

Management's Discussion and Analysis

Dalmac Energy Inc.

Three Month Period ended October 31, 2005 (Q2-05)

Prepared December 15, 2005

This Management's Discussion and Analysis (MD&A) of the financial position and operating results of Dalmac Energy Inc. for the 3 months ended October 31, 2005 (Q2-05) should be read in conjunction with corresponding financial statements for the same period. The MD&A and financial statements for earlier periods should also be considered relevant and can be found on the SEDAR website at www.sedar.com. A significant accounting change occurred in January of 2005, when Dalmac received consent from the Alberta Securities Commission and the British Columbia Securities Commission to change its year end date to April 30 in order to be commensurate with the operations of its wholly owned subsidiary company McClelland Oil Services Inc. This has had the effect of making the Q2 results of Dalmac Energy Inc. for the period ending October 31, 2005 out of alignment with comparative the three month quarter of the preceding year, which ended September 30, 2004 (In its Notice of Change of Year end the Corporation indicated that it would use the comparative financial information for the 3 month period ended October 31, 2004, but it has since determined that the 3 month period ended September 30, 2004 is more appropriate because of the readily available comparisons with previously issued statements.) This MD&A represents the 3 month non-audited, Q2 quarterly reporting for the operations of the Corporation

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 by such forward looking statements. (See Business risks section) References in this MD&A to "Dalmac", the "Corporation", "Company", "us", "we" and "our" mean Dalmac Energy Inc. and its subsidiaries 750761 Alberta Ltd. and McClelland Oil Services Inc.

Corporate Overview

The multi billion dollar oil and gas industry requires regular servicing to keep its wells on production. This includes services such as "hot oiling", which removes the waxes and paraffins that build up around the well bore and flow lines and restricts production flow. In addition to servicing existing wells, pipeline and production facilities also require regular maintenance to keep the hydro carbons flowing. Increased activities such as drilling, well servicing, and separation processes provide an added demand for Dalmac's products and services. Supplementary factors which are contributing to the record levels of demand for Dalmac's products and services are high commodity prices and the development of new fields such as the eastern slope of the Rocky Mountains in west central Alberta. In view of the preceding events Dalmac is positioning its self, not only to expand its core services but to vary the product mix, by introducing other equipment such as liquid nitrogen services and coil tubing applications

Currently, with 63 service units Dalmac Energy Inc. is a key provider of "hot oiler", "hydro vac", "vacuum", "pressure" and "tanker truck" services to this energy sector. Other products and services include "methanol/glycol", and "KCL" distribution and delivery.

Results of Operations

The operational revenue in the six months ended October 31, 2005, was adversely impacted by wet, soggy weather conditions. The first 3 months of the current financial year were tempered with spring break up conditions which results in road bans and travel restrictions and the second quarter was constrained by rain.

In spite of the weather issues, the Corporation is experiencing a strong steady demand for its products and services and industry activity levels continue to remain high. When not impacted by inclement weather conditions, the demand for Dalmac's products and services continues to exceed the company's current capacity to supply and this resulted in high levels of work turndowns during Q2 of 2005. The Corporation's operating regions of Fox Creek, Hinton and Grande Cache are experiencing activity levels that are typical of the winter months season and management expects that this will continue to increase over the course of the year.

Revenue

The revenues for the quarter ended October 31, 2005 were \$3,472,109. This represents an increase of 100% over the three month quarter ended September 30, 2004. On a year to date (YTD) basis, revenues were \$6,279,984 compared to no corresponding revenue in the comparable period in the preceding year. High commodity prices are one of the primary driving forces behind the activity levels in the industry.

Gross Margin

The gross margin for the quarter ended October 31, 2005, was \$982,302, or 28% as a percentage of revenue, compared to no activity in the comparative three month quarter of the preceding financial year. The net income (loss) for same period was \$32,800 or \$0.01 per basic share. On a YTD basis the gross margin was \$1,575,261, or 25% as a percentage of revenue. The net income (loss) for the YTD was \$(205,016) or \$(0.03) per basic share and \$(0.03) fully diluted. There was no gross margin to report for the comparable period in preceding financial year.

The direct costs for the quarter ended October 31, 2005 consist of, trades and subcontracts (\$782,926), direct labour and benefits (\$638,159), services vehicle costs (\$517,791), cost of goods sold ("COGS") (\$226,178), equipment repairs (\$226,890), property rent & taxes (\$64,553), workers compensation (\$24,218), and travel & accommodations (\$9,092). Direct costs totaled \$2,489,807, or 72% as a percentage of revenue, for the quarter ended October 31, 2005. There are no direct comparables for the quarter ended September 30, 2004. Whenever the inclement weather conditions didn't allow for travel, a significant focus was placed on repair and maintenance. The Corporation tries to complete as much repair and maintenance in the slower quarters (Q1 and Q2) so as not to impair productivity in the busy winter quarters (Q3 and Q4).

The gross margin was also impacted by high YTD trades and sub-contract costs, which were \$1,546,444. The Company utilizes sub contractors when it doesn't have available service equipment. Sub contractors constitute about 30% of the over all revenue. The average gross margin on subcontractors is around 8% compared to an average of 30% on Corporation owned equipment. The sub contractor utilization is an indicator of revenue predictability and growth prospects.

General and Administrative ("G&A") Expenses

The general and administrative ("G&A") costs for the 3 months ended October 31, 2005 were \$885,249, or 26% as percentage of revenue, up from \$76,169 in the 3 months ended September 30, 2004. The YTD G&A was \$1,836,364, or 30% as a percentage of revenue compared to the \$155,562 in the YTD for the preceding year.

For the 3 month period ended October 31, 2005, the Corporation has paid \$391,828 in wages and benefits. YTD the wages and benefits were \$771,217. As part of its efficiency program, the Corporation has reduced the administration overhead by 3 personnel, which should realize a saving

about \$30,000 per month starting January 1, 2006. There were no wages and benefits paid for the three month quarter of the preceding year.

Travel and automotive costs for Q2 have increased by \$72,283 to \$75,462 from \$3,179 in the quarter ended September 30, 2004. This is due to the sales, management and administration, travel and vehicle costs, which were largely non-existent in the quarter ended September 30, 2004. General and administration ("G&A) costs for the quarter ended October 31, 2005 was limited to the expenses referred above below. Professional fees are credited \$7,408 due to a double entry in a previous quarter.

General and administration ("G&A) costs for the quarter ended October 31, 2005 was limited to the expenses referred above below.

G&A Expenses	3 Months Ended October 31, 2005	3 Months Ended September 30, 2004
Wages and benefits	391,828	-
Amortization	218,120	-
Interest on long term debt	75,475	-
Travel and automotive	75,462	3,179
Telephone and utilities	34,466	326
Repairs and maintenance	25,290	
Advertising and promotion	24,895	626
Professional fees	(7,408)	68,919
Office	21,668	1,652
Interest and bank charges	21,515	25
Insurance	3,938	-
Stock Costs	0	1,442
Total	885,249	76,169

Amortization of Property and Equipment

Amortization of property and equipment increased by \$218,120 as compared to zero in the comparable 3 month period of the previous year. The six month YTD amortization totaled \$436,239. Amortization is dependant on the timing of additions to property and equipment. The major components of additions for the current year included purchase the McClelland Oil Services Inc. in November of 2004 and the purchase of the business and assets of S Young Oilfield Ltd. in March of 2005. On November 29, 2004 the Corporation announced the acquisition of \$1.5 million in new service units. Disposals of property and equipment during the 3 month period ended October 31, 2005 were consistent with the normal course of business activities and resulted in a loss of \$50,201 on the disposal of assets.

Interest Expense

Interest expense for long term debt for the 3 month period ended October 31, 2005 was \$75,462 and \$146,769 for the 6 month YTD. There was no interest expense in the comparable period in the previous year. The majority of the long term debt is for equipment leases and the rest is vendor take back financing which is associated with the acquisition of McClelland Oil Services Inc. and S Young Oilfield Ltd. Following the close of the \$1.0 million financing the Corporations line of credit with the bank was paid out thereby eliminating the interest charges associated with that line. In September of 2005 the line of credit with the bank was reduced by \$898,956.51.

Income Taxes

The Corporation did not have current taxes payable for the three month period ended October 31, 2005 and the YTD.

Summary of Selected Period Results

Selected Period Information

	3 Month Period Ended October 31 2005	3 Month Period Ended July 31, 2005	16 Month Period Ended April 30, 2005	3 Month Period Ended March 31 2005
For the periods ended (Cdn Dollars)				
Revenue	3,472,109	2,807,275	7,309,943	4,441,921
Gross Margin	982,302	592,959	2,158,002	1,227,783
Gross Margin %	28.29%	21.12%	29.52%	27.64%
Operating income (loss)	97,053	(358,156)	938,190	751,905
Operating income per share - basic	0.015	(0.061)	0.226	0.181
Operating income per share - diluted	0.013	(0.057)	0.195	0.156
Net income (loss)	32,800	(237,816)	327,551	627,905
Net income per share - basic	0.005	(0.041)	0.079	0.151
Net income per share - diluted	0.004	(0.038)	0.068	0.130
Weighted average common shares -basic	6,338,989	5,870,977	4,154,757	4,154,757
Weighted average common shares - diluted	7,578,363	6,276,759	4,816,814	4,816,814

Selected Period Information

	3 Month Period Ended December 31 2004	3 Month Period Ended September 30, 2004	3 Month Period Ended June 30, 2004	3 Month Period Ended March 31 2004
For the periods ended (Cdn Dollars)				
Revenue	2,083,643	0	0	0
Gross Margin	466,149	0	0	0
Gross Margin %	22.37%	0.00%	0.00%	0.00%
Operating income (loss)	28,779	(76,169)	(13,006)	(66,388)
Operating income per share - basic	0.01	(0.03)	(0.01)	(0.02)
Operating income per share - diluted	0.01	(0.02)	(0.01)	(0.02)
Net income (loss)	(225,692)	(72,737)	(9,594)	(62,953)
Net income per share - basic	(0.04)	(0.02)	(0.01)	(0.02)
Net income per share - diluted	(0.04)	(0.02)	(0.01)	(0.02)
Weighted average common shares -basic	3,714,285	3,367,583	3,350,983	3,350,983
Weighted average common shares - diluted	4,281,336	4,281,336	3,947,846	3,947,846

The Corporation's business is seasonal with the quarter ending January 2006 (Q3) and April 2006 (Q4) traditionally being the two strongest quarters and the Q1 and Q2 normally being the two weakest quarters. The underlying causes of the seasonality are weather conditions, the Corporation's being restricted from entering and conduction work in designated wildlife areas at certain times of the year and the timing of customer capital spending programs.

Liquidity and Capital Spending Resources

The Corporation's capital requirements consist primarily of working capital necessary to fund operations, capital expenditures related to the purchase and manufacture of operating equipment, and capital to finance strategic acquisitions. Sources of funds to meet these capital requirements include cash flow from operations, external lines of credit, equipment financing, term loans and access to equity markets.

During the period ended October 31, 2005, the Corporation raised \$1.0 million from financings in the equity markets, which netted \$898,956.57 after all expenses. The Corporation also increased its

bank facility from \$1.95 million to \$3.0 million. The \$3.0 million consists of a line of credit for \$1.5 million and a demand Revolving Term Loan for \$1.5 million. The interest rate on the line of credit is a floating rate of 1% above the banks prime lending rate of 4.50% and the rate on the term loan is a floating 1.5% above the banks prime lending rate. In addition the Corporation increased its leasing line of credit with GE Canada Equipment Financing from \$2.0 million to \$4.0 million.

At October 31, 2005, the long term debt consists of conditional sales contracts for operational vehicles and equipment, bank loans payable and promissory notes. The conditional sales contracts and bank loans for equipment purchases amounted to \$3,336,126. The promissory notes, totaling \$751,814 are vendor take back financing associated with the McClelland and S Young Oilfield Ltd. purchase. This vendor take back financing is subordinated debt and is treated as quasi equity by the Company's lenders. The total amount of long term debt at October 31, 2005 was \$4,087,940. The amount of long term debt to be repaid over the next 6 months is \$614,469, and the residual long term debt at the end of the current year, based on current debt, will be \$3,473,471.

The Corporation announced on September 27, 2005 that it had completed a short form offering of 1,428,571 units at a price of \$0.70 per unit for a total proceeds of \$1 million. Each unit consists of one common share and one half share purchase warrant; each whole share purchase warrant entitles the holder to purchase on additional common share at a price of \$0.85 per share if exercised by September 27, 2007. The Corporation also granted agents options to purchase a total of 142,857 units at a price of \$0.70 per unit as part of the agent's compensation in connection with this offering.

Working Capital

At October 31, 2005, the Corporation had a current bank indebtedness of \$714,924, accounts payable and accrued liabilities of \$1,368,080 and accounts receivable of \$2,502,211. The Corporation's working capital was \$373,088 at October 31, 2005, compared to (\$960,317) at April 30, 2005.

At October 31, 2005, the cash flow increased by \$(478,022) to \$(508,028) from \$(30,006) in the comparable period ending September 30, 2004. This primarily due to non-cash changes in working capital. The YTD cash flows from operating activities improved by \$49,128 to \$(55,113) from \$(104,241) in the previous year.

Cash flows from investing activities increased to \$108,555. This increase in investing activities reflects the purchase of operating equipment for \$41,445 and the disposition of certain operating equipment for \$150,000.

The cash flow from financing activities, in the 3 month period ending October 31, 2005 increased by \$554,127 to \$559,107 from \$4,980 in the comparable quarter of the previous year. The net effect is that the cash deficiency improved by \$286,942 from the beginning of the quarter.

The Corporation believes that it has the capital resources and availability to meet its working capital and capital expenditure requirements.

Property and Equipment

Property, plant and equipment assets totaled approximately \$4,967,916 at the end of October 31, 2005 compared to \$5,495,939 at the end of April 30, 2005. The net capital assets at Q2 totalled \$4,967,916, and goodwill was \$1,504,313. The October 31, 2005 YTD amortization was \$436,239.

Contractual Obligations

The Corporation has long term leases with respect to its premises. The details of which are outlined in note 11 of the current periods financial statements. During this fiscal quarter the

Corporation signed long term capital leases for a total cost of \$2,708,141 with respect to various service equipment and vehicles. As of October 31, 2005, the leased contracts executed, for equipment delivered was \$1,008,281.

The following table summarizes the Corporation's contractual obligations:

Contractual obligations ⁽¹⁾	Payments due by period				
	Total ⁽²⁾	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
	\$	\$	\$	\$	\$
Conditional Sales Contracts ⁽³⁾	3,917,900	806,956	1,613,912	806,955	774,077
Vendor Financing	832,060	167,168	334,337	167,172	163,383
Operating leases	2,140,217	429,991	859,981	429,991	420,254
Purchase obligations ⁽⁴⁾	897,927	181,107	362,215	181,107	173,498
Leases Buildings etc.	776,132	195,228	528,199	52,705	-
Total contractual obligations	8,564,236	1,780,450	3,698,644	1,637,930	1,531,212

- (1) See note 7 to the financial statements for the period ended October 31, 2005 for details respecting the long term debt.
- (2) The total amounts for contractual obligations includes, where appropriate, the total principal and interest components of the payments and, as a result, will not reconcile with the current outstanding balances shown in the Corporation's financial statements.
- (3) Conditional sales contracts are all the equipment leases for service equipment. Vendor financing pertains to the vendor take back financing pursuant to the purchase of McClelland Oil Services Inc. and S Young Oilfield Ltd. Operating leases refer to the new equipment leases entered into in Q2. (See note 12 of financial statements) Purchase obligations refer to operating lease committed to but the equipment will be delivered in Q3. Leases Build etc refers to long term lease with respect to premises (see note 11 of financial statements).
- (4) Purchase obligations represent commitments under lease arrangements for equipment being acquired which has not yet been delivered to the Corporation.

Shareholders Equity

Shareholder's equity increased by \$740,779 to \$2,852,846 as at October 31, 2005 from \$2,112,067 as at April 30, 2005. The major components of this increase were the issuance of equity in the form of a Short Form offering which was closed September 2005.

Share Capital

Summary of securities as at the end of the reporting period

- a) Unlimited Common Shares without nominal or par value
- Unlimited Preferred shares without nominal or par value

Capital	Amount Authorized	Outstanding as at October 31, 2005	Outstanding as at April 30, 2005
Dalmac Common Shares	Unlimited	7,421,038	5,795,964 shares
Preferred Shares	Unlimited	Nil	Nil
Long Term Debt	N/A	\$3,773,471	\$3,408,868

The following table sets forth options granted to Executive Officers and directors of the Corporation and which are outstanding as of October 31, 2005.

Group (Number of Persons in Group)	Number of Dalmac Shares Under Option	Date of Grant	Expiry Date	Exercise Price per Dalmac Share	Market Value of Securities Underlying Option on Date of Grant (\$/Security)
Executive Officers including directors who are Executive Officers (one)	158,076	December 22, 2003	December 22, 2008	\$0.30	\$0.30
Directors who are not also Executive Officers (three)	97,706	December 22, 2003	December 22, 2008	\$0.30	\$0.30
Executive Officers including directors who are Executive Officers (one)	25,000	March 30, 2005	March 21, 2010	\$0.45	\$0.45
Directors who are not also Executive Officers (four)	125,000	March 30, 2005	March 21, 2010	\$0.45	\$0.45
TOTAL	405,782				

Note:

- (1) As the Corporation was not listed on an exchange on the date of grant, the initial CPC prospectus offering price of \$0.30 has been used to determine the market value on the date of grant.

At the quarter ended October 31, 2005, the Corporation had 7,421,038 million common shares issued and outstanding. The Corporation has issued 255,782 options to the Directors of the Corporation. These options are exercisable at \$0.30 and were granted December 22, 2003. The expiry date on these options is December 22, 2008. On March 21, 2005, the Corporation issued a further 150,000 options to the Directors of the Corporation, exercisable at \$0.45 and which expire March 21, 2010.

On the closing of the short form offering on September 27, 2005 the Corporation issued 1,429,571 units, consisting of one common share priced at \$0.70 and one half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase on additional common share at a price of \$0.85 per share if exercised by September 27, 2007. Wolverton Securities Ltd. received an option for 142,957 units on the same terms.

Related Party Transactions

During this reporting period Corporation leased premises from 1010417 Alberta Ltd., a company owned by John Babic, the President, a director and principal shareholder of the Corporation, for a total consideration of \$13,600 (see note 13 of October 31, 2005 financial statements). As of

October 31, 2005, the Corporation was indebted to two directors of the Corporation for an amount of \$429,857 (see note 7 of October 31, 2005 financial statements). The interest on these loans during the period was \$6,698. The aforementioned transactions are in the normal course of operations and have been valued in the October 31, 2005 financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Stock – based Compensation

The Corporation has adopted the Canadian Institute of Chartered Accountants (“CICA”) amended standard for stock-based compensation. The company has adopted the fair value standard, which requires that compensation expense be calculated and recorded in the income statement for options issued on or after January 1, 2004.

Critical Accounting Policies

The Corporation’s financial statements have been prepared in accordance with Canadian generally accepted accounting Principals (GAAP) and sometimes may include estimates that reflect management’s estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements for the period reported. Estimates are based upon historical experience and various other assumptions that reflect management’s best judgments. These estimates are evaluated periodically and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenue and expenses. Actual results may differ.

Recent Investment Activities

On November 25, 2005, Dalmac announced a best efforts brokered private placement with Northern Securities. The placement is for up to \$2,500,000 units at \$1.10 per unit. Each unit will consist of one common share and on half of one common share purchase warrant of the Company. Each common share purchase warrant entitles the holder to purchase one common share at \$1.40 and is valid for 24 months from closing. In addition, the Agent is granted an over allotment option to sell an additional \$500,000 in units within 30 days of closing.

Business Risks

Dalmac’s business varies directly with production, exploration and drilling, activity in northwestern Alberta and is subject to the risks and variables inherent in the oilfield services industry. The demand for Dalmac’s products and services is directly affected by factors such as oil and gas commodity prices, weather, changes in legislation, exchange rates, the general state of domestic and world economies, concerns regarding fuel surpluses or shortages, substitution through imports or alternative energy sources, changes to taxation or regulatory regimes and the broad sweep of international political risks such as war, civil unrest, nationalization and expropriation or confiscation, which are all beyond the control of the Company and cannot be predicted. The oil market is influenced by global supply and demand considerations and by the supply management practices of OPEC. The natural gas market is primarily influenced by North American supply and demand and by the price of competing fuels.

The Corporation focuses on production services rather than exploratory work, so the demand for its products and services is slightly insulated from the affects of changes in commodity prices. Production and field work provides a steady baseline demand for the company’s products and services. However, those competitors that are affected initially by reduced exploration activity will have idle equipment which they would hope to redeploy into production activities. This could increase competition and put pressure on margins for Dalmac’s core operations.

The risks associated with external competition are minimized by concentrating on activities in areas where the company has demonstrated technical and operational advantages and by employing highly qualified professional staff. Environmental and safety standards and regulations are continually becoming more stringent in the industry and Dalmac is committed to maintaining its high standards. The Corporation also mitigates business risks by establishing strategic alliances with qualified partners, developing new technologies and methodologies as well as investigating new business opportunities.

Outlook

High commodity prices continue to bode well for the oil and gas industry. Exploration and production from the Western Canadian Sedimentary Basin is also continuing at record levels. This, in turn, creates a healthy environment Dalmac's products and services in the foreseeable future. The Company's current ability to meet the demands for its products and services is being stretched to the limit. The Company is turning down work because of lack of equipment. The aforementioned underscores excellent growth opportunities for Dalmac.

The current quarter Q2 was adversely impacted by heavy rainfall in the months of August and September which restricted the operation of heavy equipment in the oil and gas fields. In spite of this, the Corporation's operating areas are experiencing activity levels that would normally be seen in the winter months. Given that the Corporation traditionally has two weak quarters followed by two very strong quarters, this augurs well for a very robust and active winter season.

Dalmac believes it has adequate working capital, cash flow from operations, and access to capital to fund ongoing business requirements. Management believes the Corporation has a cost structure that has sufficient variability to be able to adapt to the volatility of the industry. The Corporation has experienced management at all levels of operations.

Dalmac is currently reviewing expansion opportunities, which may involve the requirement for capital expenditures beyond the normal course for the Corporation. Dalmac may pursue any or all these opportunities that may present themselves. In doing so the Corporation may incur term debt, issue equity, or any combination of the foregoing.