



Second Quarter Interim Period Ended October 31, 2010 (“Q2’11”) MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

This Management Discussion and Analysis (“MD&A”) prepared November 29 2010 focuses on key statistics from the unaudited consolidated financial statements of Dalmac Energy Inc. for the three and six months ended October 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 consisting of tank, vacuum, hydro-vac, pressure, hot oiler, acid flush, steamer, picker and winch trucks in addition 250 pieces of oilfield tank and rig matting rental equipment. Dalmac’s operations have been servicing west central Alberta’s oil and gas fields for over 53 years. Headquartered out of Edmonton, Dalmac currently employs 100 full time employees from its 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 October 31, 2010 (“Q2’11”) and October 31, 2009 (“Q2’10”)
- the six months ended October 31, 2010 (“YTD’11”) and October 31, 2009 (“YTD’10”)
- 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 data)	Q2'11	Q2'10	YTD' 11	YTD'10
Revenues	5,910	3,557	9,723	7,124
Gross Margin	2,182	595	3,308	1,048
Gross Margin %	37%	17%	34%	15%
General and administrative expenses*	320	351	561	674
EBITDAS (loss)	1,436	(278)	1,825	(654)
EBIDTAS per share - basic	0.08	(0.02)	0.10	(0.05)
Dividend expense	0	0	0	61
Stock based compensation	4	7	4	11
Interest	301	140	466	302
Amortization	492	497	979	990
Net income (loss)	651	(1,007)	414	(1,811)
Net income (loss) per share - basic	0.04	(0.08)	0.02	(0.14)
Net income (loss) per share - diluted	0.04	(0.08)	0.02	(0.14)
Total assets	22,350	20,731	22,350	20,731
Total long-term financial liabilities	3,054	3,412	3,054	3,412
Shareholders' equity	7,242	6,824	7,242	6,824

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

Total revenue for Q2'11 increased 66% to \$5.9M from the \$3.6M reported at Q2'10. Revenue for the six months ended October 31, 2010 increased 36% to \$9.7M from the \$7.1M reported in the previous year. After the heavy rains which plagued most of Q1'11, the weather finally began to cooperate favorably in Q2'11 and helped fire up the activity levels along with the scheduled fracturing and well servicing programs. The gross margin for Q2'11 increased by \$1.6M to \$2.2M from the \$595K reported in Q2'10. The year to date gross margin increased by \$2.3M to \$3.3M as compared to \$1.0M at the same period in the previous year. As a percentage of revenue the gross profit margin for the current quarter was 37% compared to 17% in previous year. The YTD'11 gross margin profit was 34% as compared to 15% in YTD'10.

Reconciliation of EBITDAS to Historical Results (GAAP)

(000's Cdn Dollars)	Q2'11	Q2'10	YTD' 11	YTD'10
Net income (loss)	651	(1,007)	414	(1,811)
Add:				
Income tax (recovery)	0	0	0	(229)
Interest on short and long term debt	301	140	466	302
Amortization - tangible and intangible assets	492	497	979	990
Gain (loss) on sale of assets	(10.5)	23.8	(38.5)	22.0
Dividend expense	0.0	60.8	0.0	60.8
Stock - based compensation	3.7	7.3	4.1	10.9
Sub-total	785	729	1,411	1,157
EBITDAS	1,436	(278)	1,825	(654)

For Q2'11 the EBITDAS increased by \$1.7M to \$1.4M from \$(278)K reported in Q2'10. The EBITDAS for YTD'11 increased by \$2.5M to \$1.8M as compared to \$(654)K at the same period in the previous year. As a percentage of revenue, Q2'11 EBITDAS was 24% as compared to (8)% in Q2'10. The percentage of revenue for EBITDAS at YTD'11 was 19% as compared to (9)% at the same period in the prior year.

Net income for Q2'11 increased by \$1.7M to \$651K from the \$(1.0)M reported in Q2'10. For YTD'11 net income increased by \$2.2M to \$414K from \$(1.8)M in the prior year.

Apart from the increased drilling utilizations, which were 73% higher than in the previous year, and the renewed interest in the oil deposits of central Alberta's Cardium zone the aforementioned results stem from the Company's commitment to optimize operating efficiencies, trim costs and forging ahead with building strong alliances with our customers by delivering on quality, safe and timely services. In addition, Dalmac's continued commitment to safety and environmental issues is another factor which is helping promote our company's services to being on a first call basis with many of our major oil and gas producing customers.

Expenses

Total expenses in Q2'11 were \$1.5M which represented a decrease of 3% from Q2'10. For YTD'11 the total expenses decreased by 6% to \$2.9M from the \$3.0M reported in the comparable period in the prior year. Amortization decreased 1% to \$492K from Q2'10. YTD'11 amortization expenses also decreased by 1% to \$979K from the amounts reported in YTD'10. Mainly impacted by the higher interest rates for the mezzanine refinancing of the term debt, completed in Q1'11, the total interest expenses in Q2'11 increased by 114%, to \$301K from the \$140K reported in Q2'10. For YTD'11 the total interest costs increased 54% to \$466K from the \$302K reported at the same period in the previous year. Stock based compensation in Q2'11 decreased by 49% to \$3.7K from \$7.3K reported in the same quarter in the previous year. On a year to date basis, stock based compensation decreased 62% to \$4.1K as compared to the \$11K previous year. Stock based compensation expense is a non-cash expense which is recorded in accordance with GAAP each time stock options are issued. The stock option expense has been calculated in accordance with the Black-Scholes option pricing model as described in the notes to the financial statements. 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 Q2'11 the company was not in a taxable position.

Summary of Quarterly Results

	Q2'11 Quarter Ended 31-Oct-10	Q1'11 Quarter Ended 31-Jul-10	Q4'10 Quarter Ended 30-Apr-10	Q3'10 Quarter Ended 31-Jan-10
(000's Cdn Dollars, except per share data)				
Revenue	5,910	3,814	4,788	4,661
Net income (loss)	651	(237)	424	(369)
Net income (loss) per share - basic	0.04	(0.01)	0.03	(0.03)
Net income (loss) per share - diluted	0.04	(0.01)	0.03	(0.03)

	Q2'10 Quarter Ended 31-Oct-09	Q1'10 Quarter Ended 31-Jul-09	Q4'09 Quarter Ended 30-Apr-09	Q3'09 Quarter Ended 31-Jan-09
(000's Cdn Dollars, except per share data)				
Revenue	3,557	3,567	5,821	6,535
Net income (loss)	(1,007)	(805)	(1,869)	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

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 (excluding non cash working capital) increased by \$1.7M in Q2'11 to \$1.1M from the \$(526)K reported in Q2'10. On a year to date basis the aforementioned cash flow from operations increased by \$2.4M to \$1.4M over the \$(1.1)M reported at the same period last year. A result of increases in accounts receivable, non cash working capital variances decreased by \$2.2M to \$(2.0)M from \$198K in Q2'10. On a year to date basis they decreased by \$1.5M to \$(1.6)M from the \$1.5M in the previous year. Investing activities were down by \$317K to \$(290)K on the quarter and down \$256K for the year to date comparison. Financing activities increased by \$983k to \$1.4M in Q2'11 and increased by \$1.1M to \$640K as of October 31, 2010 from the \$(422)K in the previous year. Cash and cash equivalents were down by \$104K to \$171K from the \$275K reported in Q2'10. On a year to date basis the cash and cash equivalents were down by \$104K to \$171K from the \$275K reported at YTD'10.

As announced in the MD&A for Q1'11 the Company refinanced its callable term debt with a mezzanine term lender on August 17, 2010. The new facility consists of a \$3.3M non-revolving term facility which bears interest at 24% per annum. Repayment terms are interest only, for the first three months starting on September 30, 2010 and a blend of principle and interest after that. The Company has plans to refinance this debt on more favorable terms over the course of the current fiscal year. Also on August 17, 2010 the Company refinanced its revolving operating line of credit with a new primary lender. This new two year facility, expiring on August 17, 2012, consists of a \$4.0M revolving operating line of credit, bearing an interest rate of lenders prime plus 3.75% is margined on 90% of acceptable accounts receivable.

The covenant requirements on the revolving operating line facility consist of maintaining a minimum Net Tangible Worth Covenant of \$6.8M after October 31, 2010 and a Fixed Charge Coverage Ratio of 1:1 as of September 30, 2010 which is to be calculated on a rolling forward basis. At the time of this MD&A the Company was in compliance with both covenants.

Long-Term Debt

The long term debt decreased at YTD'11 by 11% to \$3.1M from the \$3.4M reported at YE'10. Current liabilities for the same period increased by 16% to \$11.7M from the \$10.1M reported at YE'10 as a result of the refinancing of the callable term debt which was completed August 17, 2010. The current portion of long term debt decreased by 20% to \$1.4M from the \$1.7 reported as of YE'10. As a result of the increased activities in Q2, total bank indebtedness as of October 31, 2010 increased by 89% to \$3.3M from the \$1.8M reported at YE'10 and accounts receivable increased by 45% to \$4.9M from the \$3.4M reported at YE'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 Q2'11 was \$5.5M as compared to \$6.2M in at YE'10. This represents an improvement of 11%. Included in this calculation is the mezzanine debt financing of \$3.3M which is classified as current even though an option exists whereby it can be extended over a period of 4 years. The Company has indicated that it is in the process of arranging refinancing on this debt on more commercial terms.

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

Dalmac may exercise additional options to improve working capital, apart from increasing net earnings, which may include the disposition of non-essential assets, issuance of new shares and alternative financing arrangements or any combination thereof.

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	\$	5,472	10,371	8,352	6,909	4,000
Premises		294,318	394,921	109,633	0	0
Management Contracts		134,669	239,338	149,338	149,338	80,892
	\$	434,458	644,631	267,324	156,248	84,892

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 earnings reported on current operations, shareholders' equity increased by 6% to \$7.2M from the \$6.8M reported at YE'10.

Related Party Transactions

During Q2'11 the Company had the following transaction with related parties:

- a) Leased premises from a company controlled by a director for \$41,112 (Q2'10 - \$41,112).

- b) Paid or accrued management and consulting fees to a company controlled by a director in the amount of \$40,371 (Q2'10 - \$41,879).
- c) The Company is indebted to a director of the Company for an amount of \$16,491 (Q2'10-\$55,651).
- d) The Company is indebted to a member of senior management for the amount of \$304,273 by way of a promissory note in addition to \$496,854 in mandatorily redeemable preferred shares.
- e) The Company entered into an agreement to sell and lease back its property in Fox Creek to its president for a purchase price of \$650,000 and a lease rate of \$7,000 (plus costs) per month. The Company will have an option to repurchase the property for the same price. This agreement was entered into in connection with the Company's debt refinancing, described earlier in this MD&A, with respect to which the president provided security for the refinanced debt. The Company received TSX Venture Exchange approval for this agreement subsequent to Q2'11 and it is anticipated that this transaction will close during the current quarter.

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	956,000	5,000,000

Subsequent Events

As mentioned in related party transactions (e), the Company received TSX Venture Exchange approval for the sale and lease back of the property in Fox Creek subsequent to Q2'11. The Company also, exercised its option for an extension of interest only payments on an existing \$2.0M long term debt facility which was entered into in October 2009.

Outlook

After the spring break up conditions and wet weather, which plagued most of Q1'11, Dalmac's utilization levels bounced back in Q2. This is further evidenced by the drilling rig utilizations which have also recovered to near record levels. The Canadian Association of Oilwell Drilling Contractors ("CAODC") stated that current drilling utilization in Alberta levels are 73% higher than they were in 2009. This trend is expected to continue into 2011. CAODC is forecasting 11,811 wells to be drilled in 2011 which is up marginally from the 11,587 expected to be completed this year. As further corroboration of better things to come, based on the September 29th land sale results, the Alberta government has already reached a calendar year record of \$1.86 billion for petroleum and natural gas land sales (excluding oil sands auction revenue) surpassing a previous record high of \$1.83 billion set in 2005.

As the production rates in the Western Canadian Sedimentary Basin ("WCSB") continue to decline, the current production levels can only be maintained through more drilling. This in turn bodes well for long term fundamentals for the oilfield services economy.

With the increased activity in the Cardium zone, The Petroleum Services Association of Canada ("PSAC") predicted earlier in the year that 2010 would see more oil than gas wells drilled in

Alberta for the first time in 40 years. As of late about 55% of the wells completed in Alberta were oil wells, which is a significant switch from a few years ago when more than two-thirds of the wells drilled were natural gas.

In the previous year, the majority of Dalmac's revenue was derived from existing production services such as fluid hauling which usually exclude drilling and well workovers. Increased drilling and well servicing activity in the current year has further supplemented the Company's existing revenue base by creating additional demand for our products and services. The outlook for Dalmac's products and services continues to be more and more positive each year.

Dalmac's overall utilization levels do not hinge on the aggregate number of wells drilled in the province but rather those being drilled in our operating areas. Dalmac's core operations are well situated in west central Alberta which covers a substantial part of the Cardium geographical zone. Many of the new wells being drilled in west central Alberta are of the deeper kind which involves the use of multi-stage fracturing technology. As a result, these wells are more capital intensive and take more time to complete which in turn increases the demand for Dalmac's products and services.

Dalmac's key focus on safety, dependability and efficiency is striking a keen cord with our core customers. Along with maintaining and strengthening established customer relationships, Dalmac's goal is to provide an appropriate range of products and services that addresses an optimum solution for 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, without limitation, the 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 and maintaining good and safe 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 towards stimulating more 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.

Environmental risk

The Company has earned a good reputation for maintaining a high level of environmental responsibility while providing high quality products and services. The oil and gas servicing industry is highly competitive and activity levels are largely driven by customer demand. It is also impacted by matters such as economic trends, commodity prices, changing attitudes towards energy preferences and environmental awareness. A trend which is currently dominating the industry is the requirement that oil and gas service providers operate in a manner that demonstrates high level of care for the environment while adopting and following environmentally responsible business practices. The Company endeavors to be environmentally responsible and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound sustainability management, including environmental

stewardship. The company has adopted internal policies and practices to address the environmental concerns of the oil and gas industry. Despite these efforts, evolving customer concerns could adversely impact on the company's reputation and financial performance. Claims of environmentally irresponsible practices could harm the reputation of the company. Adverse publicity resulting from actual or perceived violations of environmental laws and regulations or from business practices considered environmentally irresponsible, may weaken the perception of the company's reputation and negatively impact customer attitudes which in turn could decrease the demand for the company's products and services. The consequences of this may lead to a decrease in results of operations and the company's share price. These impacts may occur even if the allegations are not directed against the company or are not valid, and even if the company is not found liable.

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 an 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 concluding 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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