



Year Ended April 30, 2011
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This Management Discussion and Analysis ("MD&A") prepared July 26 2011 focuses on key statistics from the audited consolidated financial statements of Dalmac Energy Inc. for the year ended April 30, 2011 and considers known risks and uncertainties relating to Dalmac's operations in the oilfield services industry. This MD&A should be read in conjunction with the Company's corresponding financial statements for the same period and should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. The Company's consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"). The Company's MD&As and financial statements for earlier periods should also be considered relevant and are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com or on the Company's web site at www.dalmacenergy.com. References made in this MD&A, to "Dalmac", the "Company", "us", "we" and "our" mean Dalmac Energy Inc. and its subsidiaries Dalmac Oilfield Services Inc. and 1421771 Alberta Ltd.

Non-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 Company to be materially different from any future results implied or contemplated by such forward looking statements. Some of the risks that may cause actual results to vary are described under the "Risk Management" section.*

Overview

Dalmac Energy Inc. (TSX Venture "DAL") is a dynamic oil and gas servicing company which specializes in fluid hauling, well servicing, chemical sales, tank rentals and rig moving. Currently the Company has 169 pieces of rolling stock which consists of tank, vacuum, hydro-vac, pressure, hot oiler, acid flush, steamer, picker and winch trucks in addition to 250 pieces of oilfield tank and rig matting rental equipment. Headquartered out of Edmonton, Alberta, Dalmac was incorporated as a reporting issuer in 2003 although its core operations have been servicing west central Alberta for over the past 56 years. With regional operating locations in Fox Creek, Edson, Warburg and Pigeon Lake, Alberta, Dalmac has a current staffing level consisting of about 129 people.

Operating Results

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

- the three months ended April 30, 2011 ("Q4'11") and April 30, 2010 ("Q4'10")
- the year(s) ended April 30, 2011 ("YE'11") and April 30, 2010 ("YE'10")

Numerical abbreviations for million(s) and thousand(s) are referenced as "M" and "K" respectively.

Selected Financial Information

| (000's Cdn Dollars, except per share data) | Q4'11 | Q4'10 | YE' 11 | YE'10 |
|--|------------|------------|------------|------------|
| Revenues | 8,291 | 4,788 | 26,234 | 16,573 |
| Gross Margin | 2,414 | 1,938 | 8,547 | 4,174 |
| Gross Margin % | 29% | 40% | 33% | 25% |
| General and administrative expenses* | 460 | 324 | 1,449 | 1,350 |
| EBITDAS | 1,309 | 1,076 | 5,225 | 694 |
| EBIDTAS per share - basic | 0.07 | 0.08 | 0.29 | 0.05 |
| Dividend expense | 48 | 0 | 48 | 86 |
| Stock based compensation | 4 | (2) | 11 | 16 |
| Interest | 176 | 169 | 1,026 | 621 |
| Amortization | 501 | 505 | 1,977 | 1,995 |
| Net income (loss) | 329 | 424 | 1,873 | (1,756) |
| Net income (loss) per share - basic | 0.02 | 0.03 | 0.10 | (0.12) |
| Net income (loss) per share - diluted | 0.01 | 0.03 | 0.09 | (0.12) |
| Total assets | 22,968 | 20,731 | 22,968 | 20,731 |
| Total long-term debt | 6,422 | 5,144 | 6,422 | 5,144 |
| Shareholders' equity | 8,761 | 6,824 | 8,761 | 6,824 |
| Weighted average common shares -basic | 18,263,081 | 14,275,892 | 18,173,991 | 14,275,892 |
| Weighted average common shares - diluted | 21,952,728 | 14,275,892 | 20,074,032 | 14,275,892 |

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

Strong commodity pricing and the introduction of a responsible Alberta based royalty regime, contributed to a robust increase in oil and gas servicing activity, especially in those sectors associated with deep well drilling and multistage fracing activity. The tight rock formations of the Pembina – Cardium zone in west central Alberta, which covers much of Dalmac's operating area, was one of the major beneficiaries of this increased activity. Dalmac's continued focus on safety and commitment to excellence, not to mention years of extensive experience, achieved success in establishing and securing an increased demand for our products and services. Revenue for Q4'11 increased by 73% to \$8.3M from the \$4.8M reported at Q4'10. For the year end, revenue increased 58% to \$26M from the \$17M reported in the previous year. The net income for Q4'11 decreased by 22% to \$329 K from the \$424K reported in Q4'10. The net income in Q4'11 would have been \$419K higher where it not for the future income tax assessment of \$265K and management bonus expense of \$154K both of which were nonexistent in the same quarter of the previous year. Net income for the year end increased by 207% to \$1.9M from \$(1.8)M in the prior year. Also it is noteworthy to point out that there were approximately \$558K in expenses during YE'11 that will be non-recurring. These include about \$321K in interest savings and \$237K in refinancing costs which occurred during fiscal 2011. The gross margin for Q4'11 was 29% which represents a drop of 11% from the previous year's quarter. The gross margin reduction was primarily precipitated by lower April activity levels directly resulting from the higher than normal annual snow fall and the earlier than expected spring break up conditions which hit earlier in this April than in the previous year. The overall gross margin for the year increased by 8% to 33% from the 25% reported in YE'10.

Reconciliation of EBITDAS to Historical Results (GAAP)

| (000's Cdn Dollars) | Q4'11 | Q4'10 | YTD' 11 | YTD'10 |
|---|-------|-------|---------|---------|
| Net income (loss) | 329 | 424 | 1,873 | (1,756) |
| Add: | | | | |
| Income tax expense (recovery) | 265 | - | 265 | (225) |
| Interest on debt | 176 | 169 | 1,026 | 621 |
| Amortization - tangible and intangible assets | 501 | 505 | 1,977 | 1,995 |
| Loss (gain) on sale of assets | (14) | (20) | 25 | (43) |
| Dividend expense | 48 | - | 48 | 86 |
| Stock - based compensation | 4 | (2) | 11 | 16 |
| Sub-total | 980 | 652 | 3,352 | 2,450 |
| EBITDAS | 1,309 | 1,076 | 5,225 | 694 |

EBITDAS for Q4'11 increased by 22% to \$1.3M from the \$1.1M reported in Q4'10. The year end EBITDAS increased by 633% to \$5.2M from the \$694K at the same period in the previous year. The year end EBITDAS represented 20% of revenue, compared to 4% for the prior year.

Expenses

Overall, expenses increased 4% in fiscal 2011. Total YE'11 expenses were \$6.4M as compared to \$6.2M in the previous year. This increase is mainly attributable to the higher interest rates associated with the interim refinancing and the YE'11 management bonus payable which was tied directly to increased profit. These costs combined totaled to approximately \$558K as mentioned earlier in this MD&A. The annual amortization expense of \$2.0M comprised about 31% of the total expense costs while management wages and benefits expense comprised about 29%. The overall year witnessed a decrease in administrative wages and benefit expenses by \$262K compared to the previous year. This is a direct result of the restructuring and administration staff reductions initiated over the course of the year. In fiscal 2011, interest expenses of \$1.0M comprised about 15% of the total expense. In YE'11 interest costs increased by \$405K or 65% over the previous year which is consistent with the costs associated with the previously referenced refinancing. Management expects that in the future approximately \$400K of this interest expense will be non-recurring.

The YE'11 stock-based compensation decreased by 29% to \$11K from \$16K reported 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 granted. 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 YE'11 the Company was assessed a future tax liability of \$265K.

Summary of Quarterly Results

| | Q4'11 | Q3'11 | Q2'11 | Q1'11 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| (000's Cdn Dollars, except per share data) | Quarter Ended 30-Apr-11 | Quarter Ended 31-Jan-11 | Quarter Ended 31-Oct-10 | Quarter Ended 31-Jul-10 |
| Revenue | 8,291 | 8,219 | 5,910 | 3,814 |
| Net income (loss) | 329 | 1,129 | 651 | (237) |
| Net income (loss) per share - basic | 0.02 | 0.06 | 0.04 | (0.01) |
| Net income (loss) per share - diluted | 0.02 | 0.06 | 0.04 | (0.01) |

| | Q4'10 | Q3'10 | Q2'10 | Q1'10 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| (000's Cdn Dollars, except per share data) | Quarter Ended 30-Apr-10 | Quarter Ended 31-Jan-10 | Quarter Ended 31-Oct-09 | Quarter Ended 31-Jul-09 |
| Revenue | 4,788 | 4,661 | 3,557 | 3,567 |
| Net income (loss) | 424 | (369) | (1,007) | (805) |
| Net income (loss) per share - basic | 0.03 | (0.03) | (0.08) | (0.06) |
| Net income (loss) per share - diluted | 0.03 | (0.03) | (0.08) | (0.06) |

Q4'11 vs. Q4'10

This is a very busy quarter up until the month of April which is much dependent on prevailing early spring weather conditions and road bans. Commensurate with the overall increase in oilfield activity in the current quarter, Dalmac managed to increase its revenue by 73% to \$8.3 from the same period in the previous year. Consistent with the current quarters future tax liability, management bonuses prevailing weather conditions referenced earlier in this MD&A, Dalmac's net income for the Q4'11 decreased by 22% to \$329K from the \$424K reported in same period last year.

Q3'11 vs. Q3'10

This quarter traditionally lines up with the winter drilling season and as such it is generally one of the busiest quarters for Dalmac. The cold weather freezes the ground and creates the most opportune driving conditions to access remote and the hard to reach areas such as the muskeg hinterland. Revenues in Q3'11 increased by 75% to \$8.2M from the same period in the previous year. Net income increased to \$1.1M, up from the loss of \$369K incurred in the same quarter of the previous year.

Q2'11 vs. Q2'10

This quarter covers the summer months from August to October. It is traditionally a time when the industry is preparing to get back to work after the summer holidays and spring break up. It is also a season for catching up on outstanding fleet repairs and maintenance that couldn't be accommodated during the busier times. The second fiscal quarter for Dalmac has generally been a break even quarter in the past. In the current year, Dalmac continued to focus more attention on proactive sourcing of expectant drilling and servicing activity and has thus far been successful in maintaining higher equipment utilization. Revenues for Q2'11 increased by 66% to \$5.9M as compared to the same period in the previous year while net income increased to \$651K, up from the loss of \$1.0M Q2'10.

Q1'11 vs. Q1'10

This quarter is traditionally the slowest. It typically follows on the heels of the road bans and spring break up and is further impacted by wildlife migrations and calving season which can carry on into the middle of June. Production related work projects are often provided a waiver on road bans but are usually limited to hauling half loads during this season. Traditionally the Company takes advantage of the slowdown in this period to catch up on outstanding repairs, maintenance and certifications which has the undesirable advantage of driving up operating costs in relation to revenues. Revenues for Q1'11 increased by 7% to \$3.8M and the net loss decreased by 71% to \$237K from the same period in the previous year.

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. Q4'11 cash flow from operating activities (excluding non-cash working capital) increased to \$1.1M from the \$959K reported in Q4'10. The same cash flow at year end increased to \$4.2M from the \$(12)K reported in the previous year.

Changes in non-cash working capital, greatly influenced by increasing accounts receivable, decreased by 109% to \$(793)K on the quarter and at year end decreased by 346% to \$(3.1)M as compared to the respective \$(380)K and \$1.3M reported in the previous year. Investing activities mainly stemming from the purchase and disposal of operating equipment increased by 304% to \$284K on the quarter and decreased by 179% to \$(372) as of the year end. Financing activities, mainly impacted by debt refinancing and the issuance of shares, decreased 9% to \$(825)K on the quarter and 53% to \$(620)K as of the year end. The year to date cash and cash equivalents increased to \$52K for the quarter and year end respectively.

On February 2, 2011 the Company increased its operating line of credit with its new primary lender by \$1.0M to \$5.0M. On March 7th, 2011 the Company completed the refinancing of its callable mezzanine term debt of \$2.6M, (carrying a 24% charge) with a new lender. This new non-revolving facility bears an interest rate of the lender's prime rate plus 3.5% per annum, is amortized over a 36 month term and is subject to annual interest rate reviews.

The financial covenant requirements on the borrowing facilities provided by the new primary lender require maintaining a minimum Net Tangible Worth Covenant of \$6.8M and a Fixed Charge Coverage Ratio of 1:1 calculated on a rolling forward basis. At the time of this MD&A the Company was in full compliance with both covenants.

Long-Term Debt

The long-term debt at YE'11 increased by 14% to \$3.9M as compared to the \$3.4M at YE'10. This is commensurate with the mezzanine term debt refinancing and equipment purchases referenced earlier in the MD&A. Current liabilities at April 30, 2011 decreased by 4% to \$9.6M from the \$10.1M reported at YE'10. Total bank indebtedness increased by 92% to \$3.4M from the \$1.8M reported at YE'10 and accounts payable increased by 17% to \$3.5M from the \$3.0M reported at the same period last year. Accounts receivable increased by 97% to 6.6M from the \$3.4M reported at YE'10 and the current portion of long term debt increased by 46% to \$2.5M 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 at YE'11 improved by 64% to \$(2.3)M from the \$(6.2)M reported at YE'10. At YE'11 the working capital ratio also improved by 100% to 0.76:1 from 0.38:1 as reported at YE'10.

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. Without limitation the Company's core 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 income 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 and management contractual obligations are listed as follows:

Lease and Contractual Commitments

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------|------------|---------|---------|---------|--------|
| Equipment | \$ 10,371 | 8,352 | 6,909 | 4,000 | - |
| Premises | 519,721 | 193,633 | 84,000 | 84,000 | 56,000 |
| Management Contracts | 239,338 | 149,338 | 149,338 | 80,892 | - |
| | \$ 769,430 | 351,323 | 240,247 | 168,892 | 56,000 |

The Company pays consulting fees of \$10K per month, pursuant to a contract that expires on September 15, 2011. 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 from current operations, shareholders' equity increased by 28% to \$8.8M from the \$6.8M reported at YE'10.

Related Party Transactions

At YE'11 the Company had the following transactions with related parties:

- a) Leased premises from a company controlled by a director for \$178K (YE'10 - \$164K).
- b) Paid or accrued management and consulting fees to a company controlled by a director in the amount of \$160K (YE'10 - \$160K). See Note 16(b) of the Company's audited year end financial statements.
- c) The Company paid consulting fees to a member of senior management in the amount of \$120K (YE'10- \$120K).

- d) The Company is indebted to a member of senior management for the amount of \$NIL (YE'10 - \$41K). Interest expense of \$0.8K (YE'10 - \$3K) 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 \$314K (YE'10 - \$295K) (see Note 9 of the Company's audited year end financial statements) under a promissory note in addition to \$420K (YE'10 \$573K) in mandatorily redeemable preferred shares (see Note 12 of the Company's audited year end financial statements). Preferred share dividend expense of \$49K (YE'10 \$86K) is payable for YE'11.
- f) The Company has a sale – leaseback agreement with a company controlled by a director (see note 17 (f) of the Company's audited year end financial statements) for \$7K per month (YE'10 – nil).

The aforementioned transactions were entered into through the course of normal business practices, with the exception of (f) which was a required condition for the refinancing in fiscal 2011, and have been valued in the financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties and, in the opinion of management, were based on standard commercial terms.

Outstanding Share Data

As of the date of this MD&A, the following are the issued and outstanding shares, options and warrants of the Company.

| Common Shares | Options | Warrants |
|---------------|---------|-----------|
| 18,348,742 | 956,000 | 4,625,800 |

Outlook

Activity levels in the Western Canadian Sedimentary Basin have witnessed significant improvements over the last half of 2010 and into the first quarter of 2011. Contributing factors bringing this about include strong oil pricing and the ever increasing application of horizontal drilling in the oil and gas industry which has witnessed year over year increases in all aspects of oilfield activity. Dalmac has strived to develop solid relationships with active oil and gas operators across west central Alberta by providing the quality equipment, trained personnel and a competent group of managers that combine to provide value to our customers both in superior customer service and efficient operations. Over the course of YE'11, we experienced continued strong utilization and improved financial performance resulting from our customer's oil driven activities and seasonal activity increases for both our products and services. The increase in activity witnessed during the last half of 2010 is expected to continue during 2011, given strong oil prices and the resulting intensity of oil based activity. Oil wells require greater levels of maintenance over time, which bodes well for the service industry as new wells are completed adding more inventory to the active wells requiring attention. Current estimates claim that more than 75% of the industry's activity levels are oil related. This provides a solid base for our products and services. The only dark cloud of concern on the immediate horizon is the looming labour shortage which will make finding good personnel for our field operations more challenging.

Dalmac's commitment to working safely and protecting the environment is contributing to the positioning of our Company on a first call basis with many of our customers. Concurrent with drilling utilizations being 25% higher than last year, Dalmac's utilization levels are also on the rise. Dalmac's determination to optimize operating efficiencies, trim costs while focusing on delivering on safe, quality and timely services, will continue to contribute to a healthy bottom line for the Company.

Dalmac's strategy to continue focusing on optimizing operating efficiencies, trimming costs, improving safety and service while forging ahead with building strong customer relationships is helping to position our Company as the first call choice. In summary, we are now more optimistic than ever that the challenges the industry experienced in late 2009 and early 2010 have abated. Increased activity levels experienced during the last half of 2010 are expected to stay the course throughout 2011.

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. However, the Company faces risks against which it may not be able, or may choose not, to insure.

Credit Risks: The Company currently transacts business with oil and gas exploration companies and is exposed to the associated credit risk. Management continually assesses the credit worthiness of these customers and monitors all outstanding balances. Management views the credit risk of its accounts receivable as normal 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 risk has been greatly reduced as the Company now has multiple providers for the manufacture, repair and maintenance of the Company's service equipment.

Seasonal and Weather Risk: Seasonal factors and unexpected weather patterns may lead to reduced oil and gas exploration activity and corresponding declines in the demand for the Company's services during various times of the year. Such factors can also affect the timing and duration of road bans, which can negatively impact our operations.

Competitive Conditions: The operating climate within the Western Canadian Sedimentary Basin is very competitive resulting in fluctuations of price and utilization rates. Dalmac attempts to mitigate these risks by creating good working relationships with its customers while focusing more on production operations and on longer term contracts.

Government Regulation

The oil and natural gas industry in Canada is subject to federal, provincial, and municipal legislation and regulation governing such matters as land tenure, prices, royalties, production rates, environmental protection controls, the exportation of crude oil, natural gas and other products, as well as other matters. The industry is also subject to regulation by governments relating to health and safety, the conduct of operations, the protection of the environment and the manufacture, management, transportation, storage and disposal of certain materials used in the Company's operations. Government regulations may change from time to time in response to economic, political or other conditions. The exercise of discretion by governmental authorities under existing regulations, the implementation of new regulations or the modification of existing

regulations affecting the crude oil and natural gas industry could reduce demand for the Company's services or increase its costs, either of which could have a material adverse impact on the Company.

In October 2007, the Government of Alberta unveiled a new royalty regime. The new regime introduced new royalties for conventional oil, natural gas and bitumen effective January 1, 2009 that are linked to price and production levels and will apply to both new and existing oil sands projects and conventional oil and natural gas activities. In response to declining industry activity levels, in November 2008 the Government of Alberta also introduced a transitional royalty program for new wells drilled subsequent to January 1, 2009. This transitional royalty program will result in temporarily lower royalty rates for some new wells drilled subsequent to January 1, 2009. Further incentives announced in February 2009 were aimed at stimulating drilling activity in 2009. In 2011 the Government of Alberta has introduced additional changes to the province's royalty framework which are being currently implemented. The oil industry's reaction to the new royalty regime announcements has thus far been favourable. There is, however, a danger that the Alberta royalty regime may be subject to future changes and this possibility creates clouds of uncertainty concerning unforeseen risks that can result in a material adverse effect on the industries in which the Company operates.

On March 10, 2008, the Canadian Federal Government announced new regulations regarding carbon dioxide emissions and sequestration which will impact future oil sands projects and coal fired electrical generation plants. Any initiatives by governments in areas in which the Company operates to set legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases" may require the reduction of emissions or emissions intensity from the oil and natural gas industry. This may result in increased operating costs and capital expenditures for oil and natural gas producers, thereby decreasing the demand for the Company's services. Management is unable to predict the impact of these initiatives on the Company and it is possible that they will adversely affect the Company's business, financial condition, results of operations and cash flows.

Environmental risk

The Company has earned a good reputation for maintaining a high level of environmental responsibility while providing high quality products and services. The oil and gas servicing industry is highly competitive and activity levels are largely driven by customer demand. It is also impacted by matters such as economic trends, commodity prices, changing attitudes towards energy preferences and environmental awareness. A trend which is currently dominating the industry is the requirement that oil and gas service providers operate in a manner that demonstrates a high level of care for the environment while adopting and following environmentally responsible business practices. The Company endeavors to be environmentally responsible and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound sustainability management, including environmental stewardship. The Company has adopted internal policies and practices to address the environmental concerns of the oil and gas industry. Despite these efforts, evolving customer concerns could adversely impact the Company's reputation and financial performance. Claims of environmentally irresponsible practices could harm the reputation of the Company. Adverse publicity resulting from actual or perceived violations of environmental laws and regulations or from business practices considered environmentally irresponsible, may weaken the perception of the Company's reputation and negatively impact customer attitudes which in turn could decrease the demand for the Company's products and services. The consequences of this may lead to a decrease in results of operations and the Company's share price. These impacts may occur even if the allegations are not directed against the Company or are not valid, and even if the Company is not found liable.

CRITICAL ACCOUNTING ESTIMATES

The Company 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 Company's operating environment changes. The accounting estimates believed by management to require the most difficult, subjective or complex judgments and which are material to the Company's financial reporting results are set out below.

Allowance for Doubtful Accounts Receivable

The Company periodically evaluates its accounts receivable on an individual and overall customer basis. This process consists of a review of historical collection experience, current aging status of the customer accounts and other factors. Based on its review of these factors, it establishes or adjusts allowances for specific customers. This process involves a high degree of judgment and estimation. Accordingly, the Company's results of operations can be affected by adjustments to the allowance due to actual write-offs that differ from estimated amounts.

Impairment of Long-Lived Assets

Long-lived assets are comprised of property, plant and equipment and the finite-life intangible asset. Long-lived assets are tested for impairment when certain events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The recoverability test is performed using undiscounted future net cash flows that are directly associated with the asset's use and eventual disposition. The amount of impairment, if any, is measured as the difference between the carrying value and the fair value of the impaired assets

Goodwill Impairment

Goodwill represents the excess of purchase price for a company acquired over the fair market value of the acquired company's net assets. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is tested for impairment at least annually. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and performance of the second step of the impairment test is unnecessary. The second step compares the implied fair value of the reporting unit's goodwill with its carrying amount to measure the amount of the impairment loss, if any.

Depreciation and Amortization of Property and Equipment and Intangible Assets

Depreciation and amortization is calculated using either the straight-line or declining balance method over the estimated useful life of the asset. Management bases the estimate of the useful life and salvage value of equipment on expected utilization, technological change and effectiveness of maintenance programs. Although management believes the estimated useful lives and salvage values of the Company's equipment are reasonable, they cannot be certain that depreciation and amortization expense measures, with precision, the true reduction in value of assets over time.

Inventory

Chemical inventory is valued at the lower of cost and net realizable value with cost being determined on average cost basis. Parts inventory is valued at the lower of cost and net realizable value with cost being determined on a first-in first-out basis. Cost includes the direct purchase price of the goods and transportation costs from vendors. There were no write-downs of inventory or reversals of previously written down inventory during the year. Cost of inventory sold is included on the income statement as “direct cost – product”.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted tax rates. Valuation allowances are established to reduce future tax assets when it is more likely than not that some portion or all of the future tax asset will not be realized. Estimates of future taxable income and the continuation of ongoing prudent tax planning arrangements have been considered in assessing the utilization of available tax losses. Changes in circumstances and assumptions may require changes to the valuation allowances associated with the Company's future tax assets.

Changes in Accounting Policies

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. The areas identified to have the highest potential to significantly impact the Company are property, plant and equipment, intangible assets and initial adoption of IFRS under the provisions of IFRS 1 “First Time Adoption of IFRS.” The Company has completed a detailed analysis and evaluation of options available under IFRS. An analysis of the financial impact of these options, and the impact on internal controls over financial reporting, is in progress. Policy choices are currently being reviewed and it is expected that the determination of policy choices will be completed in the first quarter of fiscal 2012 (which is for the three months ended July 31, 2011).

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