



Second Quarter Interim Period Ended October 31, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This Management Discussion and Analysis ("MD&A") prepared December 18, 2009 focuses on key statistics from the unaudited consolidated financial statements of Dalmac Energy Inc. for the three and the six months ended October 31, 2009 respectively referred herein as "Q2'10" and "YTD'10". The comparable periods in the preceding year are referred to as "Q2'09" and "YTD'09". This MD&A pertains to known risks and uncertainties relating to Dalmac's operations in the oilfield services industry and should be read in conjunction with the Corporation's corresponding financial statements for the same period. Information contained herein should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. The Corporation's 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.

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. References made in this MD&A, to "Dalmac", the "Corporation", "Company", "us", "we" and "our" mean Dalmac Energy Inc. and its subsidiaries Dalmac Oilfield Services Inc., 1421771 Alberta Ltd. and 1353245 Alberta Ltd.*

Overview

Dalmac Energy Inc. (TSX Venture "DAL") is an oilfield services company which primarily specializes in, fluid hauling, hot oiling, hydro-vacating, chemical sales, tank rentals and rig moving. Headquartered out of Edmonton, Dalmac's operations have been servicing west central Alberta for over 53 years. The Company's equipment consists of 165 pieces of rolling stock which includes tank, vacuum, hydro-vac, pressure, hot oiler, acid flush, steamer, picker and winch trucks in addition to 250 pieces of oilfield rental equipment mainly consisting of storage tanks and rig matting. Dalmac currently employs approximately 110 people from its operations in Edmonton, Fox Creek, Hinton, Edson, Warburg and Pigeon Lake, Alberta.

Operating Results

Apart from using the abbreviations "Q2'10" and "YTD'10" for referencing the three and six months ended October 31, 2009, other abbreviations include "YE'09" for the year ended April 30, 2009, "M" for millions and "K" for thousands.

Selected Financial Information

(000's Cdn Dollars, except per share)	Q2'10	Q2'09	YTD' 10	YTD' 09
Revenues	3,557	5,167	7,124	9,136
Gross Margin	595	1,617	1,048	2,567
Gross Margin %	17%	31%	15%	28%
General and administrative expenses*	351	320	674	1,190
EBITDAS (loss)	(325)	833	(698)	986
EBIDTAS per share - basic	(0.03)	0.06	(0.05)	0.08
Dividends	61	61	61	0
Stock based compensation	7	22	11	43
Interest	140	174	302	342
Amortization	497	430	990	835
Net income (loss)	(1,007)	148	(1,811)	(277)
Net income (loss) per share - basic	(0.08)	0.01	(0.14)	(0.02)
Net income (loss) per share - diluted	(0.07)	0.01	(0.13)	(0.02)
Total Assets	21,347	23,946	21,086	23,946
Total long-term financial liabilities**	6,973	6,027	6,973	6,027
Shareholders' Equity	6,275	8,075	6,275	8,075
Weighted average common shares -basic	12,974,522	12,974,522	12,974,522	12,974,522
Weighted average common shares - diluted	13,562,461	13,562,461	13,562,461	13,562,461

* 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 Q2'10 decreased by 31%, or \$1.6M, to \$3.6M from the \$5.2M reported at Q2'09. The six month revenue or "YTD'10" decreased by 22% or \$2.0M to \$7.1M from the \$9.1M reported at YTD'09. This decrease in revenue was largely driven by the lack of drilling and servicing activity stemming from the general economic recession and the Alberta Government's oil and gas royalty pricing issues. As a result of the forgoing, the gross margin for Q2'10 decreased by 63% or \$1.0M to \$595K from the \$1.6M reported in Q2'09. The gross margin for YTD'10 decreased 59% to \$1.0M from the \$2.6M reported in YTD'09. The dividend payments reflect the annual interest owing on the preferred shares issued by a subsidiary company in conjunction with the acquisition of Tinky Rentals L.P. and Tinky Trucking L.P. which was completed September 15, 2008.

In response to the erosion of profit margins the Company has responded by refocusing its sales efforts on non core areas such as construction and municipal services. Apart from continued cost control efforts, effective October 26th, 2009, the Company has reduced wages across the board by approximately 7% and has implemented over lapping start and stop times for applicable personnel which should help to further reduce labour costs by minimizing over time requirements. The Company has also implemented a centralized purchasing policy which should improve the cost effectiveness of its purchasing procedures.

Q2 covers the period from August to October. This has traditionally been a breakeven quarter even at the best of times. During more normal times, during this quarter the drilling and servicing industry is gearing up for the winter drilling season. In Q2'10 drilling and well servicing utilizations were significantly below normal expectations and this contributed to a slower than normal quarter. Regular production runs which mainly sustained operations through this slow period were also hampered by reduced output due to deferred maintenance in the fields. Other factors which normally affect this quarter are weather conditions, commodity prices and the timing of customer capital budget expenditures.

Reconciliation of EBITDAS to Historical Results (GAAP)

(000's Cdn Dollars,)	Q2' 10	Q2' 09	YTD' 10	YTD' 09
Net income (loss)	(1,007)	148	(1,811)	(277)
Add:				
Income Tax (Recovery)	0	25	(229)	112
Interest on short and long term debt	140	174	302	342
Amortization - Tangible and Intangible assets	497	430	990	835
Gain (loss) on sale of assets	(24)	35	(22)	70
Dividends	61	0	61	0
Stock - based compensation	7	22	11	43
	<u>681</u>	<u>685</u>	<u>1,113</u>	<u>1,263</u>
EBITDAS	<u>(325)</u>	<u>833</u>	<u>(698)</u>	<u>986</u>

In Q2'10 the EBITDAS decreased by \$1.2M to a loss of \$325K, from the \$833K reported in the same period last year. On a year to date basis the EBITDAS decreased by \$1.8M to as loss of \$698K from the \$986K reported at the same in the previous year.

Expenses

In Q2'10 the expenses increased by 11%, or \$152K, to \$1.6M from the \$1.4M reported in Q2'09. On a year to date basis the expenses increased by 14% or \$374K to \$3.0M from the \$2.7M reported at the same period last year. This increase in expenses is consistent with the increased costs associated with the operational expansions and acquisitions made in the previous year.

The amortization of property and equipment for Q2'10 increased by 16%, or \$67K, to \$497K from the \$430K reported in Q2'09. The year to date amortization increased 19% or \$156K to \$990K compared to the \$835K reported at the same period last year. Amortization is dependent on the timing of additions to property and equipment, in earlier MD&As.

The total interest expenses for Q2'10 decreased by 20%, or \$34K, to \$140K from the \$174K reported in Q2'09. The year to date decrease was 12% or \$40K compared to the \$342K reported in the previous year. This is consistent with the general decrease in interest rates.

All financing done through the Corporation's bank is referenced as callable debt. Callable debt was used for purchases of equipment and property referenced in this and earlier MD&As for previous periods.

Stock based compensation expense which is a non-cash expense that is recorded in accordance with GAAP each time stock options are issued decreased 67% for the reported quarter to \$7.2K from the \$22K reported in Q2'09. The year to date decrease was 75% or \$32K from the \$43K reported at the same period in the preceding year. 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 Q2'10 the company was not in a taxable position. The tax benefit at YTD'10 was \$229K.

Summary of Quarterly Results

	Q2'10	Q1'10	Q4' 09	Q3' 09
	Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended
(000's Cdn Dollars, except per share data)	31-Oct-09	31-Jul-09	30-Apr-09	31-Jan-09
Revenue	3,557	3,567	6,200	6,535
Net income (loss)	(1,007)	(805)	(2,414)	236
Net income (loss) per share - basic	(0.08)	(0.06)	(0.19)	0.02
Net income (loss) per share - diluted	(0.08)	(0.06)	(0.19)	0.02

	Q2'09	Q1'09	Q4'08	Q3'08
	Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended
(000's Cdn Dollars, except per share data)	31-Oct-08	31-Jul-08	30-Apr-08	31-Jan-08
Revenue	5,167	3,970	3,970	5,551
Net income (loss)	148	(425)	(337)	202
Net income (loss) per share - basic	0.01	(0.03)	(0.03)	0.02
Net income (loss) per share - diluted	0.01	(0.03)	(0.03)	0.01

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 operation 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, in Q2'10, decreased by 166%, or \$830K, to a loss of \$329K from the \$501K reported in Q2'09. The YTD'10 cash flows decreased by \$639K to \$472K compared to the \$1.1M reported for the same period last year. Investing activities decreased 101%, or \$3.9M, to \$27K from the \$3.8M reported during in Q2'09. The year to date activities decreased to \$25K from the \$4.0M reported at the same period last year. The financing activities also decreased in Q2'10 to \$395K from the \$2.2M in Q2'09. The year to date financing activities decreased by \$2.1M from the \$1.7M reported in the previous year.. Cash and cash equivalents at the end the period decreased by 21% or \$73K to \$275K from the \$348K reported at the same period last year. Much of the aforementioned variance is directly attributable to the acquisition of Tinky Rentals L.P. and Tinky Trucking L.P. (the "Tinky Group") of Edson, Alberta which was completed September 15, 2008.

Long-Term Debt

At Q2'10 the long term debt, increased by 48%, or \$1.3M, to \$4.2M from the \$2.8M reported at YE'09. This is due to the refinancing of \$2.0M of current debt in to long term debt. On October 21, 2009, the Company entered into a \$2.0M with a new lender. This facility is interest only for the first 366 days after which the Company has the option to retire the debt over 36 months or enter into another interest only option for an additional year. Callable debt decreased by 12%, or \$372K, to \$2.7M from the \$3.0M reported at YE'09. At Q2'10 the capital lease obligations decreased by 17%, or \$28K, to \$137K from the \$165K reported at YE'09. As a result of operational and refinancing activities, bank indebtedness on the operating line decreased by 47%, or \$1.3M, to \$1.5M from the \$2.8M reported at YE'09.

Given the seasonal volatility in activity levels, the Company is required by its principal lender to test for covenant breaches on an annual basis. The Company has received a waiver from its principal lender for the YE'09 debt covenants which had not been met.

Dalmac has already begun remedying these covenant requirements by entering into a \$2.0M financing facility with a new lender. This facility will serve to reclassify a significant portion of the current debt into long term debt. Commensurate with obtaining this new \$2.0M long term credit facility, the Company has entered into a revised agreement with its principle lender which reduces the demand revolving operating overdraft facility from \$4.0M to \$2.0M. The net effect reflects a zero sum change in the aggregate amount of the operating facility because the total of the two facilities is still \$4.0 million. The main difference is the new \$2.0M credit facility is not subjected to any margining requirements while the existing credit line with the principle lender is subject to a 75% margining requirement based on eligible accounts receivable.

Working Capital

In Q2'10, excluding callable debt and callable capital lease obligations due beyond one year, the Company had a working capital deficit of \$3.5M in which remains largely unchanged from Q2'09. However, Q2'10 represents a \$1.1M improvement over the \$4.6M deficit reported at Q1'10. The Q2'10 deficit consists of a \$2.9M current portion of long term debt obligation and a \$1.5M credit line balance which supplements the working capital. The callable debt (bank financing for property mortgage and equipment purchases) has been excluded from the calculation of working capital and is considered long term for the purposes of this report. Capital lease obligations are also excluded from the working capital calculation. Dalmac believes it has sufficient working capital, cash flow from operations, and access to capital to fund its ongoing business requirements.

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

	2010	2011	2012	2013	2014	2015
Equipment	\$ 31,388	11,187	6,371	4,352	2,909	
Premises	571,349	506,562	353,730	109,633		
Management Contracts	245,530	180,229	143,365	143,365	143,365	77,656
	\$ 848,267	697,978	503,466	257,350	146,274	77,656

Management contracts: The Company pays consulting fees of \$10K per month, pursuant to a contract agreement expiring on September 1, 2010. In addition, if the Company's net income after tax reaches or exceeds \$800K, the contract agreement requires a bonus payment of 2% of the Company's net income after tax. The Company also pays consulting fees of \$10K per month, pursuant to a contract agreement expiring on September 15, 2009. In addition, the consultant is entitled to a bonus based upon EBITDA to a cumulative maximum bonus of \$200K. Since this has expired it is being renewed on a month to month basis. Also as referenced in the YE'09 MD&A, the Company pays a related party 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 contract 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 results of operations, shareholders' equity decreased by \$1.8K to \$6.3M, from the \$8.1M reported at YE'09.

Related Party Transactions

In Q2'10 the Company leased premises from a company controlled by a director of the Company for a total consideration of \$41K which represents an increase of \$21K over the \$20K paid during Q2'09. This increase is due to an expansion of the shop facilities which was required in the normal course of business and the subsequent lease arrangements entered into at fair market value. The Company is indebted to a director of the Company for an amount of \$64K (Q2'09 - \$110K). An interest expense of \$766 (Q2'09 - \$1200) has been paid to that director during the quarter.

At Q2'10 the Company paid or accrued management and consulting fees to a company controlled by a director in the amount of \$41K, compared to \$36K in the previous quarter.

The aforementioned transactions are in the normal course of operations and have been valued in the 2009 financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Outstanding Share Data

The following are the issued and outstanding shares, options and warrants as of the date of this MD&A:

Common Shares	Options	Warrants
12,974,522	775,000	0

Subsequent Events

On December 15th, 2009, the Company has announced a private place of up to 5,000,000 units at a price of \$0.10 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 \$0.15 per share if exercised within [2] years. The proceeds of this placement will be used to provide the Corporation with working capital. It is anticipated that up to about 75% of this placement will be taken up by directors and/or management of the Corporation.

Outlook

The long term outlook for Dalmac's products and services remains positive. However, in the short term, much of the demand for the Company's products and services remains linked to the economic conditions of the energy industry. Drilling and exploration activity in the Western Canadian Sedimentary Basin ("WCSB") has been adversely affected by low natural gas prices and higher than normal natural gas inventories. The Company has noticed activity levels picking up in west central Alberta. As of December 8th, 2009, according to the Canadian Association of Oilwell Drilling Contractors ("CAODC"), 222 or 38% of the drilling rigs in Alberta were being utilized. This represents a 16% utilization increase from the 126 rigs which were working at October 31, 2009.

About 80% of Dalmac's current revenue stream is derived from existing production services, which excludes drilling and well workovers. Any increased drilling, well workovers and additional production deriving there from will serve to further benefit the Company's revenue base. Dalmac continues to strive toward securing additional sources of production revenue while

keeping an optimal balance of commitment between production services and drilling activities. The Company is dedicated to maintaining and forging strong and healthy working relationships with its customers and vendors. Dalmac's objective is to provide its customers with a broader and more practical range of products and services in order to present a better solution for their needs.

The long term fundamentals still point to an increasing demand for oil and gas. Given the increasing decline in production rates in the Western Canadian Sedimentary Basin ("WCSB"), more drilling will be required to maintain current production levels.

Risk Management

Financial Instruments and Financial Risk Management: On May 1, 2007, the Company adopted CICA Handbook Sections 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These new standards have been adopted on a prospective basis with no restatement of prior periods.

As a result of adopting section 3855, the Company has designated its financial instruments as follows: cash and cash equivalents as held for trading ("HFT"), 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.

The Company has reviewed its contracts and concluded there are no embedded derivatives at this time.

Also on May 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3862 "Financial Instruments - Disclosures", Section 3863 "Financial Instruments - Presentation" and Section 1535 "Capital Disclosures". Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation" replace Section 3861 "Financial Instruments – Disclosures and Presentation", revising disclosures related to financial instruments, including hedging instruments, and carrying forward unchanged presentation requirements. Section 1535 "Capital Disclosures" requires the Corporation to provide disclosures about the Corporation's capital and how it is managed. The adoption of these new accounting standards did not impact the amounts reported in the Corporation's financial statements; however, it did result in expanded note disclosure in the financial statements.

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 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: The Company has a large portion of its service equipment and associated equipment manufactured by a single provider. While this arrangement provides certain market advantages, it also exposes the Company to potential short-term vulnerability if this supplier experiences unusual production disruptions or labor disputes.

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.

Changes in Accounting Policies

In February 2008, the Accounting Standards Board ("AcSB") issued Section 3064 "Goodwill and Intangible Assets", which replaces Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". This section is effective for the Company for interim and annual consolidated financial statements beginning on May 1, 2009. 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 IFRS IAS 38 "Intangible Assets" pursuant to International Financial Reporting Standards ("IFRS"). The company is currently evaluating the impact of this new standard.

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 with regards to the significant areas that IFRS will have an impact on its consolidated financial statements.

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