Dalmac Energy Inc.

(unaudited)

Consolidated Financial Statements
January 31, 2017

(expressed in Canadian dollars)

Dalmac Energy Inc.

Condensed Consolidated Statement of Financial Position

(Unaudited)

(expressed in Canadian dollars)

	January 31 2017 $	April 30 2016 $
Assets		
Current assets		
Cash and cash equivalents	18,016	869,619
Accounts receivable	3,788,249	2,807,286
Inventories	553,749	538,788
Prepaid expenses and deposits	324,351	292,441
	4,684,365	4,508,134
Property and equipment (note 4)	16,389,250	17,697,762
Deferred tax asset	149,840	-
	21,223,455	22,205,896
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,593,386	2,438,827
Current portion of finance lease obligations (note 5)	641,008	738,090
Current portion of long-term debt (note 5)	405,492	7,829,965
	3,639,886	11,006,882
Finance lease obligations (note 5)	499,085	668,732
Long-term debt (note 5)	8,641,707	296,331
Deferred tax liabilities	-	355,300
	12,780,678	12,327,245
Shareholders' equity		
Share capital (note 6)	10,235,731	9,735,731
Shares to be issued	-	440,000
Contributed surplus	1,213,103	1,157,553
Retained earnings (Deficit)	(3,006,057)	(1,454,633)
	8,442,777	9,878,651
	21,223,455	22,205,896

Dalmac Energy Inc.

Condensed Consolidated Statements of Comprehensive Loss

(Unaudited)

(expressed in Canadian dollars)

	Three months ending January 31		Nine months ending January 31	
	2017	2016	2017	2016
	$	$	$	$
Revenue				
Service and products	4,326,187	6,095,742	12,175,185	17,146,643
Expenses				
Costs – service and products	3,050,001	4,655,232	8,999,768	13,111,537
Amortization of property and equipment	550,214	725,074	1,990,763	2,313,421
General and administrative	699,221	800,349	1,923,599	2,459,176
Finance charges	257,864	235,227	592,579	627,804
Other losses	220,571	105,382	725,040	189,556
	4,777,871	6,521,264	14,231,749	18,701,494
Loss before income taxes	(451,684)	(425,522)	(2,056,564)	(1,554,851)
Income taxes recovery	(113,773)	(128,792)	(505,140)	(422,291)
Net loss and comprehensive loss for the quarter	(337,911)	(296,730)	(1,551,424)	(1,132,560)
Loss per share basic and diluted (note 7)	(0.01)	(0.01)	(0.05)	(0.05)

Dalmac Energy Inc.

Condensed Consolidated Statement of Changes in Equity

(Unaudited)

(expressed in Canadian dollars)

	2017				
	Share capital $	**Contributed surplus $**	**Retained earnings $**	**Shares to be distributed $**	**Total $**
Balance – May 1, 2016	9,735,731	1,157,553	(1,454,633)	440,000	9,878,651
Proceeds from private placement (note 6)	500,000	-	-	(440,000)	60,000
Employee share-based payment options	-	55,550	-	-	55,550
Net loss and comprehensive loss for the year	-	-	(1,551,424)	-	(1,551,424)
Balance – January 31, 2017	10,235,731	1,213,103	(3,006,057)	-	8,442,777

	2016				
	Share capital $	**Contributed surplus $**	**Retained earnings $**	**Shares to be distributed $**	**Total $**
Balance – May 1, 2015	9,724,485	1,130,046	1,220,149	-	12,074,680
Exercise of stock options	7,650	-	-	-	7,650
Employee share-based payment options	-	36,164	-	-	36,164
Net loss and comprehensive loss for the year	-	-	(1,132,560)	-	(1,132,560)
Balance – January 31, 2016	9,732,135	1,166,210	87,589	-	10,985,934

Dalmac Energy Inc.

Condensed Consolidated Statement of Cash Flows

(Unaudited)

(expressed in Canadian dollars)

	For the nine month period ended January 31	
	2017	**2016**
	$	**$**
Cash provided by (used in)		
Operating activities		
Net loss for the period	(1,551,424)	(1,132,560)
Items not affecting cash		
Amortization of property and equipment	1,990,763	2,313,421
Loss on disposal of property and equipment	725,040	189,556
Finance charges	592,579	627,804
Deferred income tax recovery	(505,140)	(422,291)
Share-based payment	55,550	36,164
	1,307,368	1,612,094
Change in non-cash operating working capital		
Accounts receivable	(1,047,104)	(255,745)
Inventories	(14,961)	16,614
Prepaid expenses and deposits	(31,910)	(32,347)
Accounts payable and accrued liabilities	154,559	538,981
	367,952	1,879,597
Financing activities		
Proceeds from the issuance of shares	60,000	-
Proceeds from the issuance of equity	-	7,650
Proceeds from notes receivable	66,141	4,078
Issuance of notes receivable	-	(84,794)
Net proceeds from long-term debt	809,178	(461,157)
Repayment of obligations under finance lease	(623,841)	(857,985)
Interest paid	(523,678)	(477,773)
	(212,200)	(1,869,981)
Investing activities		
Purchase of short term investments	-	(376,632)
Purchase of property and equipment	(1,337,502)	(1,269,161)
Proceeds of disposal of property and equipment	330,147	250,646
	(1,007,355)	(1,395,147)
Decrease in cash and cash equivalents during the period	(851,603)	(1,385,531)
Cash and cash equivalents – Beginning of period	869,619	1,609,870
Cash and cash equivalents – End of period	18,016	224,339

1 Description of operations

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.V. The head office is situated at 4934-89 Street, Edmonton Alberta, T6E 5K1. The Company is involved in oilfield fluid hauling in 3 different regions of Alberta.

2 Basis of presentation

Statement of compliance

These Interim Financial Statements have been in accordance with International Financial Reporting Standards (IFRS), as published in the Chartered Professional Accountants of Canada Handbook issued and applicable by July 31, 2016. These Interim Financial Statements comply with IAS 34 Interim Financial Reporting and do not include all the information required for annual financial statements.

These consolidated financial statements were approved by the Board of Directors for issuance on March 24, 2017.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented has been rounded to the nearest dollar.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of measurement

The consolidated financial statements were prepared under the historical cost convention.

The accompanying Interim Financial Statements should be read in conjunction with Note 3 to Dalmac Energy Inc.'s audited annual consolidated financial statements for the year ended April 31, 2016, as the accounting policies applied by the Corporation in these Interim Financial Statements are the same as those disclosed therein.

4 Property and equipment

During the nine months ended January 31, 2017, the Company had additions to property and equipment with a value of $1,800,110 (January 31, 2016 - $1,269,161). During the nine months ended January 31, 2017, proceeds on sale of assets were $330,147 (January 31, 2016 - $250,646).

5 Loans and Borrowings

	Interest Rate	Maturity Date	Carrying Amount $
Balance at April 30, 2016			9,533,118
New issues			
Finance Leases	2.25% - 14.5%	March 2017 - December 2021	330,425
Long Term Debt	2.5% - 5.99%	June 2017 - September 2018	2,336,878
Repayments			
Finance Leases			(639,209)
Long Term Debt			(192,959)
Secured revolving credit facility			(1,180,961)
Balance at January 31, 2017			10,187,292

The Company's loan with its senior lender is a secured revolving credit facility, subject to certain financial covenants including fixed charge coverage and maximum senior leverage test covenants which are tested quarterly. In the current fiscal year, covenants are not required to be tested quarterly if the Company maintains a minimum availability on the secured revolving credit of 1.35M until April 30, 2017.

As at January 31, 2017, the Company is fully compliant with its bank covenants.

6 Share capital

During the first nine months of 2017, the Company completed an offering of up to 5,000,000 units at a price of $0.10 per unit for gross proceeds of up to $500,000 by way of private placement. Pursuant to the private placement, each unit shall entitle the holder thereof to acquire, at no additional cost, one common share of the Company and one share purchase warrant of the Company. Each warrant shall entitle the holder thereof to acquire one common share at a price of $0.15 per share for a period of eighteen months from the closing date of the private placement.

Shares issued and authorized are as follows:

	Number of shares	Amount $
Balance – May 1, 2015	23,247,406	9,724,485
Shares issued on exercise of options	50,000	11,246
Balance – April 30, 2016	23,297,406	9,735,731
Balance – May 1, 2016	23,297,406	9,735,731
Shares issued on unit offering	5,000,000	500,000
Shares issued on exercise of options	-	-
Balance – January 31, 2017	28,297,406	10,235,731

Stock options and warrants

On May 3, 2016, the Company granted 5,000,000 warrants under a unit offering with a fair value of $85,000. These options entitle the shareholder to acquire one common share at $0.15 per share for a period of eighteen months starting May 3, 2016. The fair value of the options was calculated using a risk-free interest rate of 0.55%, the expected life of the option was 1.5 years, the expected volatility was 72.1%, and the expected forfeiture rate estimated was nil%.

The following summarizes activity related to stock options:

	Number	Weighted average exercise price $
Balance – May 1, 2015	1,426,000	0.48
Forfeited	(50,000)	
Exercised	(51,000)	
Outstanding – April 30, 2016	1,325,000	0.48
Exercisable – April 30, 2016	1,191,667	0.49
Balance – May 1, 2016	1,325,000	0.48
Expired	(25,000)	
Forfeited	(600,000)	
Outstanding – January 31, 2017	700,000	0.47
Exercisable – January 31, 2017	700,000	0.47

The following summarizes stock options outstanding as at January 31, 2017:

Expiry Date	**Number outstanding**	**Exercise price $**
August 31, 2017	500,000	0.50
October 2, 2019	200,000	0.38
	700,000	

The following summarizes activity related to warrants:

	Number	Weighted average exercise price $
Balance – May 1, 2015	-	
Outstanding – April 30, 2016	-	-
Exercisable – April 30, 2016	-	-
Balance – May 1, 2016	-	-
Granted	5,000,000	0.15
Outstanding – January 31, 2017	5,000,000	0.15
Exercisable – January 31, 2017	5,000,000	0.15

The following summarizes warrants outstanding as at January 31, 2017:

Expiry Date	**Number outstanding**	**Exercise price $**
November 3, 2017	5,000,000	0.15
	5,000,000	

7 Earnings (loss) per share

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

	Three months ending January 31		Nine months ending January 31	
	2017 $	2016 $	2017 $	2016 $
Numerator for basic and diluted earnings (loss) per share				
Net income attributable to common shareholders	(337,911)	(296,730)	(1,551,424)	(1,132,560)
Denominator for basic and diluted earnings (loss) per share				
Weighted average number of common shares	28,298,406	23,298,406	28,298,406	23,298,406
Basic and diluted loss per share	(0.01)	(0.01)	(0.05)	(0.05)

The effects of the following stock options and warrants outstanding are not included in the diluted loss per share calculation as the impact would be anti-dilutive:

	January 31, 2017	April 30, 2016
Options and warrants issued and outstanding	5,700,000	1,325,000

8 Related party transactions

Joint venture transactions

In previous years, the Company entered into joint arrangements with related parties where the related party owns certain service equipment and the Company and the related party share in a 50-60% of revenue and 50-60% of expenses from joint operations. In the first nine months of 2017, the Company entered into four new joint venture arrangements with related parties.

For the nine month period ending January 31, 2017, the Company has recognized its share of revenue and expenses from the joint arrangements with related parties in the amount of $571,481 (January 31, 2016 - $267,304) and $547,174 (January 31, 2016 - $377,615) respectively.

Related party agreements

The Company has entered into transactions in the normal course of business with corporations controlled by officers and directors of the Company and corporations that have common ownership. These transactions were recorded at the exchange amount established and agreed to by the parties.

In the first nine months of 2017, four additional agreements were entered into as part of the Joint venture transactions noted above. For the nine months ending January 31, 2017, the following expenses were incurred:

	January 31, 2017	January 31, 2016
	$	$
Leased Premises	366,381	366,381
Rental/equipment operating lease	345,541	211,517
	711,922	577,898

9 Seasonality of Operations

The Company's revenue and profitability are generally lower in the first and second quarter which spans the spring and the summer months. Activity in the Western Canadian Oil and gas sector is strongly influenced by seasonal weather influences and the challenges of off highway access. The movement of heavy equipment used in exploration, drilling, completions and service work is predisposed toward the months when frozen ground conditions permit access. In the spring months, typically April to June, the industry slows significantly following peak winter activity for spring breakup during which road weight restrictions and wet conditions limit access for heavy equipment. As a result, the company's strongest quarters for activity are in the winter months followed by a sharp drop into Quarter 1 as roads thaw and a slow build in the late summer during Quarter 2 barring any wet fall conditions.

10 Comparative figures

Certain comparative figures have been reclassified from financial statements previously presented to conform to the presentation of the current year consolidated financial statements.