

DALMAC ENERGY INC.

Consolidated Financial Statements

Three and Six Month Period Ended October 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 October 31, 2009 and the consolidated statements of (loss) income, comprehensive (loss) income, (deficit) retained earnings and cash flows for the three and six 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
December 18, 2009

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

DALMAC ENERGY INC.
Consolidated Balance Sheets

	October 31, 2009 <i>(unaudited)</i>	April 30, 2,009 <i>(audited)</i>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 274,900	\$ 199,706
Accounts receivable	2,524,704	4,229,891
Inventory	422,852	328,809
Prepaid expenses and deposits	430,720	499,502
	3,653,176	5,257,908
INTANGIBLE ASSETS	25,000	30,000
PROPERTY AND EQUIPMENT	17,669,138	18,657,793
	\$ 21,347,314	\$ 23,945,701
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	\$ 1,482,941	\$ 2,801,691
Accounts payable and accrued liabilities	2,818,084	2,964,554
Callable debt due within one year	1,118,122	1,119,035
Capital lease obligation due within one year	69,113	70,471
Current portion of long term debt	1,710,721	1,752,164
	7,198,981	8,707,915
Callable debt	2,668,125	3,040,224
Callable capital lease obligation	136,942	165,433
	10,004,048	11,913,572
CAPITAL LEASE OBLIGATIONS	440	5,769
LONG TERM DEBT	4,167,931	2,821,792
FUTURE INCOME TAXES (note 5)	-	229,456
NON-CONTROLLING INTEREST IN SUBSIDIARY	900,000	900,000
	15,072,419	15,870,589
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 6)	8,439,453	8,439,453
CONTRIBUTED SURPLUS	636,894	625,998
DEFICIT	(2,801,452)	(990,339)
	6,274,895	8,075,112
	\$ 21,347,314	\$ 23,945,701

APPROVED ON BEHALF OF THE BOARD

Signed "John I. Babic" _____

Director

See accompanying notes

Signed "Shawn Szydlowski" _____

Director

DALMAC ENERGY INC.

Consolidated Statements of Loss and Comprehensive Loss

(Unaudited - See Management Report)

	October 31, 2009 (3 months)	October 31, 2008 (3 months)	October 31, 2009 (6 months)	October 31, 2008 (6 months)
Revenue				
Service	\$ 3,372,732	\$ 4,865,718	\$ 6,788,479	\$ 8,606,351
Product	184,596	300,789	335,889	529,719
	3,557,328	5,166,507	7,124,368	9,136,070
Direct Costs				
Service	2,793,441	3,216,964	5,755,934	6,095,886
Product	169,318	333,016	320,574	472,991
	2,962,759	3,549,980	6,076,508	6,568,877
Gross margin	594,569	1,616,527	1,047,860	2,567,193
Expenses				
Amortization of property and equipment	494,426	427,014	985,448	829,891
Wages and benefits	575,546	488,298	1,082,748	883,672
General and administrative	351,432	319,737	674,263	615,377
Interest on long term debt	49,650	103,201	133,996	206,068
Interest on callable debt and other	86,725	65,805	160,206	124,847
Interest on obligations under capital lease	3,853	5,208	8,070	10,993
Amortization of intangible asset	2,500	2,500	5,000	5,000
	1,564,132	1,411,763	3,049,731	2,675,848
	(969,563)	204,764	(2,001,871)	(108,655)
Other income (expenses)				
Interest	-	3,058	62	13,693
Gain (loss) on disposal of property and equipment	23,774	(35,081)	22,046	(69,621)
Dividend (note 9)	(60,806)	-	(60,806)	-
	(37,032)	(32,023)	(38,698)	(55,928)
(Loss) income before income taxes	(1,006,595)	172,741	(2,040,569)	(164,583)
Income taxes expense				
Future (benefit)	-	(24,746)	229,456	(112,313)
	-	(24,746)	229,456	(112,313)
NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	\$ (1,006,595)	\$ 147,995	\$ (1,811,113)	\$ (276,896)
Basic and diluted net (loss) income per common share	\$ (0.08)	\$ 0.01	\$ (0.14)	\$ (0.02)
Basic and diluted weighted average number of common shares	12,974,522	12,974,522	12,974,522	12,974,522

See accompanying notes

DALMAC ENERGY INC.
Consolidated Statements of (Deficit) Retained Earnings
(Unaudited - See Management Report)

	October 31, 2009 (3 months)	October 31, 2008 (3 months)	October 31, 2009 (6 months)	October 31, 2008 (6 months)
(DEFICIT) RETAINED EARNINGS, BEGINNING OF PERIOD	\$ (1,794,857)	\$ 493,770	\$ (990,339)	\$ 918,661
NET (LOSS) INCOME FOR THE PERIOD	(1,006,595)	147,995	(1,811,113)	(276,896)
(DEFICIT) RETAINED EARNINGS, END OF PERIOD	\$ (2,801,452)	\$ 641,765	\$ (2,801,452)	\$ 641,765

See accompanying notes

DALMAC ENERGY INC.

Consolidated Statements of Cash Flows

(Unaudited - See Management Report)

	October 31, 2009 (3 months)	October 31, 2008 (3 months)	October 31, 2009 (6 months)	October 31, 2008 (6 months)
Operating Activities				
Net (loss) income for period	\$ (1,006,595)	\$ 147,995	\$ (1,811,113)	\$ (276,896)
Items not affecting cash and cash equivalents:				
Amortization of property and equipment	494,426	427,014	985,448	829,891
(Gain) loss on disposal of property and equipment	(23,774)	35,081	(22,046)	69,620
Future (benefit) income taxes	-	24,746	(229,456)	112,314
Stock-based compensation	7,266	21,696	10,896	43,391
Amortization of intangible assets	2,500	2,500	5,000	5,000
	(526,177)	659,032	(1,061,270)	783,320
Changes in non-cash working capital:				
Accounts receivable	(161,344)	(721,826)	1,705,188	(238,228)
Inventory	(59,741)	(198,402)	(94,043)	(204,292)
Prepaid expenses and deposits	(54,857)	53,824	68,782	(121,929)
Accounts payable and accrued liabilities	473,576	708,585	(146,470)	891,819
	197,634	(157,819)	1,533,457	327,370
	(328,542)	501,213	472,187	1,110,690
Investing Activities				
Purchase of property and equipment	3,385	(3,958,069)	1,111	(4,210,257)
Proceeds on disposal of property and equipment	23,774	131,667	24,142	164,467
	27,159	(3,826,402)	25,253	(4,045,790)
Financing Activities				
Proceeds from issuance of share capital	-	900,000	-	900,000
Proceeds from long term debt	2,000,000	400,000	2,000,000	805,654
Proceeds from callable debt	-	1,088,000	-	1,088,000
Repayment of callable debt	(93,254)	(153,053)	(373,013)	(287,973)
Repayment of long term debt	(258,617)	(596,219)	(695,305)	(1,171,735)
Repayment of obligations under capital lease	(17,069)	(19,841)	(35,178)	(39,730)
(Decrease) increase in bank indebtedness	(1,236,160)	581,858	(1,318,750)	407,498
	394,900	2,200,745	(422,246)	1,701,714
Increase (decrease) in cash and cash equivalents	93,517	(1,124,446)	75,194	(1,233,386)
Cash and cash equivalents at beginning of period	181,383	1,471,963	199,706	1,580,903
Cash and cash equivalents at end of period	\$ 274,900	\$ 347,517	\$ 274,900	\$ 347,517

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 Inc. (“Dalmac”) is a provider of hot oiler, hydro vac, vacuum, pressure, tanker, winch and bed 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.

The accompanying 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. Excluding callable debt and callable capital lease obligations due beyond one year, the Company currently has a working capital deficiency of \$3,545,805. This deficit primarily consists of \$2,897,956 of current portion of long term debt obligation, and \$1,482,941 credit line bank indebtedness. Despite the above noted indicators, management of the Company has assessed that the Company remains a going concern as a result of the following indicators: the Company has positive cash flows from operations for the first six months of 2010; the Company has obtained additional debt financing in the six month period; and currently the Company is in the process of proposing to complete a private placement (Note 10) to obtain further financing. As a result management has assessed that the company will have sufficient funds to continue as a going concern for at least the next 12 months.

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.

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

(b) Future accounting pronouncements

i) 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.

ii) Business Combinations, Consolidated Financial Statements & Non-Controlling Interest

In January 2009, the CICA issued new Handbook Sections 1582 – “Business Combinations”, 1601 – “Consolidated Financial Statements”, and 1600 – “Non-Controlling Interests”. These sections shall be applied prospectively to business combinations for which the acquisition date is after June 30, 2011. Earlier adoption is permitted if an entity discloses that fact and applies each of the new sections concurrently. These new sections were created to converge GAAP with IFRS.

4. BANK INDEBTEDNESS

On August 25, 2009, the Company’s demand revolving term loan of \$4,000,000, held with its primary lender, was reclassified as demand non-revolving and capped at \$2,335,445. 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 2% (2008 – prime plus 1%). At October 31, 2009, \$1,482,941 had been drawn on this facility.

On October 16, 2009, the Company signed a revolving loan and security agreement with new a 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. The new 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 October 31, 2009, \$2,000,000 had been drawn on this facility.

5. INCOME TAXES

(a) Non-capital losses

The Company has accumulated non-capital losses carried forward for income tax purposes of \$8,354,125, 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			<u>3,005,261</u>
	\$		<u>8,354,125</u>

(b) Temporary differences

The change in future income tax (FIT) asset from April 30, 2009, is related to the valuation allowance taken in the period, as a result of a reassessment by management of the "more likely than not" criteria for the recognition of a FIT asset.

6. SHARE CAPITAL

(a) Authorized:

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

(b) Common shares issued:

	October 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

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6. SHARE CAPITAL *(continued)*

(c) Stock options

The total cost of options vested in the current period resulted in stock-based compensation expense and an addition to contributed surplus of \$7,266.

The following summarizes activity related to stock options:

	Number	Weighted Average Exercise Price October 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 October 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
	775,000	

7. 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 offset against the debt and are amortized using the effective interest method.

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

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7. FINANCIAL INSTRUMENTS (continued)

(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. The Company's maximum exposure is the value of its trade accounts receivable, which at October 31, 2009, had a total carrying value of \$2,524,704.

	Total	1-60 days	91-120 days	Over 120 days
Accounts Receivable	\$ 2,524,704	\$ 2,371,349	\$ 125,944	\$ 27,411
Percentage of Total		94%	5%	1%

A significant portion (34.8%) of the outstanding accounts receivable at October 31, 2009 was from two customers.

Reconciliation of changes in allowance for doubtful accounts for continuing operations:

	Six month period ending October 31, 2009	Year Ended April 30, 2009
Balance, beginning of period	\$ 7,562	\$ 8,491
Provision for doubtful accounts	\$ 8,926	\$ 7,562
Amounts charged off, net of recoveries	-	(8,491)
Balance, end of period	\$ 16,488	\$ 7,562

(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 \$3,545,805 at October 31, 2009 excluding callable debt and callable capital lease obligation due beyond one year.

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7. FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk

The following table summarizes the contractual maturities and financial liabilities for continuing operations for the twelve month periods ended October 31 under loan facilities as they existed at October 31, 2009.

	2010	2011	2012	2013	2014
Bank Indebtedness	\$ 1,482,941	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	2,818,084	-	-	-	-
Callable Debt	1,118,122	1,108,211	1,044,150	326,277	61,883
Capital Leases	69,113	60,376	76,984	-	-
Long term debt	1,655,071	1,690,190	717,972	103,745	-
	\$ 7,143,331	\$ 2,858,777	\$ 1,839,106	\$ 430,022	\$ 61,883

Management expects that forecasted cash flows from operating activities, along with the available operating overdraft, will provide sufficient cash requirements to cover the Company's forecasted operating and capital expenditures.

(c) Market 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.

Management has assessed the effect of a one (1%) percent interest rate increase or decrease in the prime lending rate at October 31, 2009. The impact on the Company's annual interest expense would be approximately \$76,000.

8. 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 October 31, 2009 and April 30, 2009 are shown in the table below.

	October 31, 2009	April 30, 2009
Long-term debt	\$ 4,167,931	\$ 2,821,792
Capital lease obligations	137,382	171,202
Callable debt due beyond one year	<u>2,668,125</u>	<u>3,040,224</u>
Total long-term debt	<u>6,973,438</u>	6,033,218
Shareholder's equity	<u>6,274,895</u>	<u>8,075,112</u>
Long-term debt to equity	<u>1.11</u>	<u>0.75</u>

The Company is subject to externally imposed capital requirements in the form of: working capital, cash flow coverage, and debt to tangible net worth ratios. These covenants are required to be tested annually on the year end financial statements. The Company reviews these ratios on a monthly basis to assess the ongoing status of its financial condition..

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

9. DIVIDEND

On September 15, 2008, the Company acquired certain assets of Tinky Rentals LP and Tinky Trucking LP. Part of the purchase price of this acquisition included the issuance of 900,000 preferred shares in a subsidiary company, 1421771 Alberta Ltd., valued at \$1.00 per share. The preferred shares may be redeemed or retracted at any time after September 15, 2009.

The preferred shares carry a cumulative dividend at the rate of six percent (6%) per annum and accrued dividend expense has been recorded. The expense for the current period is \$60,806.

10. SUBSEQUENT EVENT

The Company has proposed to carry out a private placement of up to five million units at a price of 10 cents to raise up to \$500,000. Each unit will consist of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one common share at a price of 15 cents per share if exercised within two years. The proceeds of this placement will be used to provide the corporation with working capital. It is anticipated that up to 75 per cent of this placement will be taken up by directors and/or management of the corporation.

11. COMPARATIVE FIGURES

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