BEGINNING OF PERIOD	\$ (990,339)	\$ 918,661
NET LOSS FOR THE PERIOD	<u>(804,517)</u>	<u>(424,891)</u>
(DEFICIT) RETAINED EARNINGS, END OF PERIOD	<u>\$ (1,794,856)</u>	<u>\$ 493,770</u>

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statement of Cash Flows
Three Month Period Ended July 31, 2009
(Unaudited - See Management Report)

	July 31, 2009	July 31, 2008
Operating Activities		
Net loss for period	\$ (804,517)	\$ (424,891)
Items not affecting cash and cash equivalents:		
Amortization of property and equipment	491,022	402,877
Loss on disposal of property and equipment	1,728	34,539
(Benefit) future income taxes	(229,456)	87,568
Stock-based compensation	3,629	21,695
Amortization of intangible asset	2,500	2,500
	(535,094)	124,288
Changes in non-cash working capital:		
Accounts receivable	1,866,532	483,598
Inventory	(34,302)	(5,890)
Prepaid expenses and deposits	123,639	(175,753)
Accounts payable and accrued liabilities	(620,046)	183,234
	1,335,823	485,189
	800,729	609,477
Investing Activities		
Purchase of property and equipment	(2,274)	(252,188)
Proceeds on disposal of property and equipment	368	32,800
	(1,906)	(219,388)
Financing Activities		
Proceeds from long term debt	-	405,654
Repayment of callable debt	(279,759)	(134,920)
Repayment of long term debt	(436,688)	(575,516)
Repayment of obligations under capital lease	(18,109)	(19,889)
Decrease in bank indebtedness	(82,590)	(174,358)
	(817,146)	(499,029)
Decrease in cash and cash equivalents	(18,323)	(108,940)
Cash and cash equivalents at beginning of period	199,706	1,580,903
Cash and cash equivalents at end of period	\$ 181,383	\$ 1,471,963

See accompanying notes

1. DESCRIPTION OF OPERATIONS

Dalmac Energy Inc. (the "Company") was incorporated under the *Canada Business Corporations Act* and is listed on the TSX Venture Exchange. The Company's wholly owned subsidiary Dalmac Oilfield Services Ltd. ("Dalmac") 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.

The Company's earnings follow the oil and gas seasonal activity pattern whereby activity peaks in the winter months and declines during the spring thaw. During spring thaw, some roads become incapable of supporting the heavy equipment needed to service the facilities. As a result, demand for the Company's services is generally highest during the winter and lowest in the summer.

2. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). These unaudited interim consolidated financial statements follow the same accounting policies as the most recent annual financial statements except as described in Note 3. Not all disclosures required by GAAP for annual financial statements are presented in these interim financial statements. The interim financial statements should be read in conjunction with the most recent annual financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Recently adopted accounting pronouncements

Intangibles

On May 1, 2009, the Company adopted CICA Handbook Section 3064 "Goodwill and Intangible Assets". This Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with International Financial Reporting Standards IAS 38 "Intangible Assets". This new standard has been adopted on a prospective basis with no restatement of prior periods. The adoption of this standard did not have an impact on the Company's financial statements.

(continues)

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(b) **Future accounting pronouncements** *(continued)*

International Financial Reporting Standards ("IFRS")

In February 2008, the AcSB confirmed the Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011 with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required for the Company for interim and annual consolidated financial statements beginning on May 1, 2011.

IFRS uses a conceptual framework similar to Canadian GAAP but there are significant differences on recognition, measurement and disclosures. The Company is currently evaluating the impact of the adoption of IFRS on its consolidated financial statements.

4. **INCOME TAXES**

(a) **Non-capital losses**

The company has accumulated non-capital losses carried forward for income tax purposes of \$6,888,938, the benefit of which has been reflected in the consolidated financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act (Canada) and expire as follows:

	2027		\$	515,455	
	2028			1,974,522	
	2029			2,858,887	
	2030			1,540,074	
				6,888,938	
			\$	6,888,938	

(b) **Temporary differences**

Future incomes taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes. Significant components of the Company's future income tax (asset) liability are as follows:

	July 31, 2009		April 30, 2009
Income tax effect of (deductible) taxable temporary differences			
Net book value in excess of undepreciated capital cost for tax purposes	\$ 1,858,834	\$	1,741,178
Non capital losses carried forward	(1,722,158)		(1,337,216)
Share issuance costs deductible for tax purposes	(24,909)		(33,213)
Tax basis of goodwill in excess of book value	(139,292)		(141,293)
Valuation allowance	27,525		-
Recognized future income tax (asset) liability	\$ -	\$	229,456

5. **SHARE CAPITAL**

- (a) Authorized:
 Unlimited common voting shares
 Unlimited preferred shares, issuable in series

- (b) Common shares issued:

	July 31, 2009		April 30, 2009	
	Shares	Amount	Shares	Amount
Balance, beginning of period	<u>12,974,522</u>	<u>\$ 8,439,453</u>	12,974,522	\$ 8,439,453
Balance, end of period	<u>12,974,522</u>	<u>\$ 8,439,453</u>	12,974,522	\$ 8,439,453

- (c) 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 exceed 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 exchange(s) on which the Company's common shares are then listed.

On May 1, 2008 the Company granted 50,000 options to a director. These options are vested equally over three years starting January 1, 2009. The fair value of the options granted was calculated using the Black-Scholes option pricing model. The fair value of the options was calculated using a risk free interest rate of 3.04%, the expected life of the options was five years and the expected volatility was 72%.

The total cost of options vested in the current period resulted in stock-based compensation expense and an addition to contributed surplus of \$3,629.

(continues)

DALMAC ENERGY INC.
Notes to Consolidated Financial Statements
Three Month Period Ended July 31, 2009

5. **SHARE CAPITAL** *(continued)*

(c) **Stock options** *(continued)*

The following summarizes activity related to stock options:

	Number	Weighted Average Exercise Price July 31, 2009	Number	Weighted Average Exercise Price April 30, 2009
Balance, beginning of period	775,000	\$ 0.52	1,207,629	\$ 0.49
Granted	-	-	50,000	0.40
Expired	-	-	(482,629)	0.43
Outstanding, end of period	775,000	\$ 0.52	775,000	\$ 0.52
Exercisable, end of period	541,666	\$ 0.51	541,666	\$ 0.51

The following summarizes stock options outstanding as at July 31, 2009.

Expiry Date	Number Outstanding	Exercise Price
March 21, 2010	125,000	\$ 0.45
June 21, 2012	600,000	\$ 0.54
May 1, 2013	50,000	\$ 0.40
	<u>775,000</u>	

6. **FINANCIAL INSTRUMENTS**

The Company has designated its financial instruments as follows: cash and cash equivalents as held for trading, which is measured at fair value; accounts receivable are classified as loans and receivables which are measured at amortized cost; bank indebtedness, long term debt, callable debt, accounts payable and accrued liabilities, and capital lease obligations are classified as other financial liabilities which are measured at amortized cost. Transaction costs associated with the Company's debt facilities are no longer presented as a separate asset on the balance sheet but are offset against the debt. Transaction costs are no longer amortized on a straight-line basis over the life of the debt but are amortized using the effective interest method.

(continues)

6. FINANCIAL INSTRUMENTS *(continued)*

The Company is primarily exposed to credit risk, liquidity risk and market risk as a result of holding financial instruments.

(a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers; however it is the opinion of the Company's management that the credit risk is minimal. Accounts receivable carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of management, there is a reasonable doubt that credit-related losses are expected to be incurred taking into consideration all circumstances known at the date of review. A significant portion (31.9%) of the outstanding accounts receivable at July 31, 2009 is due from two customers.

(b) Liquidity risk

Liquidity risk is the potential inability to meet financial obligations as they become due. The Company manages this risk by maintaining detailed cash forecasts. The management of consolidated liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a detailed forecast of the Company's consolidated liquidity position, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is assessed in view of historical volatility and seasonal needs and the maturity profile of indebtedness. The Company also constantly monitors any financing opportunities to optimise its capital structure and maintain appropriate financial flexibility. The Company has a working capital deficiency of \$4,622,876 at July 31, 2009 excluding callable debt and callable capital lease obligation due beyond one year.

(c) Market risk

Foreign exchange risk

Foreign exchange risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is not exposed to foreign exchange risk.

Interest rate risk

The Company is exposed to interest rate risks through its financial assets and financial obligations bearing variable interest rates. The interest rate risk is primarily related to cash and cash equivalents, callable debt and variable bank indebtedness. The Company manages its exposure to interest rate risk through a combination of fixed and floating rate borrowings. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

7. **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, 2009 and April 30, 2009 are shown in the table below.

	July 31, 2009	April 30, 2009
Long-term debt	\$ 2,540,114	\$ 2,821,792
Capital lease obligations	152,988	171,202
Callable debt due beyond one year	<u>2,704,248</u>	<u>3,040,224</u>
Total long-term debt	<u>5,397,350</u>	<u>6,033,218</u>
Shareholder's equity	<u>7,274,223</u>	<u>8,075,112</u>
Long-term debt to equity	<u>0.74</u>	<u>0.75</u>

8. **COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with financial statement presentation adopted for the current period.
