



Second Quarter Interim Period Ended January 31, 2011 (“Q3’11”) MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

This Management Discussion and Analysis (“MD&A”) prepared February 16, 2011 focuses on key statistics from the unaudited consolidated financial statements of Dalmac Energy Inc. for the three and nine months ended January 31, 2011 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 energetic oil and gas servicing company which specializes in, fluid hauling, well servicing, chemical sales, tank rentals and rig moving. With 167 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 55 years. Headquartered out of Edmonton, Dalmac currently employs 110 full time employees from its operating locations 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 January 31, 2011 (“Q3’11”) and January 31, 2010 (“Q3’10”)
- the nine months ended January 31, 2011 (“YTD’11”) and January 31, 2010 (“YTD’10”)
- the year ended April 30, 2011 (“YE’11”).

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)	Q3'11	Q3'10	YTD' 11	YTD'10
Revenues	8,219	4,661	17,943	11,785
Gross Margin	2,824	1,188	6,133	2,236
Gross Margin %	34%	25%	34%	19%
General and administrative expenses*	429	351	990	1,026
EBITDAS (loss)	1,966	304	3869	(394)
EBIDTAS per share - basic	0.11	0.02	0.21	(0.03)
Dividend expense	0	0	0	72
Stock based compensation	4	7	8	18
Interest	336	150	803	453
Amortization	497	500	1,476	1,490
Net income (loss)	1,129	(369)	1,544	(2,180)
Net income (loss) per share - basic	0.06	(0.03)	0.09	(0.17)
Net income (loss) per share - diluted	0.06	(0.03)	0.08	(0.17)
Total assets	24,387	20,731	24,387	20,731
Total long-term debt	2,602	3,412	2,602	3,412
Shareholders' equity	8,397	6,824	8,397	6,824
Weighted average common shares -basic	18,019,290	13,300,609	17,989,445	13,083,218
Weighted average common shares - diluted	20,441,468	13,300,609	18,690,798	13,083,218

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

Total revenue for Q3'11 increased by 76% to \$8.2M from the \$4.6M reported at Q3'10. The year to date revenue increased 52% to \$18M from the \$12M reported in the previous year. The onset of the colder winter weather in November of 2010 kicked off the winter drilling and well servicing programs which in turn helped increase our utilization levels. The gross margin for Q3'11 increased by 138% to \$2.8M from the \$1.2M reported in Q3'10. The year to date gross margin increased by 174% to \$6.1M as compared to \$2.2M at the same period in the previous year. As a percentage of revenue the gross profit margin for the current quarter was 34% compared to 25% in Q3'10. The YTD'11 gross margin profit was 34% as compared to 19% in YTD'10.

Reconciliation of EBITDAS to Historical Results (GAAP)

(000's Cdn Dollars)	Q3'11	Q3'10	YTD' 11	YTD'10
Net income (loss)	1,129	(369)	1,544	(2,180)
Add:				
Income tax (recovery)	0	5	0	(225)
Interest on short and long term debt	336	150	803	453
Amortization - tangible and intangible assets	497	500	1,476	1,490
Gain (loss) on sale of assets	0.0	(0.4)	38.5	(22.4)
Dividend expense	0.0	10.8	0.0	71.6
Stock - based compensation	3.7	7.3	7.8	18.2
Sub-total	837	673	2,325	1,786
EBITDAS	1,966	304	3,869	(394)

EBITDAS for Q3'11 increased by 547% to \$2.0M from the \$304K reported in Q3'10. The year to date EBITDAS increased by 1082% to \$3.9M from the \$(394)K at the same period in the previous year. As a percentage of revenue, Q3'11 EBITDAS was 24% as compared to 6% in Q3'10. The percentage of revenue for EBITDAS at YTD'11 was 22% as compared to (3) % at the same period in the prior year.

Net income for Q3'11 increased by 406% to \$1.1M from the \$(369)K reported in Q3'10. For YTD'11 net income increased by 171% to \$1.5M from \$(2.2)M in the prior year.

Dalmac's continued commitment to supporting safety and environmental concerns is helping position our company's services to being on a first call basis with many of our major oil and gas producing customers. Concurrent with drilling utilizations being 26% higher than last year Dalmac's utilization levels are also on the rise. The aforementioned, along with the Company's determination to optimize operating efficiencies, trim costs while focusing on delivering on safe, quality and timely services is resulting in the creation of a healthy bottom line and the establishment of strong alliances with our business partners.

Expenses

Total expenses in Q3'11 increased by 9% to \$1.7M from \$1.5M in the previous year. The year to date expenses decreased by 1% to \$4.6M from the previous year. Amortization was \$497K for Q3'11 and \$1.5M for year to date. In both cases the variance was less than 1% compared with the same periods in the prior year.

Mainly impacted by the mezzanine refinancing of the term debt which was completed in Q1'11, total interest costs increased by 124% in the quarter to \$336K from \$150K in Q3'10. The year to date interest costs increased by 77% to \$803K from the \$453K at the same period in the previous year.

Stock based compensation decreased by 49% to \$3.7K in Q3'11 from \$7.2K reported in the same quarter in the previous year. On a year to date basis, stock based compensation decreased 57% to \$7.8K as compared to the \$18K in the 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 Q3'11 the company was not in a taxable position.

Summary of Quarterly Results

	Q3'11 Quarter Ended 31-Jan-11	Q2'11 Quarter Ended 31-Oct-10	Q1'11 Quarter Ended 31-Jul-10	Q4'10 Quarter Ended 30-Apr-10
(000's Cdn Dollars, except per share data)				
Revenue	8,219	5,910	3,814	4,788
Net income (loss)	1,129	651	(237)	424
Net income (loss) per share - basic	0.06	0.04	(0.01)	0.03
Net income (loss) per share - diluted	0.06	0.04	(0.01)	0.03

	Q3'10 Quarter Ended 31-Jan-10	Q2'10 Quarter Ended 31-Oct-09	Q1'10 Quarter Ended 31-Jul-09	Q4'09 Quarter Ended 30-Apr-09
(000's Cdn Dollars, except per share data)				
Revenue	4,661	3,557	3,567	5,821
Net income (loss)	(369)	(1,007)	(805)	(1,869)
Net income (loss) per share - basic	(0.03)	(0.08)	(0.06)	(0.19)
Net income (loss) per share - diluted	(0.03)	(0.08)	(0.06)	(0.19)

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 1040% to \$1.6M in Q3'11 from the \$143K reported in Q3'10. The year to date cash flow from operations increased by 426% to \$3.0M over the \$(0.9)M reported at the same period last year. As a result of increases in accounts receivable, non cash working capital variances decreased by 752% in Q3'11 to \$(714)K from the \$109K in Q3'10. The year to date variances decreased by 241% to \$(2.3)M from the \$1.6M in the previous year. Investing activities decreased by 763% to \$(519)K on the quarter from the \$(60)K in the previous year. The year to date investing activities also decreased by 2048% to \$(749)K from \$(35)K in the previous year. Financing activities for the quarter increased by \$13K to \$12K and \$1.0M to \$652K at the nine month mark. The year to date cash and cash equivalents increased by 24% to \$578K.

As announced previously in this and earlier MD&A's 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 3 months starting on September 30, 2010 and a blend of principle and interest after that. The Company is in the process of refinancing this debt on more favorable terms. The new lenders are awaiting the receipt of the Q3'11 financial results to conclude their review.

Also on August 17, 2010 the Company refinanced its revolving operating line of credit with a new primary lender. This new 2 year facility, expiring on August 17, 2012, consisting 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. This revolving operating line of credit has been increased to \$5.0M as of February 2, 2011.

The covenant requirements on the above mentioned 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 full compliance with both covenants.

Long-Term Debt

The long term debt decreased at Q3'11 by 24% to \$2.6M from the \$3.4M reported at YE'10. Current liabilities at same period increased by 29% to \$12.9M from the \$10.1M reported at YE'10 mainly as a result of increased activity levels which pushed up the accounts payable and the bank indebtedness. Total bank indebtedness as of Q3'11 increased by 106% to \$3.6M from the \$1.8M reported at YE'10 and accounts payable increased by 48% to \$4.5M. Accounts receivable increased by 95% to 6.6M from the \$3.4M reported at YE'10. The current portion of long term debt at Q3'11 decreased by 11% to \$1.5M from the \$1.7 reported as of 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 Q3'11 was \$4.7M as compared to \$6.2M in at YE'10. This represents an improvement of 24%. The mezzanine financing debt of \$3.1M which is in the process of being refinanced on more reasonable commercial terms is included in this calculation. Also classified as current debt, is the current portion of preferred shares to be redeemed which totals \$153K. This debt is associated with the purchase of Tinky Tanks LLP and Tinky Trucking LLP in 2008. The Vendor has agreed to accept monthly payments based on a four year term with the objective of being paid out in 2 years.

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

Additional options to improve working capital, apart from increasing net earnings 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	\$	2,593	10,371	8,352	6,909	4,000
Premises		147,159	394,921	109,633	0	0
Management Contracts		67,335	239,338	149,338	149,338	80,892
	\$	217,087	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 23% to \$8.4M from the \$6.8M reported at YE'10.

Related Party Transactions

During Q3'11 the Company had the following transaction with related parties:

- a) Leased premises from a company controlled by a director for \$41,112 (Q3'10 - \$41,112).
- b) Paid or accrued management and consulting fees to a company controlled by a director in the amount of \$41,879 (Q3'10 - \$39,730).
- c) The Company is indebted to a director of the Company for an amount of \$4,191 (Q3'10-\$52,621).
- d) The Company is indebted to a member of senior management for the amount of \$308,860 by way of a promissory note in addition to \$458,635 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 has an option to repurchase the property at 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 Q3'11 and it is anticipated that this transaction will close during the fourth 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
18,145,262	956,000	4,912,740

Subsequent Events

On February 2, 2011, the Company signed an amendment increasing the \$4,000,000 revolving operating line of credit to \$5,000,000 with its primary lender. Dalmac has completed the transaction referenced in "Related Party Transactions subsection e" on February 2, 2011.

Outlook

Drilling rig utilizations in western Canada stood at 80% at Q3'11. This is up 26% from the same time last year. According to the Petroleum Services Association of Canada ("PSAC") the total number of wells drilled in Canada for 2010 was 12,158. Although this number is half of what was drilled in 2007 there is a big difference in how long it takes to complete an average well. Many of the current wells are deeper, longer and involve multi stage fracturing. In addition to being more costly to drill and complete they also increase the demand for Dalmac's products and services. About 65% of Dalmac's revenue is derived from production related services such as fluid hauling with the balance coming from drilling and well work-over activities.

A further precursor to increasing future oilfield activity is the record levels of oil and gas land sales in 2010. Oil and gas land sales in Alberta netted \$2.8 billion in 2010 which eclipses the previous record of \$1.85 billion set in 2005. For 2011 PSAC has increased its 2010 drilling forecast by 1000 to nearly 13,000 new wells in western Canada.

Dalmac's overall utilization levels are less dependent on the total number of wells than the type and number of wells scheduled for drilling and workovers in our area of operation. Dalmac's core operating area covers most of west central Alberta which includes a substantial portion of the Cardium geographical zone. The Cardium zone has been a major site of increased oilfield activity over the past year. The history of the Cardium dates back over 50 years with estimates claiming reserves of approximately 10 billion barrels of original oil in place of which only 20% has been recovered. This currently makes the Cardium the biggest conventional oil play in Canada. The secret to unlocking the oil from the shale in the Cardium formation is multi stage fracturing. As a result, 2010 saw more oil than gas wells drilled in Alberta for the first time in 40 years. 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 were natural gas.

Stressing the Company's determination to optimize operating efficiencies by trimming costs and forging ahead with building healthy customer relationships while delivering safe, quality and timely services are key to Dalmac's unfolding strategy. Dalmac's strong safety record and our continued commitment to supporting safety and environmental concerns is also helping position our Company to being first call with many of our major oil and gas producing customers.

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 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 good 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 was aimed to stimulate 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 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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