



Second Quarter Interim Period Ended October 31, 2011 (“Q2’12”) MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

This Management Discussion and Analysis (“MD&A”) prepared November 22, 2011 focuses on key statistics from the unaudited consolidated interim financial statements of Dalmac Energy Inc. for the three and six months ended October 31, 2011 and considers known risks and uncertainties relating to Dalmac’s operations in the oilfield services industry. This MD&A should be read in conjunction with the Company’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. As of May 1, 2012, Dalmac adopted International Financial Reporting Standards (“IFRS”) as they apply to Canadian publically accountable enterprises and accordingly the Company’s consolidated interim financial statements for this reporting period have been prepared in accordance with IFRS and International Accounting Standard 34. Previously the Company’s consolidated audited and unaudited interim financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (“CGAAP” or “GAAP”). IFRS 1 “First-time Adoption of International Financial Reporting Standards” has been applied in the preparation of this quarter’s financial statements. Consistent with IFRS 1, all comparative information for Q2’12 has been prepared in accordance with IFRS standards. A more extensive explanation of how the transition to IFRS has affected the reported financial position and comprehensive income is provided in the notes section of the financial statements for this period and in Q1’12.

The Company’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 Company’s web site at www.dalmacenergy.com. References made in this MD&A, to “Dalmac”, the “Company”, “us”, “we” and “our” mean Dalmac Energy Inc. and its subsidiaries Dalmac Oilfield Services Inc. and 1421771 Alberta Ltd.

Non-IFRS Measures: *Dalmac uses certain non-IFRS measures as indicators of financial performance and believes that these non-IFRS measures provide useful information to shareholders. EBITDAS and gross margin are measures used by the Company and which have no standardized meaning under IFRS. 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 IFRS 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 Company 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 “Risk Management” section.*

Overview

Dalmac Energy Inc. (TSX Venture “DAL”) is a growing oil and gas servicing company which specializes in fluid hauling, well servicing, chemical sales, tank rentals and rig moving. Currently the Company has 169 pieces of rolling stock which consists of tank, vacuum, hydro-vac, pressure, hot oiler, acid flush, steamer, picker and winch trucks in addition to 250 pieces of oilfield tank and rig matting rental equipment. Operating out of Fox Creek, Edson, Warburg and Pigeon Lake, Alberta, Dalmac’s continuing operations have been servicing west central Alberta for over 56 years. With its head office situated in Edmonton, Dalmac currently employs about 146 people and has been a reporting issuer since 2003.

Operating Results

The following analysis of the Company's results of operations refers to:

- the three months ended October 31, 2011 ("Q2'12") and October 31, 2010 ("Q2'11")
- the year to date (six months) ended October 31, 2011 ("YTD'12") and year to date (six months) ended October 31, 2010 ("YTD'11")
- the year ended April 30, 2011 ("YE'11")

Numerical abbreviations for million(s) and thousand(s) are referenced as "M" and "K" respectively. Current period results are compared to the comparable period in the previous year except where otherwise noted.

Selected Financial Information

(000's Cdn Dollars, except per share data)	Q2'12	Q2'11	YTD' 12	YTD'11
Revenues	8,217	5,910	13,777	9,723
Gross Margin	2,599	2,182	3,972	3,308
Gross Margin %	32%	37%	29%	34%
General and administrative expenses*	407	320	756	561
EBITDAS	1,575	1,457	2,065	1,902
EBIDTAS per share - basic	0.08	0.08	0.11	0.11
Dividend expense	9	13	19	27
Stock based compensation	21	3	24	3
Interest	172	287	347	439
Amortization	506	483	1,020	962
Net income	859	660	638	432
Net income per share - basic	0.05	0.04	0.03	0.02
Net income per share - diluted	0.04	0.04	0.03	0.02
Total assets	24,297	21,942	24,297	22,678
Total long-term debt	3,098	6,314	3,098	4,038
Shareholders' equity	9,305	6,935	9,305	8,471
Weighted average common shares -basic	18,975,066	17,974,522	18,716,904	17,974,522
Weighted average common shares - diluted	22,172,136	17,974,522	22,019,325	17,974,522

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

Activity levels began to pick up in August at a rate that is usually experienced in the winter season. Commensurate with the spike in activity levels, Dalmac's labour/training, accommodation and operating costs also increased. Dalmac has managed to increase its charge out rates over the course of the current quarter but the phasing in of the new rates typically trails cost increases by one to two months. Management expects to have the new rates fully implemented by the 3rd quarter. Revenues for Q2'12 increased by 39% to \$8.2M in comparison to Q2'11. YTD'12 revenues increased 42% to \$13.8M as compared to YTD'11.

The gross margin, as a percentage, for both the quarter and the year to date decreased slightly (5%) from the previous year. This slight decrease is in good part associated with the further implementation of the safety and training costs referenced in the Q1'12 MD&A which invariably lapped into Q2'12. On an overall basis, the dollar amount of the gross margin was up 19% on the quarter and 20% as of the year to date.

The net earnings for Q2'12 increased 30% to \$859K as compared to Q2'11 and the YTD'12 earnings were up 47% to \$638K as compared to the same time last year.

Reconciliation of EBITDAS to Historical Results (IFRS)

(000's Cdn Dollars)	Q2'12	Q2'11	YTD'12	YTD'11
Net income (loss)	859	660	638	432
Add:				
Income tax (recovery)	0	0	0	0
Interest on debt	172	287	347	439
Amortization - tangible and intangible assets	506	483	1,020	962
Loss (Gain) on sale of assets	7	11	17	39
Dividend expense	9	13	19	27
Stock - based compensation	21	3	24	3
Sub-total	716	797	1,428	1,470
EBITDAS	1,575	1,457	2,065	1,902

EBITDAS for Q2'12 increased by 8% to \$1.6M compared to Q2'11 while YTD'12 EBITDAS increased 9% to \$2.1M as compared to YTD'11.

Expenses

Overall, Q1'12 expenses increased by 15% to \$1.7M as compared to Q2'11 and the YTD'12 expenses increased 17% to \$3.3M as compared to the same period in the previous year. The most impacted categories for the increases as compared to the similar period in the previous year were:

- Wages and benefits - increased 63%, to \$368K in Q2'12 (34% to \$626K for YTD'12)
- Management salaries increased 39% to \$249K in Q2'12 (39% to \$524K for YTD'12)
- Travel and automotive increased 193% to \$133K (149% to \$211K for YTD'12)

Also, as compared to the previous year: The quarterly amortization expense increased 5%, to \$506K while the year to date totals increased by 6% to \$1.0M which is consistent with asset purchases and betterments. The interest expense decreased 40% to \$172K for the quarter and 26% to \$347K as of the year to date; these decreases are the expected results of the credit refinancing which were referenced in earlier MD&A's. Stock-based compensation was \$21K for the quarter and \$24K for the year to date. Stock-based compensation is a non-cash expense which is recorded in accordance with IFRS each time stock options are granted and is 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 the stock-based compensation expense are subject to a three year vesting period.

Summary of Quarterly Results

(000's Cdn Dollars, except per share data)	Q2'12 Quarter Ended 31-Oct-11	Q1'12 Quarter Ended 31-Jul-11	Q4'11 Quarter Ended 30-Apr-11	Q3'11 Quarter Ended 31-Jan-11
Revenue	8,217	5,560	8,291	8,219
Net income (loss)	859	(213)	329	1,129
	0.05	(0.01)	0.02	0.06
Net income (loss) per share - diluted	0.04	(0.01)	0.02	0.06

(000's Cdn Dollars, except per share data)	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
Revenue	5,910	3,814	4,788	4,661
Net income (loss)	660	(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)

Income Taxes

At Q2'12 the Company was not in a taxable position.

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. The comparisons of cash flow from operating activities (excluding non-cash working capital) increased 20% on the quarter and 18% as of the year to date. The changes in non-cash working capital, which was greatly influenced by the carrying levels of the accounts receivable balances, decreased by 17%, for the quarter and 67% as of the year to date. Investing activities mainly stemming from the purchase and disposal of operating equipment increased by 30% on the quarter and 187% as of the year to date. Financing activities, mainly impacted by debt refinancing and the issuance of shares, decreased 22% in Q2'12 and 77% as of YTD'12. Changes in the cash and cash equivalents on a year to date basis increased by 595% to \$468K.

The financial covenant requirements on the borrowing facilities provided by the new primary lender require maintaining a minimum Net Tangible Worth of \$6.8M and a Fixed Charge Coverage Ratio of 1:1 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, excluding capital leases, in Q2'12, decreased by 26%, to \$2.9M from the \$3.9M reported at YE'11. Current liabilities increased by 19%, to \$11.4M from the \$9.6M reported at YE'11. Consistent with increasing activity levels, total bank indebtedness increased by 34%, to \$4.5M, up \$1.1M from YE'11.

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 in dealing with the timing differences 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 includes a primary focus on reducing operating costs.

The variances in the key financial accounts effecting working capital are as follows:

- Accounts receivable – increased 7% or \$449K from YE'11
- Accounts payable – increased 19% or \$688K from YE'11
- Current portion of Long Term Debt - decreased 2% or \$39K from YE'11

The working capital ratio improved 2%, to 0.78:1, from 0.76:1 reported at YE'11.

Subsequent Developments

On November 17, 2011 the Company increased its operating line of credit with its new primary lender by \$1.0M to \$6.0M. The interest rate on this facility has been reduced from prime plus

3.75% to prime plus 2.75%. On November 22, 2011 the Company also entered into new \$1.0M term debt facility with its primary lender. As of the date of this MD&A no portion of the this facility has been drawn down.

Capital Management

With the governing objective to ensure sufficient capital to fund its ongoing business requirements, the Company evaluates the risks associated with its underlying assets by constantly evaluating the economic conditions and relevant business risks. Without limitation, the Company's core objectives in managing capital include:

- 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

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

Shareholders' Equity

Consistent with the income reported from current operations, shareholders' equity increased by 6% to \$9.3M from the \$8.8M reported at YE'11

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 and management contractual obligations are listed as follows:

Lease and Contractual Commitments

		Within one Year	Two to Five Years	After Five Years	Total
Equipment	\$	10,083	14,364	-	24,477
Premises		700,848	1,134,088	-	1,834,937
Management Contracts		129,338	304,899	-	484,237
Total	\$	890,269	1,453,351	-	2,343,621

The Company 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 annual 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.

Related Party Transactions

At Q2'12 the Company had the following transactions with related parties:

- a) Leased premises from a company controlled by a director for \$62K (Q2'11 - \$41K).
- b) Paid or accrued management and consulting fees to a company controlled by a director in the amount of \$37K (Q2'11 - \$40K). See Note 10(b) of the Company's financial

statements for Q2'12.

- c) The Company paid consulting fees to a member of senior management in the amount of \$30K (Q2'11- \$30K).
- d) The Company is indebted to a member of senior management for the amount of \$323K (Q2'11 - \$304K) (see Note 10(d) of the Company's Q2'12 financial statements) under a promissory note in addition to \$344K (Q2'11- \$497K) in mandatorily redeemable preferred shares. Preferred share dividend expense of \$9K (Q2'11 - \$13K) is payable for the period.
- e) The Company has a sale – leaseback agreement with a company controlled by a director (see note 10(e) of the Company's Q2'12 financial statements) for \$7K per month (YE'10 – nil).

The aforementioned transactions were entered into through the course of normal business practices, with the exception of (e) which was a required condition for the refinancing in fiscal 2011, 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 Company.

Common Shares	Options	Warrants
19,501,534	1,489,334	3,489,674

Outlook

Activity levels in the Western Canadian Sedimentary Basin are maintaining their high levels of utilization which is a precursor to the expectation of a very busy winter season ahead. As of November 23, 2011, drilling rig utilization, in Alberta, was at 63% and service rig utilization was at 62%. Contributing factors bringing this about include strong oil pricing and the ever increasing application of horizontal drilling in the oil and gas industry, which has witnessed year over year increases in all aspects of oilfield activity. Dalmac has developed relationships with major oil and gas producers and operators across west central Alberta by providing quality equipment, well trained safety conscious personnel and a competent group of managers that together combine to provide value to our customers both in superior customer service and efficient operations. Over the course of the current quarter we have experienced strong utilization rates for our equipment and improved financial performance. This increase in activity is expected to continue throughout our fiscal 2012 based on the forecasts for increased oil and gas production driven by stronger oil prices.

Dalmac's strategy is to continue our focus on optimizing operating efficiencies, trimming costs, improving safety and service while forging ahead with building strong customer relationships. All the foregoing is helping to position our Company as the first call choice. In summary, we are now very optimistic that the expanding applications for horizontal drilling and multi stage fracturing technology into our service area will keep the demand for our services strong throughout the winter and well into the next year.

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. They also

include risks associated with the current crises in the financial sector in the United States and Europe, 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. However, the Company faces risks against which it may not be able, or may choose not, to insure.

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 accounts receivable as normal and acceptable 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, labor disputes or other problems. This risk has been greatly reduced as the Company now has 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. Such factors can also affect the timing and duration of road bans, which can negatively impact our operations.

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 (as opposed to straight drilling activity) 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 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 Company's operations. Government regulations may change from time to time in response to economic, political or other 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 Company's services or increase its costs, either of which could have a material adverse impact on the Company.

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 announced in February 2009 were aimed at stimulating drilling activity in 2009. In 2011 the Government of Alberta has introduced additional changes to the province's royalty framework which are currently being implemented. The oil industry's reaction to the new royalty regime announcements has thus far been favourable. There is, however, a danger that the Alberta royalty regime may be subject to future changes and this possibility creates uncertainty concerning unforeseen risks that can result in a material adverse effect on the industries in which the Company 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 Company 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 Company's services. Management is unable to predict the impact of these initiatives on the Company and it is possible that they will adversely affect the Company'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 a 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 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 preparation of financial statements in conformity with IFRS requires management 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 Company'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 Company's financial reporting results are set out below.

Allowance for Doubtful Accounts Receivable

The Company 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 Company'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 Company'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 Company'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 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 Company follows the asset and liability method of accounting for income taxes. Under this method, the Company 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 Company's future tax assets.

TRANSITION TO IFRS

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.

The Company followed the provisions of *IFRS 1, First-Time Adoption of International Financial Reporting Standards* in preparing its opening IFRS balance sheet. Certain policies used for this opening balance sheet differed from its Canadian GAAP policies applied at the same date. The resulting adjustments arose from events and transactions before the date of transition to *IFRS*. Therefore as required by *IFRS 1*, those adjustments were recognized directly through retained earnings (or another category of equity where appropriate) as of May 1, 2010, in accordance with the general rules of *IFRS 1* which is to apply IFRS retrospectively.

IFRS 1 First-Time Adoption of International Financial Reporting Standards allows first-time adopters certain exemptions from the retrospective application of certain *IFRSs* effective for December 2011 year ends. The Company has applied the following exemptions:

Share-based payments exemption

The Company has elected not to apply IFRS 3 – Share Based Payments to equity instruments granted to employees and non-employees that vested on or before the date of transition.

Business combinations exemption

The Company has elected not to apply IFRS 3 – Business Combinations retrospectively to past business combinations that occurred before the date of transition.

Leases exemption

The Company has elected to apply the transitional provisions in IFRIC 4 – Determining whether an Arrangement contains a Lease in order to use the facts and circumstances existing at the date of transition to determine whether an arrangement contains a lease.

Share-based payments

Under previous GAAP the Company's settled share-based payments were measured at their fair value at the grant date. This amount was expensed to share-based compensation on the income statement on a straight-line basis over the vesting period. Forfeitures were accounted for as they occurred. Under IFRS, an estimate of forfeitures must be factored into the calculation of the expense at the grant date and is revised if subsequent information indicates a different expected forfeiture rate. Further, IFRS requires a graded vesting method in the recognition of the expense. The effect on loss for the year ended April 30, 2011, is a decrease in share-based compensation, as recorded in general and administration expense by approximately \$2K with a corresponding change to contributed surplus.

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 months 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 a corresponding increase in property, plant and equipment of \$8,690.

In 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.

Deferred taxes

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

For further information, please contact:

John Babic, President & CEO

Telephone: 780-988-8510

Facsimile: 780-988-8512

E-mail: info@dalmacenergy.com