

DALMAC ENERGY INC.
Financial Statements
Three Month Period Ended July 31, 2005
(Unaudited)

DALMAC ENERGY INC.

Index to Financial Statements
Three Month Period Ended July 31, 2005
(Unaudited)

	Page
NOTICE TO READER	1
FINANCIAL STATEMENTS	
Balance Sheet	2
Statement of Loss and Retained Earnings	3
Statement of Cash Flow	4
Notes to Financial Statements	5 - 13
Expenses <i>(Schedule 1)</i>	14

NOTICE TO READER

The accompanying unaudited interim financial statements of Dalmac Energy Inc. for the three month period ended July 31, 2005 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

Edmonton, Alberta
September 27, 2005

"John I. Babic"
PRESIDENT AND CHIEF EXECUTIVE OFFICER

DALMAC ENERGY INC.

Balance Sheet

July 31, 2005

(Unaudited)

	<i>July 31</i> 2005	<i>April 30</i> 2005	<i>June 30</i> 2004
ASSETS			
CURRENT			
Cash and short-term deposits	\$ -	\$ -	\$ 689,992
Accounts receivable	2,083,260	2,197,000	-
Inventory	168,001	247,826	-
Goods and services tax recoverable	-	-	9,184
Prepaid expenses and deposits	309,730	282,130	-
	2,560,991	2,726,956	699,176
PROPERTY, PLANT AND EQUIPMENT <i>(Note 3)</i>	5,344,791	5,495,939	-
GOODWILL <i>(Note 4)</i>	1,504,313	1,504,313	-
	\$ 9,410,095	\$ 9,727,208	\$ 699,176
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT			
Bank indebtedness <i>(Note 5)</i>	\$ 1,001,866	\$ 1,156,733	-
Accounts payable and accrued liabilities	1,424,028	1,056,703	7,576
Goods and services tax payable	59,663	-	-
Income taxes payable	56,660	177,000	-
Current portion of long term debt <i>(Note 7)</i>	968,710	1,296,837	-
	3,510,927	3,687,273	7,576
LONG TERM DEBT <i>(Note 7)</i>	3,452,831	3,408,868	-
FUTURE INCOME TAXES	519,000	519,000	-
	7,482,758	7,615,141	7,576
SHAREHOLDERS' EQUITY	1,790,066	1,736,980	739,371
Share capital <i>(Note 8)</i>	64,692	64,692	41,757
Contributed surplus	72,579	310,395	(89,528)
Retained earnings (deficit)	1,927,337	2,112,067	691,600
	\$ 9,410,095	\$ 9,727,208	\$ 699,176

ON BEHALF OF THE BOARD

John I. Babic *Director*

Shawn T. Szydlowski *Director*

See notes to financial statements

DALMAC ENERGY INC.

Statement of Loss and Retained Earnings
Three Month Period Ended July 31, 2005
(Unaudited)

	<i>July 31</i> 2005 <i>(3 months)</i>	<i>June 30</i> 2004 <i>(3 months)</i>
<hr/>		
INCOME		
Service revenue	\$ 2,498,304	\$ -
Product sales	308,971	-
	<hr/>	<hr/>
	2,807,275	-
DIRECT COSTS		
Trades and sub-contracts	763,518	-
Direct labour and benefits	495,215	-
Service vehicle expenses	449,916	-
Cost of goods sold	270,353	-
Equipment repairs, maintenance and fuel	136,542	-
Property rent and taxes	63,207	-
Worker's compensation	23,937	-
Travel and accomodations	11,628	-
	<hr/>	<hr/>
	2,214,316	-
GROSS PROFIT	592,959	-
EXPENSES <i>(Schedule 1)</i>	951,115	13,004
	<hr/>	<hr/>
LOSS FROM OPERATIONS	(358,156)	(13,004)
OTHER INCOME	-	3,410
	<hr/>	<hr/>
LOSS BEFORE INCOME TAXES	(358,156)	(9,594)
INCOME TAXES RECOVERED	120,340	-
	<hr/>	<hr/>
NET LOSS	(237,816)	(9,594)
RETAINED EARNINGS (DEFICIT) - BEGINNING OF PERIOD	310,395	(79,934)
	<hr/>	<hr/>
RETAINED EARNINGS (DEFICIT) - END OF PERIOD	\$ 72,579	\$ (89,528)
	<hr/>	<hr/>

See notes to financial statements

DALMAC ENERGY INC.**Statement of Cash Flow**
Three Month Period Ended July 31, 2005
(Unaudited)

	<i>July 31</i> 2005 <i>(3 months)</i>	<i>June 30</i> 2004 <i>(3 months)</i>
OPERATING ACTIVITIES		
Net loss	\$ (237,816)	\$ (9,594)
Item not affecting cash:		
Amortization of property, plant and equipment	<u>218,119</u>	-
	<u>(19,697)</u>	(9,594)
Changes in non-cash working capital:		
Accounts receivable	113,740	-
Inventory	79,825	-
Prepaid expenses and deposits	(27,600)	-
Accounts payable and accrued liabilities	367,323	(184)
Income taxes payable	(120,340)	-
GST payable (receivable)	<u>59,663</u>	(1,505)
	<u>472,611</u>	(1,689)
Cash flow from (used by) operating activities	<u>452,914</u>	(11,283)
INVESTING ACTIVITY		
Purchase of capital assets	<u>(66,970)</u>	-
Cash flow used by investing activity	<u>(66,970)</u>	-
FINANCING ACTIVITIES		
Proceeds from long term financing	54,109	-
Repayment of long term debt	(338,272)	-
Proceeds on issuance of share capital	53,086	-
Reduction in share capital	<u>-</u>	(8,000)
Cash flow used by financing activities	<u>(231,077)</u>	(8,000)
INCREASE (DECREASE) IN CASH FLOW	154,867	(19,283)
Cash (bank indebtedness) - beginning of period	<u>(1,156,733)</u>	709,275
CASH (DEFICIENCY) - END OF PERIOD	\$ (1,001,866)	\$ 689,992

See notes to financial statements

DALMAC ENERGY INC.
Notes to Financial Statements
Three Month Period Ended July 31, 2005
(Unaudited)

1. DESCRIPTION OF OPERATIONS

The business is incorporated under the provincial business corporations act of Alberta.

Effective November 8, 2004 the Company acquired for cash and common shares, control of all the outstanding shares of McClelland Oil Services Inc. (McClelland). McClelland operates a fleet of truck-mounted equipment used in the exploration, completion and production of oil and gas fields in northwest Alberta.

McClelland Acquisition - shares

The total purchase price was \$2,280,000, comprised of \$911,000 cash, \$509,000 of promissory notes, and 2,150,000 common shares valued at \$0.40 per share equalling \$860,000. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

As at November 8, 2004

Current assets	\$ 2,164,204
Property, plant and equipment	3,900,931
Goodwill	<u>1,222,713</u>
Total assets acquired	<u>7,287,848</u>
Current liabilities	3,047,722
Long-term debt	1,741,728
Other liabilities	<u>218,398</u>
Total liabilities	<u>5,007,848</u>
Net assets acquired	<u>\$ 2,280,000</u>

In addition, effective March 14, 2005, the Company acquired for cash and common shares the assets and business of S Young Oilfield Ltd. (S Young). S Young is engaged in "hydro vac" operations in northwest Alberta.

S Young Acquisition - assets

The total purchase price was \$850,000, including \$340,000 cash, \$386,000 of promissory notes, and 210,169 common shares at \$0.59 per share equalling \$124,000. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

As at March 14, 2005

Property, plant and equipment	\$ 568,400
Goodwill	<u>281,600</u>
Total assets acquired	<u>\$ 850,000</u>

The results of operations from these acquisitions are included in the accounts from the effective date of acquisition.

DALMAC ENERGY INC.
Notes to Financial Statements
Three Month Period Ended July 31, 2005
(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant policies are detailed as follows:

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its' wholly owned subsidiary McClelland Oil Services Inc.

Inventory

Inventory is valued at the lower of cost and net realizable value with the cost being determined on a first-in, first-out basis.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization. Property, plant and equipment are amortized over their estimated useful lives at the following annual rates and methods:

Service equipment	8.3%	straight-line method
Service vehicles	12.5%	straight-line method
Plant equipment	10.0%	straight-line method
Furniture and fixtures	25.0%	straight-line method
Motor vehicles	12.5%	straight-line method
Rental equipment	8.3%	straight-line method

Amortization of leasehold improvements is recorded over the remaining term of the lease.

One half the normal rate of amortization is recorded in the year of acquisition.

Goodwill

Goodwill is the amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair value.

Goodwill is not amortized and it is tested for impairment annually at year end, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The implied fair value of goodwill is determined by assessing the future earnings of the acquired business. When the carrying amount of the goodwill relating to the acquired business exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess.

Long-lived assets

The company reviews capital assets and goodwill for impairment whenever events or circumstances indicate that the carrying value may be impaired, the company performs a recoverability evaluation. If the evaluation indicates that the carrying value of the asset is not recoverable from undiscounted cash flows attributable to the asset, then an impairment loss is measured by comparing the carrying amount of the asset to its fair value. During the period, no events or circumstances occurred to indicate that the carrying value may not be recoverable and therefore resulted no changes to the current period financial statements.

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DALMAC ENERGY INC.
Notes to Financial Statements
Three Month Period Ended July 31, 2005
(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Future income taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Sales revenue recognition

- a) Revenue derived from the sale of service contracts is recognized as income when services are performed.
- b) Sales are normally recognized when the products are shipped, at which time title passes to the customer.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include providing for amortization of property, plant and equipment and goodwill. Actual results could differ from these estimates.

Stock-based compensation

Effective January 1, 2004, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants relating to stock-based compensation. Under the new standard, all stock-based compensation is measured and recognized based on the fair value of the instruments and expensed in the financial statements.

As new options are granted, the fair value of these options will be expensed over the vesting period, with an offsetting entry to contributed surplus. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model. Upon the exercise of stock options, consideration received together with amounts previously recorded in contributed surplus are recorded as an increase in share capital.

Earnings (loss) per share

The Company has applied the Canadian Institute of Chartered Accountants' accounting standard for earnings per share calculation and disclosure. Under the standard, the treasury stock method of calculating per share amounts is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

Share issuance costs

Costs related to the issuance of shares are charged against share capital.

DALMAC ENERGY INC.
Notes to Financial Statements
Three Month Period Ended July 31, 2005
(Unaudited)

3. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	<i>July 31</i> 2005 Net book value	<i>June 30</i> 2004 Net book value
Land	\$ 32,657	\$ -	\$ 32,657	\$ -
Rental equipment	67,318	26,759	40,559	-
Motor vehicles	103,317	53,800	49,517	-
Leasehold improvements	107,100	52,069	55,031	-
Furniture and fixtures	165,698	119,462	46,236	-
Plant equipment	400,754	124,690	276,064	-
Service vehicles	3,463,460	1,497,883	1,965,577	-
Service equipment	4,207,265	1,328,115	2,879,150	-
	\$ 8,547,569	\$ 3,202,778	\$ 5,344,791	\$ -

4. GOODWILL

	<i>July 31</i> 2005	<i>June 30</i> 2004
Goodwill	\$ 1,504,313	-

Goodwill reflects the excess consideration given over the fair value of the net assets acquired of McClelland Oil Services Inc. and S Young Oilfield Ltd. These amounts are \$1,222,713 and \$281,600 respectively.

5. BANK INDEBTEDNESS

	<i>July 31</i> 2005	<i>June 30</i> 2004
Bank in overdraft position	\$ 171,866	-
Operating line of credit	830,000	-
	\$ 1,001,866	-

Bank indebtedness consists of a demand loan (operating line of credit) at bank prime plus 1% to a maximum of \$1,200,000. The loan is secured by a general security agreement covering all assets of the Company.

6. REFUNDABLE INCOME TAXES

As a result of the acquisition of McClelland by the Company, McClelland no longer qualifies for the small business deduction under the Canadian Income Tax Act. Using the current statutory income tax rate of approximately 33.6% to calculate the refundable portion of prior income taxes paid, results in a decrease of income tax expense of \$120,340, which was applied against the prior period income tax payable in the current period.

DALMAC ENERGY INC.
Notes to Financial Statements
Three Month Period Ended July 31, 2005
(Unaudited)

7. LONG TERM DEBT

	<i>July 31</i>	<i>June 30</i>
	2005	2004
Conditional sales contracts, consisting of nine separate contracts, bearing interest at rates ranging from 6.60% to 9.55% per annum, repayable in monthly blended payments that vary over the term of each contract, maturing on various dates to December, 2009, secured by specific vehicles and equipment	\$ 2,064,364	\$ -
Conditional sales contracts, consisting of thirteen separate contracts, bearing interest at rates ranging from 7.75% to 9.5% per annum, repayable in monthly blended payments that vary over the term of each contract, maturing on various dates to December, 2009, secured by specific vehicles and equipment	907,294	-
Conditional sales contract, bearing interest at 8.5% per annum, repayable in monthly blended payments of \$4,136, maturing in April, 2010, secured by specific vehicle and equipment	209,501	-
Conditional sales contracts, consisting of two separate contracts, bearing interest at rates ranging from 0% to 4.9% per annum, repayable in monthly blended payments that vary over the term of each contract, maturing on various dates to December, 2007, secured by specific vehicles	48,449	-
Bank loans payable, consisting of three separate loans, all bearing interest at prime plus 1 1/4% per annum, repayable in monthly blended payments that vary over the term of each loan, maturing on various dates to July, 2009, secured by a general security agreement covering all assets of the company	386,739	-
Promissory note, bearing interest at 4.25% per annum, repayable in equal monthly blended payments of \$11,439 over thirty-six months, maturing in March, 2008	353,434	-
Promissory note due to related party (a director of the company), bearing interest at 4.25% per annum, repayable in equal monthly blended payments of \$8,373 over forty-eight months, maturing in November, 2008	311,760	-
Promissory note due to related party (a director of the company), repayable in equal monthly blended payments of \$4,148 over thirty-six months with the first such payment commencing one month after the previous promissory note is paid in full, to bear interest commencing from that date at a rate of 4.25% per annum	140,000	-
	4,421,541	-
Amounts payable within the next nine months	(968,710)	-

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DALMAC ENERGY INC.
Notes to Financial Statements
Three Month Period Ended July 31, 2005
(Unaudited)

7. LONG TERM DEBT *(continued)*

	<i>July 31</i> 2005	<i>June 30</i> 2004
	\$ 3,452,831	\$ -

Principal repayment terms are approximately:

2006, remaining nine months	\$ 968,710
2007	1,208,988
2008	1,120,855
2009	723,700
2010	323,185
Thereafter	76,103
	\$ 4,421,541

The carrying values of the equipment and vehicles secured by the above conditional sales contracts exceed the total of the indebtedness under these contracts.

DALMAC ENERGY INC.
Notes to Financial Statements
Three Month Period Ended July 31, 2005
(Unaudited)

8. SHARE CAPITAL

Authorized:

Unlimited common voting shares
Unlimited preferred shares, issuable in series

July 31
2005 *June 30*
2004

Issued:

5,972,917 common voting shares

\$ 1,790,066 \$ 739,371

	<i>July 31</i> 2005		<i>June 30</i> 2004	
	Shares	Amount	Shares	Amount
Shares outstanding at the beginning of the period	5,795,964	\$ 1,736,980	3,350,983	\$ 739,371
Issued on exercise of options	176,953	53,086	-	-
Shares outstanding at the end of the period	5,972,917	\$ 1,790,066	3,350,983	\$ 739,371

Escrowed shares

733,333 common shares issued prior to the Company's Initial Public Offering have been deposited with the Trustee under an Escrow Agreement. In addition, 56,400 common shares purchased by Directors and Officers pursuant to the Company's Initial Public Offering have also been deposited with the Trustee under an Escrow Agreement for a total of 789,733 common shares. To date, a total of 197,433 shares have been released under these agreements, leaving a balance of 592,300 common shares remaining in escrow.

Subject to certain exemptions permitted by the Toronto Stock Exchange, all securities of the Company held by Directors and Officers of the Resulting Issuer will also be escrowed. As a result of the acquisition of McClelland Oil Services Inc. 2,000,000 additional shares have been deposited in escrow as two Directors of the Company received these shares. To date, a total of 500,000 shares have been released under this Escrow Agreement, leaving a balance of 1,500,000 common shares remaining in escrow.

As per the above noted Escrow Agreements, presently 2,092,300 common shares of the Corporation are being held in escrow. These represent approximately 35.0% of the Common Shares outstanding prior to the Offering and will represent approximately 28.3% of the total outstanding shares of the Corporation after giving effect to the maximum Offering.

DALMAC ENERGY INC.
Notes to Financial Statements
Three Month Period Ended July 31, 2005
(Unaudited)

9. STOCK OPTIONS

The Company approved a stock option plan in 2003. All options granted pursuant to this plan shall be subject to rules and policies of any stock exchange or exchanges on which the common shares of the Company are listed. The aggregate number of shares issuable upon the exercise of all options granted under the plan shall not exceed 10% of the issued and outstanding common shares of the Company from time to time. As at July 31, 2005, the Company had granted options under this plan and the details are as follows:

	Number	Weighted Average Share Price 2005	Number	Weighted Average Share Price 2004
Outstanding at beginning of period	662,051	\$ 0.33	596,863	\$ 0.30
Former director's options expired	(79,316)	0.30	-	-
Agent options exercised	(176,953)	0.30	-	-
Outstanding at end of period	405,782	\$ 0.35	596,863	\$ 0.30

As of July 31, 2005, the share options outstanding under the plan have expiry dates as follows:

<u>Options granted</u>	<u>Exercise price</u>	<u>Expiry date</u>
255,782	\$ 0.30	December 22, 2008
150,000	\$ 0.45	March 21, 2010

10. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated to reflect the dilutive effect of stock options outstanding. Earnings (loss) per share based on the current period loss of \$237,816 and prior period loss of \$9,594 are calculated as follows:

	Weighted average of common shares	July 31 2005	Weighted average of common shares	June 30 2004
Basic	5,870,977	\$ (0.04)	3,350,983	\$ 0.00
Fully diluted	6,276,759	(0.04)	3,947,846	0.00

11. LEASE COMMITMENTS

The Company has long term leases with respect to its premises. Under the various operating leases and property lease agreements, exclusive of occupancy costs, total commitments are as follows:

2006, remaining nine months	\$ 250,448
2007	354,105
2008	174,094
2009	52,705
	<u>\$ 831,352</u>

DALMAC ENERGY INC.
Notes to Financial Statements
Three Month Period Ended July 31, 2005
(Unaudited)

12. RELATED PARTY TRANSACTIONS

- (a) During the period the Company leased premises from 1010417 Alberta Ltd., related by common shareholders, for total consideration of \$25,018.
- (b) As at July 31, 2005 the Company was indebted to two directors of the Company for an amount of \$451,760 (see Note 7). With respect to these loans, interest of \$3,464 has been paid during the period.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

13. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of accounts receivable which will result in future cash receipts, as well as bank indebtedness, accounts payable and accruals, and long-term debt which will result in future cash outlays.

The Company is exposed to the following risks in respect to certain of the financial instruments held:

a) 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. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance and credit limits. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The Company has a significant number of customers which minimizes concentration of credit risk.

b) Fair Value

The Company's carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates its fair value due to the immediate or short term maturity of these instruments.

The carrying value of the long term debt approximates the fair value as the interest rates are consistent with the current rates offered to the Company for debt with similar terms.

c) Interest Rate Risk

The Company manages its exposure to interest rate risk by securing financing with a fixed interest rate for capital asset acquisitions.

14. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current period presentation.

DALMAC ENERGY INC.**Expenses (Schedule 1)**
Three Month Period Ended July 31, 2005
(Unaudited)

	<i>July 31</i>	<i>June 30</i>
	2005	2004
	<i>(3 months)</i>	<i>(3 months)</i>
<hr/>		
EXPENSES		
Wages and benefits	\$ 323,534	\$ -
Amortization	218,119	-
Travel and automotive	88,699	2,255
Interest on long term debt	71,294	-
Management salaries and fees	55,855	-
Repairs and maintenance	36,750	-
Telephone and utilities	36,378	453
Office	30,246	3,875
Professional fees	25,541	6,168
Interest and bank charges	24,593	-
Advertising and promotion	21,441	253
Insurance	18,665	-
	<hr/>	<hr/>
	\$ 951,115	\$ 13,004
	<hr/>	<hr/>