

Consolidated Financial Statements

Dalmac Energy Inc.

Year Ended April 30, 2010

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Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements and the information in Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's best estimates and judgments. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances. Management has prepared the financial information presented elsewhere in Management's Discussion and Analysis and ensured it is consistent with the financial statements.

Dalmac Energy Inc. maintains a system of internal controls to provide reasonable assurance that transactions are properly authorized, financial records are accurate and reliable and the Company's assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out its responsibility for the consolidated financial statements through its Audit Committee. The Committee meets periodically with management and the external auditors to review the financial statements and the annual report and to discuss audit, financial and internal control matters. The Company's external auditors have full and unrestricted access to the Audit Committee.

The consolidated financial statements have been subject to an audit by the Company's external auditors, Grant Thornton LLP, in accordance with generally accepted auditing standards on behalf of the shareholders.

John I. Babic
Chief Executive Officer

John Beasley
Chief Financial Officer

August 17, 2010



Auditors' Report

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To the Shareholders of
Dalmac Energy Inc.

We have audited the consolidated balance sheet of Dalmac Energy Inc. as at April 30, 2010 and the consolidated statements of loss, comprehensive loss and deficit, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2010 and the results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The prior year figures were audited by another firm of public accountants who issued an unqualified opinion dated July 17, 2009.

Edmonton, Canada

August 6, 2010 except for Note 22
which is as of August 17, 2010

Grant Thornton LLP

Chartered Accountants

Dalmac Energy Inc.

Consolidated Balance Sheet

April 30

2010

2009

Assets

Current

Cash and cash equivalents	\$ -	\$ 199,706
Accounts receivable	3,361,114	4,229,891
Inventories	396,864	328,809
Prepays	104,659	100,904
	<u>3,862,637</u>	<u>4,859,310</u>

Property, plant and equipment (Note 6)	16,848,679	18,657,793
Intangible asset (Note 7)	<u>20,000</u>	<u>30,000</u>
	<u>\$ 20,731,316</u>	<u>\$ 23,547,103</u>

Liabilities

Current

Bank indebtedness (Note 8 and 22)	\$ 1,760,338	\$ 2,801,691
Accounts payable and accrued liabilities	3,031,756	2,565,956
Callable debt (Note 9 and 22)	3,226,730	4,159,259
Current portion of capital lease obligations (Note 10)	171,207	235,904
Current portion of long term debt (Note 11)	1,732,371	1,752,164
Current portion of preferred shares (Note 14)	152,878	-
	<u>10,075,280</u>	<u>11,514,974</u>

Capital lease obligations (Note 10)	-	5,769
Long term debt (Note 11)	3,411,863	2,821,792
Future income taxes (Note 12)	-	229,456
Preferred shares (Note 14)	420,415	900,000
	<u>13,907,558</u>	<u>15,471,991</u>

Shareholders' Equity

Share capital (Note 14)	8,766,698	8,439,453
Warrants (Note 14)	160,800	-
Contributed surplus (Note 15)	642,267	625,998
Deficit	<u>(2,746,007)</u>	<u>(990,339)</u>
	<u>6,823,758</u>	<u>8,075,112</u>
	<u>\$ 20,731,316</u>	<u>\$ 23,547,103</u>

Going concern (Note 1)
 Commitments (Note 18)
 Subsequent event (Note 1 and 22)

On behalf of the Board

_____ Director

_____ Director

See accompanying notes to the consolidated financial statements.

Dalmac Energy Inc.

Consolidated Statements of Loss, Comprehensive Loss and Deficit

Year Ended April 30	2010	2009
Revenue		
Service	\$ 15,665,414	\$ 19,942,660
Product	<u>908,068</u>	<u>1,549,167</u>
	<u>16,573,482</u>	<u>21,491,827</u>
Direct costs		
Service	11,600,232	14,439,311
Product	<u>799,147</u>	<u>1,295,771</u>
	<u>12,399,379</u>	<u>15,735,082</u>
Gross margin	<u>4,174,103</u>	<u>5,756,745</u>
Expenses		
Wages and benefits	2,144,982	1,894,822
Amortization of property, plant and equipment	1,985,140	1,779,580
General and administrative	1,349,681	1,353,493
Interest on long term debt	319,173	403,914
Interest on callable debt and other	302,041	277,395
Interest on obligations under capital lease	14,587	20,244
Amortization of intangible asset	10,000	10,000
(Gain) loss on disposal of property, plant and equipment	(42,818)	71,173
Goodwill impairment (Note 5)	-	2,128,102
Preferred shares dividend expense (Note 14)	<u>71,558</u>	<u>-</u>
	<u>6,154,344</u>	<u>7,938,723</u>
Loss before income taxes	(1,980,241)	(2,181,978)
Income tax recovery (Note 12)	<u>(224,573)</u>	<u>(272,978)</u>
Net loss and comprehensive loss	<u>\$ (1,755,668)</u>	<u>\$ (1,909,000)</u>
(Deficit) retained earnings, beginning of year	\$ (990,339)	\$ 918,661
Net loss	<u>(1,755,668)</u>	<u>(1,909,000)</u>
Deficit, end of year	<u>\$ (2,746,007)</u>	<u>\$ (990,339)</u>
Loss per share basic and diluted (Note 16)	<u>\$ (0.12)</u>	<u>\$ (0.15)</u>

See accompanying notes to the consolidated financial statements.

Dalmac Energy Inc.

Consolidated Statement of Cash Flows

Year Ended April 30

2010

2009

Increase (decrease) in cash and cash equivalents

Operating

Net loss	(1,755,668)	(1,909,000)
Items not affecting cash:		
Goodwill impairment	-	2,128,102
Amortization of property, plant and equipment	1,985,140	1,779,580
(Gain) loss on disposal of property, plant and equipment	(42,818)	71,173
Amortization of intangible asset	10,000	10,000
Future income tax recovery	(224,573)	(272,978)
Stock based compensation expense	16,269	64,985
	<u>(11,650)</u>	<u>1,871,862</u>
Change in non-cash operating working capital:		
Accounts receivable	868,777	(820,425)
Inventories	(68,055)	(41,490)
Prepays	(3,755)	157,238
Accounts payable and accrued liabilities	465,800	639,424
	<u>1,251,117</u>	<u>1,806,609</u>

Financing

Net proceeds from the issuance of shares	324,000	-
Net proceeds from the issuance of warrants	159,162	-
Proceeds from long term debt	2,000,000	405,654
Proceeds from callable debt	-	2,662,034
Repayment of long term debt	(1,429,722)	(2,515,639)
Repayment of callable debt	(932,529)	(755,825)
Repayment of obligations under capital lease	(70,466)	(77,988)
(Repayments) advances on bank indebtedness	(1,041,353)	918,194
Redemption of preferred shares	(326,707)	-
	<u>(1,317,615)</u>	<u>636,430</u>

Investing

Purchase of property, plant and equipment	(176,028)	(1,392,801)
Proceeds on disposal of property, plant and equipment	42,820	164,467
Cash paid on acquisition	-	(2,595,902)
	<u>(133,208)</u>	<u>(3,824,236)</u>

Net decrease in cash and cash equivalents (199,706) (1,381,197)

Cash and cash equivalents

Beginning of year	<u>199,706</u>	<u>1,580,903</u>
End of year	<u>\$ -</u>	<u>\$ 199,706</u>

Supplemental cash flow information (Note 17)

See accompanying notes to the consolidated financial statements.

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

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.

The consolidated 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 operations. As at year-end, the Company was in violation of its covenants with its primary lender, and as a result the primary lender has the right to request repayment of the bank indebtedness of \$1,760,338 and callable debt of \$3,226,730 on demand. As a result, these debt balances have been shown as a current liability in the financial statements. At April 30, 2010, the Company has a working capital deficiency of \$6,059,765 (2009 - \$6,655,664). During the year, the Company was in breach of its debt covenants and no waiver was obtained from the lender. Subsequent to year-end, the Company has entered into a forbearance agreement with the primary lender whereby the lender has agreed not enforce its right to demand repayment until July 31, 2010 for the callable debt and the operating line of credit. The lender then extended the forbearance period past July 31, 2010 to enable the Company to complete financing arrangements with a new lender. The Company's ability to continue as a going concern is dependent on its ability to generate positive cash flow from operations going forward, and to obtain alternative financing.

Management is of the opinion that the following will contribute to maintaining the Company's ability to continue as a going concern:

- Positive cash flow from operations;
- Debt to equity ratio of 0.97:1
- \$2,000,000 of additional financing from another lender obtained during the year;
- \$500,000 raised in a private placement completed during the year;
- Subsequent to the year end, the Company has entered into a financing agreement for a \$4,000,000 operating line of credit from another lender; and
- Subsequent to the year end, the Company completed the refinancing of the callable debt with a new lender.

2. Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Dalmac Oilfield Services Inc., 1353245 Alberta Ltd. and 1421771 Alberta Ltd. All intercompany balances and transactions are eliminated on consolidation.

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

2. Summary of significant accounting policies (cont'd)

Financial instruments

All financial instruments and certain non-financial derivatives are initially measured at fair value. Subsequent measurement will depend on an instrument's initial classification. Held-for-trading instruments are measured at fair value, and changes in fair value are recognized through net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired and the effect is to reduce other comprehensive income and increase comprehensive income. Held-to-maturity investments, loans and receivables, and other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Transaction costs associated with the Company's debt facilities are offset against the related debt and amortized into income using the effective interest method.

The Company classified the relevant financial assets and liabilities as follows:

- Held for trading
 - Cash and cash equivalents
- Loans and receivables
 - Accounts receivable
- Other financial liabilities
 - Bank indebtedness
 - Accounts payable and accrued liabilities
 - Capital lease obligations
 - Callable debt
 - Long-term debt

The Company did not have any embedded derivatives or other non-financial contracts.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The significant areas requiring the use of management estimates relate to the allowance for doubtful accounts, amortization of property, plant and equipment and intangible assets, the valuation of long-lived assets, the valuation of future income tax assets and the assumptions used in determining stock-based compensation. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash and balances with banks net of outstanding cheques. Bank indebtedness and long term borrowings are considered to be financing activities.

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

2. Summary of significant accounting policies (cont'd)

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 costs – product'.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. The Company provides for amortization using methods at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives net of salvage values. Salvage value for service vehicles and service equipment is calculated as 20% to 30% of original cost. The annual amortization rates and methods are as follows:

Buildings	4% declining balance method
Service vehicles	8 years straight-line method
Service equipment	12 years straight-line method
Motor vehicles	8 years straight-line method
Plant equipment	10 years straight-line method
Shop equipment	5 years straight-line method
Leasehold improvements	Term of lease straight-line method
Computer equipment	3 years straight-line method
Furniture and fixtures	4 years straight-line method
Rental equipment	12 years straight-line method

Included above in service vehicles, shop equipment and computer equipment are assets under capital lease.

Goodwill

Goodwill represents the excess of the purchase price of an acquisition over the fair value of the underlying net assets acquired at the date of acquisition. Goodwill arising from acquisitions is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired. Impairment is tested by comparing the carrying amount of the reporting unit, including goodwill, with its fair value. When the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered to be impaired. When the carrying value of the reporting unit exceeds its fair value, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

Intangible asset

The finite-life intangible asset represents the cost assigned to a non-competition agreement. Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. Intangible assets with finite useful lives are amortized over their estimated useful lives. The Company has no intangibles with indefinite useful lives.

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

2. Summary of significant accounting policies (cont'd)

Intangible asset (cont'd)

The amortization methods and estimated useful lives of intangible assets, which are reviewed annually, are as follows:

Non-competition agreements	5 years straight-line method
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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.

Lease obligations

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein payments are expensed as incurred.

Income taxes

Income taxes have been provided using the liability method of tax allocation. Under this method future income tax assets and liabilities are determined based on differences between the accounting bases and tax bases of assets and liabilities and losses carried forward, and measured using the substantively enacted tax rates under tax laws that will be in effect when the differences are expected to reverse. Future tax assets are recognized to the extent that the realization of the asset is considered more likely than not.

Stock-based compensation

Stock-based compensation is measured and recognized using the fair value method. Under this method, the estimated fair value of stock options granted are measured at the date of grant and are recognized over the applicable vesting period as a charge to stock-based compensation expense or share issuance costs and a credit to contributed surplus. Upon exercise, the associated amounts will be reclassified from contributed surplus to share capital together with the consideration received.

Warrants

Warrants are measured and recognized using the fair value method whereby the fair value of the warrants is determined at the warrant issue date using a market-based option valuation model. When warrants are issued in combination with equity securities, these warrants are valued and accounted for based on the relative fair value of the warrants in relations to the total value assigned to the debt or equity securities and warrants combined.

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

2. Summary of significant accounting policies (cont'd)

Revenue recognition

The Company's services are provided based upon orders and contracts with customers that include fixed or determinable prices and are based upon daily, hourly or contracted rates. Contract terms do not include the provision for post-service obligations. Revenue is recognized when services are rendered and when collectability is reasonably assured.

Product sales revenue is recognized when the products are shipped, at which time title passes to the customer. No right of return exists for products.

Loss per share

Basic loss per share is calculated by dividing the loss applicable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted net loss per share reflects the assumed conversion of all dilutive securities using the treasury stock method. Diluted net loss per share figures are equal to those of basic net loss per share if the effects of stock options and warrants have been excluded since they are anti-dilutive. For warrants and stock options, the treasury method is used whereby the number of additional common shares is calculated by assuming that outstanding warrants and stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the fiscal year.

3. New and future accounting policies

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 on May 1, 2011 for the Company. 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.

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

4. Business acquisition

On September 15, 2008, the Company acquired certain assets of Tinky Rentals LP and Tinky Trucking LP ("Tinky") which operates a fleet of service vehicles and supplies oilfield rental equipment used in the oil and gas industry in Central Alberta and north-eastern British Columbia.

The purchase price was \$3,895,902 comprised of \$2,000,000 cash, a promissory note for \$400,000, a closing note for \$500,000 and the issuance of 900,000 preferred shares in a subsidiary company, 1421771 Alberta Ltd., valued at \$1.00 per share. Transaction costs of \$95,902 were also incurred.

The original terms of the agreement included the following:

- The promissory note bears interest at 6% per annum and is repayable in equal principal instalments plus interest over three years (Note 11).
- The closing note bears no interest and was due and paid in full on October 31, 2008.
- The preferred shares carry a cumulative dividend at the rate of six percent (6%) per annum. The preferred shares may be redeemed or retracted at any time after September 15, 2009. The preferred shares are reflected as a non-controlling interest in subsidiary on the balance sheet.

During the year, the Company and the former owner amended the terms of the purchase agreement to be as follows:

- Payments to be made on the promissory note from the date of May 1, 2009 onwards will be used to redeem the preferred shares.
- Preferred share redemption payments will be made as follows: \$70,000 at January 31, 2010, \$50,000 on February 28, 2010, and evenly over the following 24 months with a balloon payment on the 25th month. The amortization of the debt is over 48 months.
- The cumulative dividend rate on the preferred shares will increase to 10% per annum from 6% per annum effective February 1, 2010.
- No payments will be made on the promissory note until further notice, and interest will continue to accrue at 6% per annum.

The following summarizes the fair value of the assets acquired at the date of acquisition.

Property and equipment	<u>\$ 3,895,902</u>
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Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

5. Goodwill

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ -	\$ 2,128,102
Impairment	-	(2,128,102)
Balance, end of year	<u>\$ -</u>	<u>\$ -</u>

The Company completed its annual impairment test on April 30, 2009 and as a result, it was determined that the goodwill associated with the amounts recognized initially on its business acquisitions were fully impaired. The conditions that precipitated the goodwill write-down were the global financial crisis and weakening future outlook for the oil and gas services industry. These uncertainties culminated in a decreased market value of the Company which resulted in a goodwill write-down of \$2,128,102.

6. Property, plant and equipment

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2010 Net book value</u>
Land	\$ 198,321	\$ -	\$ 198,321
Service vehicles	11,724,585	4,195,985	7,528,600
Service equipment	9,253,025	3,137,379	6,115,646
Buildings	490,604	47,093	443,511
Motor vehicles	205,072	69,622	135,450
Plant equipment	382,697	222,553	160,144
Shop equipment	246,278	130,631	115,647
Leasehold improvements	269,350	224,489	44,861
Computer equipment	121,343	90,104	31,239
Furniture and fixtures	217,846	188,141	29,705
Rental equipment	<u>2,367,385</u>	<u>321,830</u>	<u>2,045,555</u>
	<u>\$25,476,506</u>	<u>\$ 8,627,827</u>	<u>\$ 16,848,679</u>
			<u>2009</u>
			<u>Net book value</u>
Land	\$ 198,321	\$ -	\$ 198,321
Service vehicles	12,198,904	3,494,963	8,703,941
Service equipment	9,074,428	2,698,153	6,376,275
Buildings	490,604	28,614	461,990
Motor vehicles	321,758	79,336	242,422
Plant equipment	457,026	225,865	231,161
Shop equipment	236,063	83,023	153,040
Leasehold improvements	267,525	187,306	80,219
Computer equipment	105,208	54,910	50,298
Furniture and fixtures	217,846	168,569	49,277
Rental equipment	<u>2,242,462</u>	<u>131,613</u>	<u>2,110,849</u>
	<u>\$25,810,145</u>	<u>\$ 7,152,352</u>	<u>\$18,657,793</u>

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

6. Property, plant and equipment (cont'd)

Included in the above categories are the following amounts for assets under capital lease:

- service vehicles with a cost of \$335,012 (2009 - \$335,012) and accumulated amortization of \$113,370 (2009 - \$80,223);
- computer equipment with a cost of \$40,898 (2009 - \$40,898) and accumulated amortization of \$38,731 (2009 - \$25,099); and
- shop equipment with a cost of \$nil (2009 - \$57,648) and accumulated amortization of \$nil (2009 - \$32,979).

7. Intangible asset

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2010 Net book value</u>
Non-competition agreement	<u>\$ 50,000</u>	<u>\$ 30,000</u>	<u>\$ 20,000</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2009 Net book value</u>
Non-competition agreement	<u>\$ 50,000</u>	<u>\$ 20,000</u>	<u>\$ 30,000</u>

8. Bank indebtedness

On October 8, 2009, the Company's demand revolving operating overdraft was reduced by its primary lender to a maximum of \$2,000,000 (2009 - \$4,000,000) margined to accounts receivable, at an interest rate of lender prime plus 3.5% (2009 – prime plus 2%). At April 30, 2010, \$1,760,338 (2009 - \$2,801,691) had been drawn on this facility. Security for the demand revolving operating overdraft and callable debt (Note 9) consists of a general security agreement providing a first security interest in all present and after acquired property and equipment with a specific charge over specific equipment; a demand collateral mortgage in the amount of \$437,500 over specific land and building; assignment and postponement of creditors claim from a director and former director; and assignment of insurance coverage for full insurable values of all assets of the borrower.

On October 16, 2009, the Company signed an additional revolving loan and security agreement with a secondary lender for \$2,000,000 (Note 11). This facility is a 366 day long term facility with interest only payments in the first year, with an option to term out over 36 months at the end of the first year, or opt for a second year of interest only after which term out will be negotiated at 24 to 30 months. Interest on this facility is the Bankers Acceptance 90 day rate plus 5.90%. Principal repayment can be made at any time in increments of \$100,000. The secondary lender has taken a first security interest in select equipment, with a second security interest in all remaining equipment. The Company's primary lender subrogated their first security position on certain assets pursuant to the new revolving loan and security agreement. As of April 30, 2010, \$2,000,000 had been drawn on this facility and the Company was in compliance with required debt covenants for this facility.

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

8. Bank indebtedness (cont'd)

As at April 30, 2010, certain debt covenants with respect to the Company's primary credit facility had not been met. As a result of these covenants not being met, the primary lender has the ability to demand repayment of the facility. Subsequent to year-end, the Company entered into a forbearance agreement with the primary lender whereby it has agreed not enforce their right to demand repayment until July 31, 2010 for the callable debt and the operating line of credit. The lender then extended the forbearance period past July 31, 2010 to enable the Company to complete their financing arrangements with a new lender.

Subsequent to year-end, the Company entered into an agreement with a new lender for an operating line of credit of \$4,000,000 margined on acceptable accounts receivable, with an interest rate of lender prime plus 3.75% (Note 22).

9. Callable debt

	<u>2010</u>	<u>2009</u>
Demand bank loan, payable \$38,095 per month principal, plus interest at prime plus 3.50% (2009 – 2.25%). Matures July 8, 2010.	\$ 1,078,796	\$ 1,459,748
Demand bank loan, payable \$25,000 per month principal, plus interest at prime plus 3.50% (2009 – 2.25%). Matures October 5, 2012.	800,000	1,050,000
Demand bank loan, payable \$18,133 per month principal, plus interest at prime plus 3.50% (2009 – 2.25%). Matures September 9, 2013.	779,733	961,067
Demand bank loan, payable \$3,646 per month principal plus interest at prime plus 3.50% (2009 – 2.25%). Matures July 31, 2012.	324,479	360,937
Demand bank loan, payable \$7,026 per month principal, plus interest at prime plus 3.50% (2009 – 2.25%). Matures October 16, 2012.	224,806	295,066
Demand bank loan, payable \$451 per month principal, plus interest at prime plus 3.50% (2009 – 2.25%). Matures October 24, 2012.	14,417	18,922
Demand bank loan, payable \$902 per month principal, plus interest at prime plus 3.50% (2009 – 2.25%). Matures July 25, 2010.	<u>4,499</u>	<u>13,519</u>
	<u>\$ 3,226,730</u>	<u>\$ 4,159,259</u>

Collateral has been provided for the callable debt (Note 8). The callable debt is held by the Company's primary lender and as a result, of the covenant violations on the bank indebtedness the lender has the right to demand repayment (Note 8). Subsequent to year end, the Company completed an agreement for refinancing of the callable debt with a new lender (Note 22).

Dalmac Energy Inc.
Notes to the Consolidated Financial Statements

April 30, 2010

10. Capital lease obligations

	<u>2010</u>	<u>2009</u>
Service vehicle lease, with payments of \$5,603 including interest at 6.65%, expiring January 2012. Secured by specific equipment with a NBV of \$221,642 (2009 - \$254,789). The capital lease is held by the Company's primary lender and as a result of the covenant violations on the bank indebtedness, the lender has the right to demand repayment (Note 8), and this full balance is included in the current portion of capital lease obligations.	\$ 165,438	\$ 219,694
Computer equipment leases, with payments of \$434 and \$968 per month at average interest rates of 13.74%, maturing in July 2010 and November 2010. Secured by equipment with a NBV of \$2,167 (2009 - \$15,799).	5,769	20,630
Shop equipment leases, with payments from \$90 to \$900 per month at average interest rates of 7.96% matured on various dates to July 2009. Secured by equipment with a net book value of \$nil (2009 - \$24,669).	-	1,349
	<u>171,207</u>	<u>241,673</u>
Less amounts due within one year	<u>(171,207)</u>	<u>(235,904)</u>
	<u>\$ -</u>	<u>\$ 5,769</u>
Future minimum capital lease payments:		
Total minimum lease payments	\$ 185,020	
Less: amount representing interest at various rates	<u>(13,813)</u>	
Present value of minimum lease payments	171,207	
Less: amounts payable within one year	<u>(171,207)</u>	
	<u>\$ -</u>	

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

11. Long term debt

	<u>2010</u>	<u>2009</u>
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 various dates to May 2013, secured by specific service vehicles and service equipment with a carrying value of \$3,327,844 (2009 - \$4,553,415).	\$ 2,724,893	\$ 3,777,940
Revolving loan and security agreement, bearing interest at 90 day bankers' acceptance rate plus 5.95% per annum. Maturity date is 366 days subsequent to notice given. Interest only payments in first year with an option to term out the loan over 36 months at the end of the first year, or opt for a second year of interest only at which time term will be negotiated at 24 or 30 months. Principal repayment can be made at any time in increments of \$100,000 (Note 8). Secured by first charge on specific equipment.	2,000,000	-
Promissory note, with no set terms of repayment (2009 – repayable in blended monthly instalments of principal and interest of \$11,111) bearing interest at 6.0%, no set maturity date (2009 – due July 2011) secured by a general security agreement against the assets of the Company, subrogated to existing charges (Note 4).	295,303	290,917
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.	83,333	250,000
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. Maturing February 2011.	40,705	87,561
Promissory note, payable at \$11,408 per month principal and interest at 6.0%, due April 2010 secured by a general security agreement over all assets of the Company subrogated to existing charges.	-	130,425
Conditional sales contracts, with interest rates ranging from 6.0% to 10.95% per annum, repayable in monthly blended payments that vary over the term of each contract, maturing on various dates to March 2010, secured by specific motor vehicles with a carrying value of \$115,606.	-	37,113
	<u>5,144,234</u>	<u>4,573,956</u>
Less amount due within one year	<u>(1,732,371)</u>	<u>(1,752,164)</u>
	<u>\$ 3,411,863</u>	<u>\$ 2,821,792</u>

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

11. Long term debt (cont'd)

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

2011	\$ 1,732,371
2012	1,854,715
2013	1,136,172
2014	<u>420,976</u>
	<u>\$ 5,144,234</u>

12. Income taxes

	<u>2010</u>	<u>2009</u>
Income tax expense:		
Current	\$ -	\$ -
Future	<u>(224,573)</u>	<u>(272,978)</u>
	<u>\$ (224,573)</u>	<u>\$ (272,978)</u>

Non-capital losses

As at April 30, 2010, the Company had non-capital losses available for carry-forward of \$9,239,997 (2009 – \$5,348,864) of which \$515,455 will expire in 2027, \$1,974,522 will expire in 2028, \$2,858,580 will expire in 2029 and \$3,891,440 will expire in 2030.

Temporary differences

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes. Significant components of the Company's future income tax liability are as follows:

	<u>2010</u>	<u>2009</u>
Income tax effect of taxable (deductible) temporary differences:		
Net book value in excess of undepreciated capital cost for tax purposes	\$ 2,232,062	\$ 1,741,178
Non capital losses carried forward	(2,314,209)	(1,337,216)
Share issuance costs deductible for tax purposes	(6,615)	(33,213)
Intangible assets	(134,356)	-
Tax basis of goodwill in (excess) of book value	-	(141,293)
Capital lease obligations	<u>(45,268)</u>	<u>-</u>
Recognized future income tax (asset) liability	(268,386)	229,456
Valuation allowance	<u>268,386</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 229,456</u>

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

12. Income taxes (cont'd)

Income tax reconciliation

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 28.67% (2009 – 29.33%) to the net loss for the year and is reconciled as follows:

	<u>2010</u>	<u>2009</u>
Expected income tax recovery	\$ (567,734)	\$ (639,974)
Increase(decrease) resulting from:		
Tax rate differential	52,863	(75,570)
Non-deductible expenses	29,268	2,472
Change in valuation allowance	268,386	-
Other	(7,356)	(184,078)
Goodwill impairment	-	624,172
	<u>\$ (224,573)</u>	<u>\$ (272,978)</u>

13. 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 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 April 30, 2010 and April 30, 2009 are shown in the table below.

	<u>2010</u>	<u>2009</u>
Long-term debt	\$ 3,411,863	\$ 2,821,792
Capital lease obligations – long term	-	5,769
Callable debt due beyond one year	<u>3,226,730</u>	<u>4,159,259</u>
Total long-term debt	6,638,593	6,986,820
Shareholders' equity	6,823,758	8,075,112
Long-term debt to equity	0.97	0.87

The Company is subject to externally imposed capital requirements in the form of: working capital, cash flow coverage, and debt to 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 annually on the year-end financial statements. As at April 30, 2010 the Company is in violation of certain of its debt covenants. As a result, the lender has the ability to demand repayment of the outstanding bank indebtedness and callable debt. If the lender demands repayment, the Company will not have sufficient funds to meet the requirement. Subsequent to year-end, the Company has entered into a forbearance agreement with the primary lender whereby it has agreed not enforce their right to demand repayment until July 31, 2010 for the callable debt and the operating line of credit. The Company's ability to continue as a going concern is dependent on its ability to generate positive cash flow from operations going forward, and to obtain alternative financing

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

13. Capital management (cont'd)

Subsequent to year-end, the Company has entered into an agreement with a new lender for an operating line of credit of \$4,000,000 margined on acceptable accounts receivable, with an interest rate of lender prime plus 3.75%. In addition, the Company also entered into a financing arrangement with another lender to refinancing the existing callable debt (Note 22).

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

14. Share capital

Authorized:

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

Common shares issued:

	<u>2010</u>		<u>2009</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Balance, beginning of year	12,974,522	\$ 8,439,453	12,974,522	\$ 8,439,453
Issued for cash:				
Private placement	5,000,000	500,000	-	-
Less financing costs paid in cash net of future tax	-	(11,955)	-	-
Less deemed allocation to warrants	-	(160,800)	-	-
	<u>17,974,522</u>	<u>\$ 8,766,698</u>	<u>12,974,522</u>	<u>\$ 8,439,453</u>
Balance, end of year	<u>17,974,522</u>	<u>\$ 8,766,698</u>	<u>12,974,522</u>	<u>\$ 8,439,453</u>

On January 25, 2010, the Company completed the private placement of five million units at a price of 10 cents per unit thereby increasing the number of common shares issued to a total of 17,974,522. Each unit of this private placement consists of one common share and one share purchase warrant. Total proceeds of the share and warrant issuance were \$500,000 with issuance costs of \$11,955 net of future income tax of \$4,884. Each warrant entitles the holder to purchase one common share at a price of 15 cents per share if exercised within two years. The amount allocated to the warrants issued as part of the private placement 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 pricing model using the following assumptions, and the market value of the shares issued in the private placement. The proceeds allocated to the warrants is \$160,800 and to the share capital is \$327,245.

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

14. 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 (Note 4) as part of the consideration on acquisition. During the year, 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. During the year 326,707 of the preferred shares were redeemed for \$326,707.

Preferred shares issued:

	<u>2010</u>		<u>2009</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
Balance, beginning of year	900,000	\$ 900,000	-	\$ -
Preferred shares issued	-	-	900,000	900,000
Preferred shares redeemed	<u>(326,707)</u>	<u>(326,707)</u>	-	-
Balance, end of year	<u>573,293</u>	<u>\$ 573,293</u>	<u>900,000</u>	<u>\$ 900,000</u>

Cumulative dividends of \$71,558 (2009 - \$nil) have been accrued on the preferred shares. The preferred shares have been classified as a liability as they are mandatorily redeemable, and therefore the dividend payments have been recognized as an expense in the statement of loss. The current portion of the preferred share liability is \$152,878, and long-term portion is \$420,415.

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 exceed 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 May 1, 2008 the Company granted 50,000 options to a director. These options are vested equally over three years starting January 1, 2009. The fair value of the options granted was calculated using the Black-Scholes option pricing model. The fair value of the options was calculated using a risk free interest rate of 3.04%, the expected life of the options was five years and the expected volatility was 72%.

The total cost of options vested in the current year resulted in stock-based compensation expense and an addition to contributed surplus of \$16,269 (2009 - \$64,985).

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

14. Share capital (cont'd)

Stock options (cont'd)

The following summarizes activity related to stock options:

	Number	Weighted Average Exercise Price 2010	Number	Weighted Average Exercise Price 2009
Balance, beginning of year	775,000	\$ 0.52	1,207,629	\$ 0.49
Granted	-		50,000	0.40
Expired	(125,000)	0.45	(382,629)	0.40
Forfeited	-	-	(100,000)	0.54
Outstanding, end of year	<u>650,000</u>	<u>\$ 0.53</u>	775,000	\$ 0.52
Exercisable, end of year	<u>383,333</u>	<u>\$ 0.53</u>	541,666	\$ 0.51

The following summarizes stock options outstanding as at April 30, 2010.

Expiry Date	Number Outstanding	Exercise Price
June 21, 2012	600,000	\$ 0.54
May 1, 2013	50,000	\$ 0.40
	<u>650,000</u>	

Warrants

Warrants issued:

	2010		2009	
	Warrants	Amount	Warrants	Amount
Balance, beginning of year	-	\$ -	-	\$ -
Warrants issued	<u>5,000,000</u>	<u>160,800</u>	-	-
Balance, end of year	<u>5,000,000</u>	<u>\$ 160,800</u>	-	\$ -

Dalmac Energy Inc.
Notes to the Consolidated Financial Statements

April 30, 2010

14. Share capital (cont'd)

Warrants (cont'd)

The following summarizes activity related to warrants:

	Number	Weighted Average Exercise Price 2010	Number	Weighted Average Exercise Price 2009
Outstanding, beginning of year	-	\$ -	-	\$ -
Granted	5,000,000	0.150	-	-
Outstanding, end of year	5,000,000	\$ 0.150	-	\$ -
Exercisable, end of year	5,000,000	\$ 0.151	-	\$ -

The amount allocated to the warrants issued as part of the private placement 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 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%.

15. Contributed surplus

The following summarizes the changes in contributed surplus.

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 625,998	\$ 561,013
Stock-based compensation (Note 14)	<u>16,269</u>	<u>64,985</u>
Balance, end of year	<u>\$ 642,267</u>	<u>\$ 625,998</u>

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

16. Loss per share

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

	<u>2010</u>	<u>2009</u>
Numerator for basic and diluted loss per share:		
Net loss attributable to common shareholders	\$ (1,755,668)	\$ (1,909,000)
Denominator for basic and diluted loss per share:		
Weighted average number of common shares	14,275,892	12,974,522
Basic earnings per share	14,275,892	12,974,522
Diluted earnings per share	14,275,892	12,974,522
Basic and fully diluted loss per share	\$ (0.12)	\$ (0.15)

The effects of the 5,000,000 (2009 – nil) warrants, and 650,000 (2009 – 775,000) stock options outstanding at year-end are not included in the diluted loss per share calculation as the impact would be anti-dilutive.

17. Supplemental cash flow information

(a) Supplemental information	<u>2010</u>	<u>2009</u>
Interest paid	\$ <u>629,340</u>	\$ <u>715,669</u>
Cash paid on acquisition	\$ <u>-</u>	\$ <u>2,595,902</u>
 (b) Non-cash financing and investing activities		
Acquisition of property and equipment through issuance of non-controlling interest preferred shares	\$ <u>-</u>	\$ <u>900,000</u>
Acquisition of property and equipment through issuance of long term debt	\$ <u>-</u>	\$ <u>400,000</u>

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

18. Commitments

The Company leases equipment and premises under long term operating leases. The leases for premises are exclusive of operating costs.

The Company also has two management contracts.

- (a) The Company pays consulting fees of \$10,000 per month, pursuant to a contract agreement expiring on September 15, 2011 (2009 – September 15, 2009). The Company has extended the agreement for an additional 24 months. In addition, the consultant is entitled to a bonus based upon EBITDA to a cumulative maximum bonus of \$200,000.
- (b) The Company pays consulting fees of \$12,445 per month, increasing by 10% per year, pursuant to a contract agreement expiring on November 14, 2014. The contract automatically renews ever 5 years for an additional 5 year term. In addition, when the Company's net income before tax reaches \$500,000, the contract agreement requires a bonus payment of 5% on the first \$500,000 of the Company's earnings before tax, 6% on amounts between \$500,001 and \$800,000, 7% on amounts between \$800,001 and \$1,000,000 and 7.5% on amounts over \$1,000,000.

Future minimum annual payments are as follows:

	2011	2012	2013	2014	2015
Equipment	\$ 11,187	\$ 6,371	\$ 4,352	\$ 2,909	\$ -
Premises	474,012	354,126	109,633	-	-
Management contracts	263,365	233,365	143,365	143,365	77,656
	<u>\$ 748,564</u>	<u>\$ 593,862</u>	<u>\$ 257,350</u>	<u>\$ 146,274</u>	<u>\$77,656</u>

19. Related party transactions

During the year the Company had the following transactions with related parties:

- (a) Leased premises from a company controlled by a director for \$164,450 (2009 - \$109,217).
- (b) Paid or accrued management and consulting fees to a company controlled by a director in the amount of \$160,038 (2009 – \$155,659) (Note 18(b)).
- (c) Paid or accrued consulting fees to a member of senior management in the amount of \$120,000 (2009 - \$120,000) (Note 18(a)).
- (d) The Company is indebted to a director of the Company for an amount of \$40,705 (2009 - \$87,561) (Note 11). Interest expense of \$2,874 (2009 - \$4,529) has been paid during the year. The promissory note was non-interest bearing until February, 2008.
- (e) The Company is indebted to a member of senior management for the amount of \$295,303 (Note 11) in promissory note in addition to \$573,203 in mandatorily redeemable preferred shares (Note 14). Preferred share dividend expense of \$71,558 (2009 - \$nil) is payable at year-end.

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

19. Related party transactions (cont'd)

These transactions are in the normal course of operations and have been recorded in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties and in management's opinion based on standard commercial terms.

20. Financial instruments

(a) Financial instruments – carrying values

	<u>2010</u>	<u>2009</u>
<u>Financial assets – classified as held-for trading</u>		
Cash	\$ -	\$ 199,706
<u>Financial asset – classified as loans and receivables</u>		
Accounts receivable	\$ 3,361,114	\$ 4,229,891
<u>Financial liabilities – classified as other financial liabilities</u>		
Bank indebtedness	\$ 1,760,338	\$ 2,801,691
Accounts payable and accrued liabilities	3,031,756	2,565,956
Callable debt	3,226,730	4,159,259
Capital lease obligations	171,207	241,673
Long term debt	5,144,234	4,573,956

The Company has determined that the fair value of its short-term financial assets, including cash and accounts receivable, and short term liabilities including accounts payable and accrued liabilities, callable debt, and capital lease obligations approximates their respective carrying amounts as at the balance sheet dates because of the short-term maturity of those instruments. The fair value of the Company's bank indebtedness approximates its carrying value due to the floating rate nature of the debt.

The fair value of the long-term debt obligations approximates their carrying value due to the floating rate nature and close term to maturity on the debt.

(b) Financial risk management

(i) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers; however, it is the opinion of the Company's management that the credit risk is minimal. Accounts receivable carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of management, there is a reasonable doubt that credit-related losses are expected to be incurred taking into consideration all circumstances known at the date of review. The Company's maximum exposure is the value of its trade accounts receivable, which at April 30, 2010, had a total carrying value of \$3,361,114 (2009 - \$4,229,891). A significant portion (24.0%) of the outstanding accounts receivable at April 30, 2010 is due from two customers (2009 – 31.5% from two customers).

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

20. Financial instruments (cont'd)

Accounts receivable aging as at year-end is as follows:

	<u>Total</u>	<u>1-60 days</u>	<u>61-120 days</u>	<u>Over 120 days</u>
2010	\$ 3,361,114	\$ 2,692,565 80.1%	\$ 652,514 19.4%	\$ 16,035 0.5%
2009	\$ 4,229,891	\$ 3,429,695 80.4%	\$ 696,239 16.5%	\$ 109,957 2.6%

Accounts receivable in excess of 60 days as at April 30, 2010 totaled \$668,549 (April 30, 2009 - \$806,196). In the oil and gas servicing sector, invoices exceeding 90 days are not out of the ordinary. Management is not currently aware of any receivables in this category that would need to be classified as uncollectible. Historically, bad debts as a percentage of revenue are less than 1.0%.

Provision for uncollectible accounts are made in the allowance for doubtful accounts. Balances in the allowance for doubtful accounts are as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 7,562	\$ 8,491
Provision for doubtful accounts	8,663	7,562
Amounts charged off, net of recoveries	<u>-</u>	<u>(8,491)</u>
Balance, end of year	<u>\$ 16,225</u>	<u>\$ 7,562</u>

(ii) Liquidity risk

Liquidity risk is the potential inability to meet financial obligations as they become due. The Company manages this risk by maintaining detailed cash forecasts. The management of consolidated liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a detailed forecast of the Company's consolidated liquidity position, to ensure adequacy and efficient use of cash resources. Liquidity adequacy is assessed in view of historical volatility and seasonal needs and the maturity profile of indebtedness. The Company also constantly monitors any financing opportunities to optimize its capital structure and maintain appropriate financial flexibility. The Company has a working capital deficiency of \$6,212,643 at April 30, 2010 (2009 -\$6,655,664)

The Company's current credit facility contains financial covenants that are based on working capital, debt servicing coverage, and debt to tangible net worth ratios. During the year-ended April 30, 2010, the Company was in breach of two of its externally imposed covenants, namely the working capital covenant and the debt serving covenant. As a result of these covenants not being met, the lender has the ability to demand repayment of the facility. Subsequent to year-end, the Company entered into a forbearance agreement with the primary lender whereby the lender has agreed not to enforce their right to demand repayment for the callable debt and the operating line of credit until July 31, 2010. The lender then extended the forbearance period past July 31, 2010 to enable the Company to complete their financing arrangements with a new lender. Subsequent to year-end, the Company has entered into an agreement with a new lender for an operating line of credit of \$4,000,000 margined on acceptable accounts receivable, with an interest rate of lender prime plus 3.75%. In addition, the Company also entered into a financing arrangement with another lender to refinancing the existing callable debt (Note 22).

Dalmac Energy Inc.

Notes to the Consolidated Financial Statements

April 30, 2010

20. Financial instruments (cont'd)

(ii) Liquidity risk (cont'd)

The following table summarizes the contractual maturities and financial liabilities for continuing operations for the twelve month periods ended April 30 under loan facilities as they existed at April 30, 2010.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Bank indebtedness	\$ 1,760,338	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	3,031,756	-	-	-
Callable debt	3,226,730	-	-	-
Capital lease obligations	171,207	-	-	-
Long term debt	1,732,371	1,854,715	1,136,172	420,976
Preferred shares	<u>152,878</u>	<u>152,878</u>	<u>267,537</u>	<u>-</u>
	<u>\$ 10,075,280</u>	<u>\$ 2,007,593</u>	<u>\$ 1,403,709</u>	<u>\$ 420,976</u>

(iii) Interest rate risk

The Company has floating rate debt, which is subject to interest rate cash flow risk. The required cash flow to service the debt will fluctuate as a result of the changes in market rates.

21. Comparative figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

22. Subsequent events

On July 23, 2010, the Company completed a financing arrangement with a lender to refinance the callable debt. The facility is a non-revolving term facility up to a maximum of \$3,300,000 and bearing interest at 24% per annum. Repayment terms are interest only commencing on August 31, 2010, with monthly principal payments of \$73,333 commencing on November 30, 2010. The facility matures on July 23, 2011.

On August 17, 2010, the Company completed a financing arrangement with a new primary lender. The facility is for a \$4,000,000 revolving operating line of credit margined on acceptable accounts receivable. The interest rate on the facility is lender prime plus 3.75%, with interest payable monthly. The facility expires on August 17, 2012.