

Consolidated Interim Financial Statements

(Unaudited)

Dalmac Energy Inc.

October 31, 2011

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Dalmac Energy Inc. Consolidated Statements of Financial Position

As at (unaudited)	October 31 2011	April 30 2011
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Assets		
Current		
Cash	\$ 468,463	\$ 52,485
Accounts receivable	7,076,371	6,627,121
Inventories	1,033,551	520,319
Current portion of note receivable	18,389	18,389
Prepays	<u>354,551</u>	<u>142,740</u>
	8,951,325	7,361,054
Property, plant and equipment	15,132,763	15,137,588
Note receivable	208,083	168,859
Intangible asset	<u>5,000</u>	<u>10,000</u>
	<u>\$ 24,297,171</u>	<u>\$ 22,677,501</u>
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Liabilities		
Current		
Bank indebtedness (Note 4)	\$ 4,515,503	\$ 3,381,572
Accounts payable and accrued liabilities	4,226,867	3,539,232
Callable debt (Note 5)	-	-
Current portion of finance lease obligations	61,051	41,466
Current portion of long term debt	2,481,127	2,520,593
Current portion of preferred shares	<u>152,878</u>	<u>152,878</u>
	11,437,426	9,635,741
Finance lease obligations	217,124	136,625
Long term debt (Note 6)	2,880,687	3,901,557
Deferred tax liabilities	265,378	265,378
Preferred shares (Note 8)	<u>191,098</u>	<u>267,537</u>
	<u>14,991,713</u>	<u>14,206,838</u>
Shareholders' Equity		
Share capital (Note 8)	9,040,785	8,831,329
Warrants (Note 8)	112,227	148,765
Contributed surplus	675,950	651,708
Deficit	<u>(523,504)</u>	<u>(1,161,139)</u>
	<u>9,305,458</u>	<u>8,470,663</u>
	<u>\$ 24,297,171</u>	<u>\$ 22,677,501</u>
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Going concern (Note 1)
Post-reporting event (Note 12)

On behalf of the Board

See accompanying notes to the consolidated interim financial statements.

Dalmac Energy Inc.
Consolidated Statements of Income and Comprehensive
Income

	Three months October 31		Six months October 31	
	2011 (unaudited)	2010	2011 (unaudited)	2010
Revenue				
Service	\$ 7,704,612	\$ 5,505,657	\$ 13,067,552	\$ 9,083,367
Product	<u>512,186</u>	<u>404,038</u>	<u>709,200</u>	<u>640,117</u>
	<u>8,216,798</u>	<u>5,909,695</u>	<u>13,776,752</u>	<u>9,723,484</u>
Direct costs				
Service	5,105,623	3,381,472	9,103,445	5,885,869
Product	<u>511,889</u>	<u>346,440</u>	<u>701,636</u>	<u>529,313</u>
	<u>5,617,512</u>	<u>3,727,912</u>	<u>9,805,081</u>	<u>6,415,182</u>
Gross margin	<u>2,599,286</u>	<u>2,181,783</u>	<u>3,971,671</u>	<u>3,308,302</u>
Expenses				
Wages and benefits	638,551	407,858	1,174,157	848,636
Amortization of property, plant and equipment	503,296	480,347	1,015,086	956,751
General and administrative	407,106	319,744	756,339	560,689
Interest on long term debt	96,465	224,075	204,144	303,770
Interest on callable debt and other interest on obligations under finance lease	6,414	-	14,007	2,893
Amortization of intangible asset	2,500	2,500	5,000	5,000
Loss on disposal of property, plant and equipment	7,452	10,522	17,273	38,516
Preferred share dividend expense	9,236	13,058	19,428	27,007
	<u>1,740,147</u>	<u>1,521,482</u>	<u>3,334,036</u>	<u>2,875,906</u>
Income before income taxes	859,139	660,301	637,635	432,396
Income tax expense (recovery)				
Current	252,100	-	188,595	-
Deferred	<u>(252,100)</u>	<u>-</u>	<u>(188,595)</u>	<u>-</u>
Net income and comprehensive income	<u>\$ 859,139</u>	<u>\$ 660,301</u>	<u>\$ 637,635</u>	<u>\$ 432,396</u>
Income per share basic	\$ 0.05	\$ 0.04	\$ 0.03	\$ 0.02
Income per share diluted (Note 9)	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ 0.03</u>	<u>\$ 0.02</u>

See accompanying notes to the consolidated interim financial statements.

Dalmac Energy Inc.
Consolidated Statements of Changes in Equity
(unaudited)

	Share capital	Warrants	Contributed surplus	Deficit	Total Equity
Balance at May 1, 2011	\$8,831,329	\$ 148,765	\$ 651,708	\$ (1,161,139)	\$ 8,470,663
Issue of share capital on exercise of warrants	206,956	(36,538)	-	-	170,418
Employee share-based payment options	2,500	-	24,242	-	26,742
Net income	-	-	-	637,635	637,635
Balance at October 31, 2011	\$9,040,785	\$ 112,227	\$ 675,950	\$ (523,504)	\$ 9,305,458

	Share capital	Warrants	Contributed surplus	Deficit	Total Equity (Note 11)
Balance at May 1, 2010	\$8,766,698	\$ 160,800	\$ 641,915	\$ (3,070,527)	\$ 6,498,886
Employee share-based payment options	-	-	3,499	-	3,499
Net income	-	-	-	432,396	432,396
Balance at October 31, 2010	\$8,766,698	\$ 160,800	\$ 645,414	\$ (2,638,131)	\$ 6,934,781

See accompanying notes to the consolidated interim financial statements.

Dalmac Energy Inc.

Consolidated Statements of Cash Flows

Six months ended
(unaudited)

October 31
2011

October 31
2010
(Note 11)

Increase (decrease) in cash and cash equivalents

Operating

Net income	\$ 637,635	\$ 432,396
Items not affecting cash:		
Amortization of property, plant and equipment	1,015,086	956,751
Loss on disposal of property, plant and equipment	17,273	38,516
Amortization of intangible asset	5,000	5,000
Share-based payment	<u>24,242</u>	<u>3,499</u>
	1,699,236	1,436,162
Change in non-cash operating working capital:		
Accounts receivable	(449,250)	(1,505,663)
Inventories	(513,233)	(175,890)
Prepays	(211,811)	(479,344)
Note receivable	(39,222)	-
Accounts payable and accrued liabilities	<u>687,635</u>	<u>560,591</u>
	<u>1,173,355</u>	<u>(164,144)</u>

Financing

Net proceeds from the issuance of shares	172,918	-
Repayment of callable debt	-	33,270
Repayment of long term debt	(1,060,337)	(712,178)
Repayment of obligations under finance lease	(45,220)	(171,207)
Advances (repayments) on bank indebtedness	1,133,931	1,465,563
Redemption of preferred shares	<u>(76,439)</u>	<u>(76,439)</u>
	<u>124,854</u>	<u>539,009</u>

Investing

Purchase of property, plant and equipment	(983,971)	(391,403)
Proceeds on disposal of property, plant and equipment	<u>101,750</u>	<u>83,966</u>
	<u>(882,221)</u>	<u>(307,437)</u>

Net increase (decrease) in cash and cash equivalents 415,988 67,428

Cash and cash equivalents

Beginning of period	<u>52,485</u>	-
End of period	<u>\$ 468,473</u>	<u>\$ 67,428</u>

See accompanying notes to the consolidated interim financial statements.

Dalmac Energy Inc.

Notes to the Interim Consolidated Financial Statements

October 31, 2011
(unaudited)

1. Description of operations and going concern

Dalmac Energy Inc. (the "Company") was incorporated under the Canada Business Corporations Act and is listed on the TSX Venture Exchange trading under the symbol "DAL". The Company 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.

These consolidated interim 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 business. At October 31, 2011, the Company has a working capital deficiency of \$2,486,101 (October 31, 2010 - \$5,518,588) and a deficit of \$523,504 (October 31, 2010 - \$2,331,580). The Company's ability to continue as a going concern is dependent on its ability to generate positive cash flow from operations going forward.

The above factors may adversely impact the Company's ability to continue as a going concern. Notwithstanding the foregoing, management is of the opinion that the following will contribute to remedying the foregoing concern.

During the current year,

- The Company has a long-term debt to equity ratio of 0.33:1 as of October 31, 2011 (Note 7) with a target of 0.30:1.
- Refinanced callable debt from 24% to lender prime plus 3.5% during 2011 and
- The Company has amended its maximum operating line of credit from \$4,000,000 to \$5,000,000 during 2011.

Going forward, the Company will work towards rectifying the working capital deficiency and deficit through cash flow from operations and net income. An improvement in the Company's gross margin coupled with the Company's focus on cost control and operational efficiencies will assist in reducing the working capital deficiency and deficit.

The financial statements do not reflect adjustments necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, reported revenue and expenses, and the balance sheet classifications used. These adjustments could be material.

2. Basis of presentation

The Company is required to present the annual audited Consolidated Financial Statements for the year ended April 30, 2012 under International Financial Reporting Standards ("IFRS"). In conjunction with this, these interim Consolidated Financial Statements present the Company's financial results of operations and financial position under IFRS as at and for the three months and six months ended October 31, 2011, including 2010 comparative periods. They have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 34, "Interim Financial Reporting".

Dalmac Energy Inc.

Notes to the Interim Consolidated Financial Statements

October 31, 2011
(unaudited)

2. Basis of presentation (cont'd)

The accounting policies adopted in these interim consolidated financial statements are consistent with the accounting policies the Company expects to adopt in its IFRS consolidated financial statements for the year ending April 30, 2012, and are based on IFRS as issued by the IASB that the Company expects to be applicable at that time. These interim financial statements do not include all disclosures required by IFRS for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended April 30, 2011 presented under Canadian generally accepted accounting principles ("CDN GAAP"), and the unaudited interim financial statements for the three months ended July 31, 2011 and in conjunction with the IFRS transition disclosures in Note 11 to these interim financial statements.

These accounting policies have been used throughout all periods presented in the interim consolidated financial statements except where the Company has applied certain accounting policies and exemptions upon transition to IFRS. The exemptions applied by the Company and the effects of transition to IFRS are presented in Note 11.

3. Seasonality of operations

Weather conditions can affect the sale of the Company's services. The ability to relocate heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of the spring break-up has a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern Western Canadian Sedimentary Basin ("WCSB") are accessible only in winter months when the ground is frozen hard enough to support the weight of heavy equipment. The timing of freeze-up and spring break-up affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period.

4. Bank indebtedness

On August 17, 2010, the Company completed a financing arrangement with a new primary lender consisting of a \$4,000,000 revolving operating line of credit margined on acceptable accounts receivable. The new facility, which is fixed for 2 years (expiring on August 17, 2012) carries an interest rate based on the lender's prime plus 3.75%. Extending the facility for a further term(s) is negotiable. On February 2, 2011, the Company signed an amendment increasing the \$4,000,000 revolving operating line of credit to \$5,000,000. On October 18, 2011, the Company signed an amendment reducing the facility interest rate from lender's prime plus 3.75% to lender's prime plus 2.75% and reducing the unused line fee from 1.0% to 0.5%.

At October 31, 2011, \$4,515,503 (April 30, 2011 - \$3,381,572) has been drawn on this facility.

Security for the revolving operating line of credit consists of a general security agreement providing a first security interest in all assets, with the exception of a subrogated position on certain assets pursuant to the secondary lender revolving loan for \$2,000,000 (Note 6).

Dalmac Energy Inc.

Notes to the Interim Consolidated Financial Statements

October 31, 2011

(unaudited)

5. Callable debt

On August 17, 2010, the Company refinanced its callable debt with an interim mezzanine lender. The facility consisted of a \$3,260,000, non-revolving term loan which bears interest at 24% per annum. For the first 3 months subsequent to August 17, 2010, the repayment was interest only followed by monthly payments consisting of both interest and principal. The facility was to mature on August 17, 2011 with payments based on a 4 year amortization.

In March 2011, this facility was repaid using the non-revolving term facility with the new primary lender (Note 6) and the proceeds from the sale lease-back agreement of \$400,000 (Note 10(e)).

Dalmac Energy Inc.

Notes to the Interim Consolidated Financial Statements

October 31, 2011
(unaudited)

6. Long term debt

	October 31 <u>2011</u>	April 30 <u>2011</u>
<p>On March 7th, 2011, the Company completed its refinancing of the mezzanine debt with its new primary lender (Note 4). The facility consisted of a \$2,640,000 non-revolving demand term loan which bears interest at lender's prime plus 3.00% per annum. The repayment is based on a 36 month loan amortization with \$73,333 per month principal plus interest payments, with an interest rate renewal after one year and maturity date of March 25, 2012. The facility is secured by a first charge on specific equipment (Note 6(a)).</p>	\$ 2,126,669	\$ 2,566,667
<p>Vehicle conditional sales contracts, with interest rates of 6.59%, 5.99%, and 6.49% per annum repayable in monthly blended payments that vary over the term of each contract, maturing on March 2016, October 2015, and September 2016 secured by specific service vehicles with a carrying value of \$29,580, \$30,332 and \$59,124.</p>	120,698	65,015
<p>Conditional sales contracts, with interest rates of 6.50% or 6.95% per annum, repayable in monthly blended payments that vary over the term of each contract, maturing on dates between January 2012 to May 2013, secured by specific service vehicles and service equipment with a carrying value of \$3,329,944 (2010 - \$3,321,087).</p>	941,407	1,476,952
<p>Revolving loan and security agreement, bearing interest at 90 day bankers' acceptance rate plus 5.90% per annum. Secured by first charge on specific equipment with interest only payments in the first year, with an option to term out over 36 months at the end of the first year. On December 10, 2010, the Company amended the facility and opted for a second year of interest only with four equal \$50,000 quarterly payments, after which the loan will term out over 24 to 30 months if not renegotiated with the lender. Interest on this amended facility is the Bankers Acceptance 90 day rate plus 5.90%. Principal repayment can be made at any time in increments of \$100,000.</p>		

Dalmac Energy Inc.

Notes to the Interim Consolidated Financial Statements

October 31, 2011
(unaudited)

6. Long term debt (cont'd)

	October 31 <u>2011</u>	April 30 <u>2011</u>
The lender has taken a first security interest in select equipment, with a second security interest in all remaining equipment. As of October 31, 2011, \$1,850,000 (April 30, 2011 - \$2,000,000) had been drawn on this facility and the Company was in compliance with required debt covenants for this facility (Note 6(b)).	1,850,000	2,000,000
Promissory note, with no set terms of repayment bearing interest at 6.0%, no set maturity date, secured by a general security agreement against the assets of the Company, subrogated to existing charges (Note 10(d)).	323,040	313,516
Promissory note, payable at \$13,889 per month principal plus interest at the prime interest rate, due October 2010, secured by a general security agreement over all assets of the Company subrogated to existing charges.	-	-
Promissory note due to a director of the Company, payable in equal monthly principal and interest payments of \$4,144 over thirty-six months, to bear interest commencing March 2008 at a rate of 4.25% per annum, unsecured. Repaid in February 2011.	<u>-</u>	<u>-</u>
	5,361,814	6,422,150
Less amount due within one year	<u>(2,481,127)</u>	<u>(2,520,593)</u>
	<u>\$ 2,880,687</u>	<u>\$3,901,557</u>

Approximate principal repayments due within each of the next six years are as follows:

2012	\$ 2,481,127
2013	1,626,709
2014	1,054,298
2015	166,794
2016	32,886
2017	-
	<u>\$ 5,361,814</u>

Dalmac Energy Inc.

Notes to the Interim Consolidated Financial Statements

October 31, 2011
(unaudited)

6. Long term debt (cont'd)

- a) The facility includes a demand feature which allows the financial institution to demand repayment at any time. However, the financial institution has committed it does not intend to demand repayment prior to May 1, 2012. The facility matures March 25, 2012. The financial institution has committed its intention to renew the facility at same or similar terms with a maturity date subsequent to May 1, 2012. As a result, the Company has classified the facility as long term.

On October 18, 2011, the Company signed an amendment decreasing the interest rate on the facility from lenders prime plus 3.50% to lenders prime plus 3.00%.

- b) As of October 31, 2011, all quarterly payments have been made as per the December 10, 2010 amendment.

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 defines capital as long-term debt, long-term capital lease obligations, callable debt due beyond one year and shareholders' equity. 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, 2011 and April 30, 2011 are shown in the table below.

	<u>October 31, 2011</u>	<u>April 30, 2011</u>
Long-term debt	\$ 2,880,687	\$ 3,901,557
Capital lease obligations – long term	217,124	136,625
Callable debt due beyond one year	<u>-</u>	<u>-</u>
Total long-term debt	3,097,811	4,038,182
Shareholders' equity	<u>9,305,458</u>	<u>8,470,663</u>
Total capital	<u>\$ 12,403,269</u>	<u>\$ 12,508,845</u>
Long-term debt to equity	0.33	0.48

The Company is subject to externally imposed capital requirements in the form of: fixed charge coverage and tangible net worth ratios. The Company reviews these ratios on a monthly basis to assess the ongoing status of its financial condition. These covenants are required to be tested monthly. As at October 31, 2011 and April 30, 2011, the Company is fully compliant with both these bank covenants.

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

Dalmac Energy Inc.

Notes to the Interim Consolidated Financial Statements

October 31, 2011
(unaudited)

8. Share capital

Authorized:

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

Common shares issued:

	<u>Shares</u>	<u>Amount</u>
Balance, May 1, 2010	17,974,522	\$ 8,766,698
Add shares issued:		
On exercise of warrants	374,220	64,631
	<hr/>	<hr/>
Balance, April 30, 2011	<u>18,348,742</u>	<u>\$ 8,831,329</u>
Balance, May 1, 2011	18,348,742	\$ 8,831,329
Add shares issued:		
On exercise of warrants	1,136,126	206,956
On exercise of options	16,666	2,500
	<hr/>	<hr/>
Balance, October 31, 2011	<u>19,501,534</u>	<u>\$ 9,040,785</u>

Dalmac Energy Inc.

Notes to the Interim Consolidated Financial Statements

October 31, 2011
(unaudited)

8. Share capital (cont'd)

Preferred shares

The preferred shares are outstanding in 142771 Alberta Ltd., a wholly owned subsidiary. The preferred shares were issued to the former owner of Tinky Rentals LP and Tinky Trucking LP as part of the consideration on acquisition on September 15, 2008. As of the date of issue, the preferred shares carried a cumulative dividend at the rate of six percent (6%) per annum and were redeemable or retractable. On February 1, 2010, the former owner and the Company entered into an amended agreement wherein the preferred shares would be redeemed prior to the repayment of the promissory note which was also issued as part of the acquisition. The cumulative dividend rate on the preferred shares increased to 10% per annum from 6% per annum and the redemption/retraction feature was modified such that the shares are now being paid with required monthly redemptions of \$12,740. The current portion of the preferred share liability is \$152,878 (April 30, 2011 - \$152,878), and the long-term portion is \$191,098 (April 30, 2011 - \$267,537).

Preferred shares issued:

	<u>Shares</u>	<u>Amount</u>
Balance, May 1, 2010	573,293	\$ 573,293
Preferred shares redeemed	<u>(152,878)</u>	<u>(152,878)</u>
Balance, April 30, 2011	<u>420,415</u>	<u>\$ 420,415</u>
Balance, May 1, 2011	420,415	\$ 420,415
Preferred shares redeemed	<u>(76,439)</u>	<u>(76,439)</u>
Balance, October 31, 2011	<u>343,976</u>	<u>\$ 343,976</u>

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 have an expiry date which exceeds 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 exchanges on which the Company's common shares are then listed.

On August 30, 2011 the Company granted 500,000 options to its Directors under the stock option plan. These options are vested equally over three years starting August 30, 2011. The fair value of the options was calculated using a risk free interest rate of 1.08%, the expected life of the options was five years, the expected volatility was 111%, and the expected forfeiture rate estimate was nil%.

Dalmac Energy Inc.

Notes to the Interim Consolidated Financial Statements

October 31, 2011
(unaudited)

8. Share capital (cont'd)

On August 26, 2010 the Company granted 306,000 options to its employees under the stock option plan. These options are vested equally over three years starting August 26, 2010. The fair value of the options was calculated using a risk free interest rate of 1.18%, the expected life of the options was five years, the expected volatility was 125%, and the expected forfeiture rate estimate was 15%.

On May 13, 2011 the Company granted 50,000 options to an employee under the stock option plan. These options are vested equally over three years starting May 13, 2011. The fair value of the options was calculated using a risk free interest rate of 1.69%, the expected life of the options was five years, the expected volatility was 121%, and the expected forfeiture rate estimate was nil.

The total cost of options vested in the current year resulted in stock-based compensation expense and an addition to contributed surplus of \$24,242 (October 31, 2010 - \$3,499).

The following summarizes activity related to stock options:

	Number	Weighted Average Exercise Price
Balance, May 1, 2011	956,000	\$ 0.41
Granted	50,000	0.43
Granted	500,000	0.50
Exercised	(16,666)	0.15
Outstanding, October 31, 2011	1,489,334	\$ 0.44
Exercisable, October 31, 2011	735,334	\$ 0.49

	Number	Weighted Average Exercise Price
Balance, May 1, 2010	650,000	\$ 0.53
Granted	306,000	0.15
Outstanding, April 30, 2011	956,000	\$ 0.41
Exercisable, April 30, 2011	633,000	\$ 0.53

The following summarizes stock options outstanding as at October 31, 2011.

Expiry Date	Number Outstanding	Exercise Price
June 21, 2012	600,000	\$ 0.54
May 1, 2013	50,000	\$ 0.40
August 25, 2015	289,334	\$ 0.15
May 13, 2016	50,000	\$ 0.43
August 30, 2016	500,000	\$ 0.50
	1,489,334	

Dalmac Energy Inc.

Notes to the Interim Consolidated Financial Statements

October 31, 2011
(unaudited)

8. Share capital (cont'd)

Warrants

Warrants issued:

	<u>Warrants</u>	<u>Amount</u>
Balance, May 1, 2010	5,000,000	\$ 160,800
Exercise of warrants	<u>(374,200)</u>	<u>(12,035)</u>
Balance, April 30, 2011	<u>4,625,800</u>	<u>\$ 148,765</u>
Balance, May 1, 2011	4,625,800	\$ 148,765
Exercise of warrants	<u>(1,136,126)</u>	<u>(36,538)</u>
Balance, October 31, 2011	<u>3,489,674</u>	<u>\$ 112,227</u>

All warrants issued and outstanding have an exercise price of \$0.15 per warrant.

The amount allocated to the warrants issued as part of the private placement on January 25, 2010, was calculated by taking the total net cash proceeds of the shares issued in the private placement on a pro-rata basis with the fair value of the warrants issued using the Black-Scholes Option Pricing Model using the following assumptions, and the market value of the shares issued in the private placement. The fair value of the warrants was calculated using the Black-Scholes Option Pricing Model using a weighted average risk-free interest rate of 1.18%, a weighted average expected life of two years and a weighted average expected volatility of 88%.

Dalmac Energy Inc.

Notes to the Interim Consolidated Financial Statements

October 31, 2011
(unaudited)

9. Income per share

The following table sets forth the computation of basic and diluted income per share:

	Three months October 31		Six months October 31	
	2011	2010	2011	2010
Numerator for basic and diluted income per share:				
Net income attributable to common shareholders	\$ 859,139	\$ 660,301	\$ 637,635	\$ 432,396
Denominator for basic and diluted income per share:				
Basic weighted average common shares outstanding	18,975,066	17,974,522	18,716,904	17,974,522
Stock options	23,295	-	44,820	-
Warrants	3,173,775	-	3,257,601	-
Diluted weighted average common shares outstanding	22,172,136	17,974,522	22,019,325	17,974,522
Basic income per share	\$ 0.05	\$ 0.04	\$ 0.03	\$ 0.02
Diluted income per share	\$ 0.04	\$ 0.04	\$ 0.03	\$ 0.02

The effects of the following stock options and warrants outstanding are not included in the diluted income per share calculation as the impact would be anti-dilutive:

	October 31 <u>2011</u>	October 31 <u>2010</u>
Options issued and outstanding	-	950,000
Warrants issued and outstanding	-	5,000,000

Dalmac Energy Inc.

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10. Related party transactions

The related party transactions are conducted on the terms and conditions agreed to by the related parties.

During the three and six month periods ended October 31, 2011, the Company incurred the following expenses in the normal course of operations with affiliated companies, which certain directors have significant influence, and are as follows:

- (a) Leased premises from a company controlled by a director for \$62,113 and \$124,225 respectively, (October 31, 2010 - \$41,113 and \$82,225).
- (b) Paid management and consulting fees to a company controlled by a director in the amount of \$37,335 and \$74,669 respectively, (October 31, 2010 - \$38,927, and \$77,376).
- (c) Paid consulting fees to a member of senior management in the amount of \$30,000 and \$30,000 respectively, (October 31, 2010 - \$30,000 and \$30,000).
- (d) The Company is indebted to a member of senior management for the amount of \$323,040 (October 31, 2010 - \$304,278) (Note 6) in a promissory note in addition to \$343,976 (October 31, 2010 - \$496,854) in preferred shares (Note 8). Preferred share dividend expense of \$9,236 and \$19,428 respectively, (October 31, 2010 - \$13,058 and \$27,007) was recorded in the quarter.
- (e) On March 1, 2011, the Company entered into a sale lease-back agreement with a company controlled by a director. The property was sold for \$590,165 comprised of \$400,000 cash and a note receivable of \$190,165. The monthly lease-back payment is \$7,000 comprised of \$4,200 paid to the director and a monthly payment of \$2,800 applied to the promissory note.

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11. First time adoption of IFRS

As disclosed in Note 2, these interim consolidated financial statements are prepared in accordance with IAS 34 “Interim Financial Reporting” in conjunction with the Company’s annual consolidated financial statements to be issued under IFRS as at and for the year ended April 30, 2012. The Company previously prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP. The date of transition from previous GAAP to IFRS standards was May 1, 2010.

The financial statements presented for the periods ended October 31, 2011 and April 30, 2011 for comparative purposes have been prepared under IFRS standards. The Company has applied IFRS 1 – First time adoption of International Financial Reporting Standards in preparing these first IFRS consolidated financial statements. The effects of the transition on equity, total comprehensive income, and reported cash flows are presented in this section.

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11.1 Equity reconciliation

	October 31, 2010		
	Previous GAAP	Effect of transition to IFRS	IFRS
Assets			
Current			
Cash	\$ 67,428	\$ -	\$ 67,428
Accounts receivable	4,866,777	-	4,866,777
Inventories	572,753	-	572,753
Current portion of note receivable	-	-	-
Prepays	584,003	-	584,003
	6,090,961	-	6,090,961
			-
Property, plant and equipment	16,143,469	(307,492)	15,835,977
Note receivable	-	-	-
Intangible asset	15,000	-	15,000
	\$ 22,249,430	(\$307,492)	\$ 21,941,938
Liabilities			
Current			
Bank indebtedness	\$ 3,225,901	\$ -	\$ 3,225,901
Accounts payable and accrued liabilities	3,592,347	-	3,592,347
Callable debt	3,260,000	-	3,260,000
Current portion of finance lease obligations	-	-	-
Current portion of long term debt	1,378,423	-	1,378,423
Current portion of preferred shares	152,878	-	152,878
	11,609,549	-	11,609,549
			-
Finance lease obligations	-	-	-
Long term debt	3,053,633	-	3,053,633
Deferred tax liabilities	-	-	-
Preferred shares	343,976	-	343,976
	15,007,158	-	15,007,158
Shareholders' Equity			
Share capital	8,766,698	-	8,766,698
Warrants	160,800	-	160,800
Contributed surplus	646,354	(940)	645,414
Deficit	(2,331,580)	(306,552)	(2,638,132)
	7,242,272	(307,492)	6,934,780
	\$22,249,430	(\$307,492)	\$21,941,938

Notes to the reconciliations (Note 11.3)
Deferred tax (Note 11.4)

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11.2 Total comprehensive income reconciliation

Total comprehensive income for the three month period ended October 31, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	October 31, 2010		
	Previous GAAP	Effect of transition to IFRS	IFRS
Revenue			
Service	\$ 5,505,657	\$ -	\$ 5,505,657
Product	404,038	-	404,038
	<u>5,909,695</u>	-	<u>5,909,695</u>
Direct costs			
Service	3,381,472	-	3,381,472
Product	346,440	-	346,440
	<u>3,727,912</u>	-	<u>3,727,912</u>
Gross margin	<u>2,181,783</u>	-	<u>2,181,783</u>
Expenses			
Wages and benefits	408,403	(545)	407,858
Amortization of property, plant and equipment	489,037	(8,690)	480,347
General and administrative	319,744	-	319,744
Interest on long term debt	224,075	-	224,075
Interest on callable debt and other	63,378	-	63,378
Interest on obligations under finance lease	-	-	-
Amortization of intangible asset	2,500	-	2,500
Loss on disposal of property, plant and equipment	10,522	-	10,522
Preferred share dividend expense	13,058	-	13,058
	<u>1,530,717</u>	<u>(9,235)</u>	<u>1,521,482</u>
Income before income taxes	651,066	9,235	660,301
Income tax	-	-	-
Net income and comprehensive income	<u>\$651,066</u>	<u>\$9,235</u>	<u>\$660,301</u>

Notes to the reconciliations (Note 11.3)
Deferred tax (Note 11.4)

Total basic and diluted EPS for the three months ended October 31, 2010 are \$0.04 and \$0.04 per share respectively under IFRS, an increase of \$nil per share from previous GAAP.

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11.2 Total comprehensive income reconciliation (cont'd)

Total comprehensive income for the six month period ended October 31, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	October 31, 2010		
	Previous GAAP	Effect of transition to IFRS	IFRS
Revenue			
Service	\$ 9,083,367	\$ -	\$ 9,083,367
Product	640,117	-	640,117
	<u>9,723,484</u>	-	<u>9,723,484</u>
Direct costs			
Service	5,885,869	-	5,885,869
Product	529,313	-	529,313
	<u>6,415,182</u>	-	<u>6,415,182</u>
Gross margin	<u>3,308,302</u>	-	<u>3,308,302</u>
Expenses			
Wages and benefits	849,225	(589)	848,636
Amortization of property, plant and equipment	974,131	(17,380)	956,751
General and administrative	560,689	-	560,689
Interest on long term debt	303,770	-	303,770
Interest on callable debt and other	132,644	-	132,644
Interest on obligations under finance lease	2,893	-	2,893
Amortization of intangible asset	5,000	-	5,000
Loss on disposal of property, plant and equipment	38,516	-	38,516
Preferred share dividend expense	27,007	-	27,007
	<u>2,893,875</u>	<u>(17,969)</u>	<u>2,875,906</u>
Income before income taxes	414,427	17,969	432,396
Income tax	-	-	-
Net income and comprehensive income	<u>\$414,427</u>	<u>\$17,969</u>	<u>\$432,396</u>

Notes to the reconciliations (Note 11.3)
Deferred tax (Note 11.4)

Total basic and diluted EPS for the six months ended October 31, 2010 are \$0.02 and \$0.02 per share respectively under IFRS, an increase of \$nil per share from previous GAAP.

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11.3 Notes to the reconciliations

Property, plant and equipment

The decrease in property, plant and equipment as at May 1, 2010 is a result of an impairment test performed on the tangible assets. The Company determined that \$324,872 of fixed asset impairments existed and were consequently removed from the balance sheet on transition date.

During the three and six month period ended October 31, 2010, the amount of impairment on transition resulted in a decrease in amortization of property, plant and equipment expense of \$8,690 and \$17,380, and a corresponding increase in property, plant and equipment of \$8,690 and \$17,380.

During the year ended April 30, 2011, the amount of impairment on transition resulted in a decrease in amortization of property, plant and equipment expense of \$34,758, and a corresponding increase in property, plant and equipment of \$34,758.

Share-based payments

At May 1, 2010, the Company recorded a reduction of \$352 of expense related to stock options as at that date. Company stock options generally vest over three years and the Company previously recognized the expense equally over this period. As IFRS 2 requires each portion of the option to be expensed over its individual vesting period, this accelerates the recognition of the expense. In addition, a weighted average forfeiture rate of 9.5% was introduced into the calculation of expense.

During the three and six month period ended October 31, 2010, the Company recorded a reduction of \$545 and \$589 in wages and benefits expense related to share-based payments and a corresponding increase of \$545 and \$589 to contributed surplus.

During the year ended April 30, 2011, the Company recorded a reduction of \$2,030 in wages and benefits expense related to share-based payments and a corresponding increase of \$2,030 to contributed surplus.

11.4 Deferred tax

The deferred tax impact of the above impairment of property, plant and equipment was \$nil as it was determined that it is not probable that the deferred tax asset would reverse in the foreseeable future.

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11.5 Statement of cash flows presentation

For the three months ended October 31, 2010	Previous GAAP	Effect of transition to IFRS	IFRS
Decrease in cash and cash equivalents			
Operating			
Net loss	\$651,066	\$9,235	\$660,301
Items not affecting cash:			
Amortization of property, plant and equipment	489,037	(8,690)	480,347
Loss on disposal of property, plant and equipment	10,522	-	10,522
Amortization of intangible asset	2,500	-	2,500
Share based payment expense	3,692	(545)	3,147
	1,156,817	-	1,156,817
Change in non-cash operating working capital:			
Accounts receivable	(1,820,109)	-	(1,820,109)
Inventories	(85,825)	-	(85,825)
Prepays	(399,032)	-	(399,032)
Note receivable	-	-	-
Accounts payable and accrued liabilities	264,226	-	264,226
	(883,923)	-	(883,923)
Financing			
Net proceeds from the issuance of shares	-	-	-
Repayment of callable debt	331,866	-	331,866
Repayment of long term debt	(367,979)	-	(367,979)
Repayment of obligations under finance lease	(153,143)	-	(153,143)
(Repayments) advances on bank indebtedness	1,504,770	-	1,504,770
Redemption of preferred shares	(38,219)	-	(38,219)
	1,277,295	-	1,277,295
Investing			
Purchase of property, plant and equipment	(320,735)	-	(320,735)
Proceeds on disposal of property, plant and equipment	10,000	-	10,000
	(310,735)	-	(310,735)
Net decrease in cash and cash equivalents	82,637	-	82,637
Cash and cash equivalents			
Beginning of period	(15,209)		(15,209)
End of period	\$67,428	-	\$67,428

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11.5 Statement of cash flows presentation (cont'd)

For the six months ended October 31, 2010	Previous GAAP	Effect of transition to IFRS	IFRS
Decrease in cash and cash equivalents			
Operating			
Net loss	\$414,427	\$17,969	\$432,396
Items not affecting cash:			
Amortization of property, plant and equipment	974,131	(17,380)	956,751
Loss on disposal of property, plant and equipment	38,516	-	38,516
Amortization of intangible asset	5,000	-	5,000
Share based payment expense	4,088	(589)	3,499
	1,436,162	-	1,436,162
Change in non-cash operating working capital:			
Accounts receivable	(1,505,663)	-	(1,505,663)
Inventories	(175,890)	-	(175,890)
Prepays	(479,344)	-	(479,344)
Note receivable	-	-	-
Accounts payable and accrued liabilities	560,591	-	560,591
	(164,144)	-	(164,144)
Financing			
Net proceeds from the issuance of shares	-	-	-
Repayment of callable debt	33,270	-	33,270
Repayment of long term debt	(712,178)	-	(712,178)
Repayment of obligations under finance lease	(171,207)	-	(171,207)
(Repayments) advances on bank indebtedness	1,465,563	-	1,465,563
Redemption of preferred shares	(76,439)	-	(76,439)
	539,009	-	539,009
Investing			
Purchase of property, plant and equipment	(391,403)	-	(391,403)
Proceeds on disposal of property, plant and equipment	83,966	-	83,966
	(307,437)	-	(307,437)
Net decrease in cash and cash equivalents	67,428	-	67,428
Cash and cash equivalents			
Beginning of period	-	-	-
End of period	\$67,428	-	\$67,428

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12. Post-reporting date event

On November 17, 2011, the Company signed an amendment increasing the \$5,000,000 revolving operating line of credit to \$6,000,000 with its primary lender.

On November 22, 2011, the Company entered into a new \$1,000,000 revolving term debt facility with its primary lender. The new facility carries an interest rate based on the lender's prime plus 2.5%, and repayments will be amortized over 48 months.

13. Authorization of financial statements

The consolidated interim financial statements for the period ended October 31, 2011 (including comparatives) were approved by the Board of Directors on November 29, 2011.