

# **Dalmac Energy Inc.**

Consolidated Financial Statements  
**April 30, 2017 and 2016**  
(expressed in Canadian dollars)



August 28, 2017

## **Independent Auditor's Report**

### **To the Shareholders of Dalmac Energy Inc.**

We have audited the accompanying consolidated financial statements of Dalmac Energy Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at April 30, 2017 and 2016 and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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*PricewaterhouseCoopers LLP  
TD Tower, 10088 102 Avenue NW, Suite 1501, Edmonton, Alberta, Canada T5J 3N5  
T: +1 780 441 6700, F: +1 780 441 6776*



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dalmac Energy Inc. and its subsidiaries as at April 30, 2017 and 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**(Signed) “PricewaterhouseCoopers LLP”**

**Chartered Professional Accountants**

# Dalmac Energy Inc.

## Consolidated Statements of Financial Position

As at April 30, 2017 and 2016

(expressed in Canadian dollars)

	2017 \$	2016 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	403,581	869,619
Accounts receivable (note 17)	5,597,816	2,807,286
Inventories (note 4)	575,462	538,788
Prepaid expenses and deposits (note 6)	323,274	292,441
	<u>6,900,133</u>	<u>4,508,134</u>
<b>Property and equipment</b> (note 7)	<u>16,270,544</u>	<u>17,697,762</u>
	<u>23,170,677</u>	<u>22,205,896</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (notes 8 and 17)	3,304,149	2,438,827
Current portion of finance lease obligations (note 9)	528,784	738,090
Current portion of long-term debt (note 10)	9,880,032	7,829,965
	<u>13,712,965</u>	<u>11,006,882</u>
<b>Finance lease obligations</b> (note 9)	423,349	668,732
<b>Long-term debt</b> (note 10)	797,485	296,331
<b>Deferred tax liabilities</b> (note 11)	-	355,300
	<u>14,933,799</u>	<u>12,327,245</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 13)	10,185,731	9,735,731
<b>Shares to be issued</b> (note 13)	-	440,000
<b>Contributed surplus</b>	1,281,620	1,157,553
<b>Deficit</b>	<u>(3,230,473)</u>	<u>(1,454,633)</u>
	<u>8,236,878</u>	<u>9,878,651</u>
	<u>23,170,677</u>	<u>22,205,896</u>
<b>Commitments</b> (note 16)		
<b>Approved by the Board of Directors</b>		

\_\_\_\_\_ Director \_\_\_\_\_ Director

The accompanying notes are an integral part of these consolidated financial statements.

# Dalmac Energy Inc.

## Consolidated Statements of Changes in Equity

For the years ended April 30, 2017 and 2016

(expressed in Canadian dollars)

	<b>2017</b>				
	<b>Share capital \$</b>	<b>Contributed surplus \$</b>	<b>Deficit \$</b>	<b>Shares to be issued \$</b>	<b>Total \$</b>
<b>Balance – Beginning of year</b>	9,735,731	1,157,553	(1,454,633)	440,000	9,878,651
Net loss and comprehensive loss for the year	-	-	(1,775,840)	-	(1,775,840)
Transactions with owners in their capacity as owners					
Employee share-based payment options	-	74,067	-	-	74,067
Proceeds from private placement (note 13)	450,000	50,000	-	(440,000)	60,000
	450,000	124,067	-	(440,000)	134,067
<b>Balance – End of year</b>	10,185,731	1,281,620	(3,230,473)	-	8,236,878
					<b>2016</b>
	<b>Share capital \$</b>	<b>Contributed surplus \$</b>	<b>Retained earnings (deficit) \$</b>	<b>Shares to be issued \$</b>	<b>Total \$</b>
<b>Balance – Beginning of year</b>	9,724,485	1,130,046	1,220,149	-	12,074,680
Net loss and comprehensive loss for the year	-	-	(2,674,782)	-	(2,674,782)
Transactions with owners in their capacity as owners					
Exercise of stock options	11,246	(3,596)	-	-	7,650
Employee share-based payment options	-	31,103	-	-	31,103
Proceeds from private placement (note 13)	-	-	-	440,000	440,000
	11,246	27,507	-	440,000	478,753
<b>Balance – End of year</b>	9,735,731	1,157,553	(1,454,633)	440,000	9,878,651

The accompanying notes are an integral part of these consolidated financial statements.

# Dalmac Energy Inc.

## Consolidated Statements of Operations and Comprehensive Loss

For the years ended April 30, 2017 and 2016

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(expressed in Canadian dollars)

	2017 \$	2016 \$
<b>Revenue</b>		
Service and products (note 19)	17,675,019	21,568,566
<b>Expenses</b> (note 20)		
Costs – service and products (note 4)	12,825,705	16,600,865
Amortization of property and equipment	2,757,606	2,989,467
General and administrative	2,511,058	3,450,936
Finance charges	942,965	693,946
Other losses (notes 7 and 17)	768,825	315,167
Impairment of property and equipment (note 7)	-	1,044,391
	<u>19,806,159</u>	<u>25,094,772</u>
<b>Loss before income taxes</b>	(2,131,140)	(3,526,206)
<b>Income tax recovery</b> (note 11)	<u>(355,300)</u>	<u>(851,424)</u>
<b>Net loss and comprehensive loss for the year</b>	<u>(1,775,840)</u>	<u>(2,674,782)</u>
<b>Loss per share</b> – basic and diluted (note 14)	(0.06)	(0.11)

The accompanying notes are an integral part of these consolidated financial statements.

# Dalmac Energy Inc.

## Consolidated Statements of Cash Flows

For the years ended April 30, 2017 and 2016

(expressed in Canadian dollars)

	2017 \$	2016 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the year	(1,775,840)	(2,674,782)
Items not affecting cash		
Amortization of property, plant and equipment	2,757,606	2,989,467
Loss on disposal of property, plant and equipment	768,825	315,167
Impairment of property, plant, and equipment	-	1,044,391
Finance charges	942,965	693,946
Deferred income tax recovery	(355,300)	(851,424)
Share-based payment	74,067	31,103
	<hr/>	<hr/>
Cash provided by operating activities before changes in working capital	2,412,323	1,547,868
Changes in non-cash operating working capital		
Accounts receivable	(2,790,530)	1,326,241
Inventories	(36,674)	65,050
Prepaid expenses and deposits	(30,833)	(27,666)
Accounts payable and accrued liabilities	786,326	331,792
	<hr/>	<hr/>
	340,612	3,243,285
<b>Investing activities</b>		
Purchase of property, plant and equipment	(1,917,907)	(1,520,779)
Proceeds of disposal of property, plant and equipment	237,722	108,502
	<hr/>	<hr/>
	(1,680,185)	(1,412,277)
<b>Financing activities</b>		
Proceeds from private placement (note 13)	60,000	440,000
Proceeds from (repayment of) long-term debt	2,551,221	(1,531,057)
Repayment of obligations under finance lease	(873,717)	(863,979)
Interest paid	(863,969)	(623,873)
Proceeds from issuance of shares	-	7,650
	<hr/>	<hr/>
	873,535	(2,571,259)
<b>Decrease in cash and cash equivalents during the year</b>	(466,038)	(740,251)
<b>Cash and cash equivalents – Beginning of year</b>	<hr/>	<hr/>
	869,619	1,609,870
<b>Cash and cash equivalents – End of year</b>	<hr/>	<hr/>
	403,581	869,619

The accompanying notes are an integral part of these consolidated financial statements.

# Dalmac Energy Inc.

## Notes to Consolidated Financial Statements

April 30, 2017 and 2016

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(expressed in Canadian dollars)

### 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 specializes in oilfield servicing, fluid hauling, chemical sales, tank rentals and rig moving.

These consolidated financial statements have been prepared using International Financial Reporting Standards that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

### 2 Basis of presentation

#### Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as published in the Chartered Professional Accountants of Canada Handbook issued and applicable as at April 30, 2017.

These consolidated financial statements were approved by the Board of Directors for issuance on August 28, 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 preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed further in this note.

# Dalmac Energy Inc.

## Notes to Consolidated Financial Statements

April 30, 2017 and 2016

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(expressed in Canadian dollars)

### Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Dalmac Oilfield Services Inc. and 1421771 Alberta Ltd. All intercompany balances and transactions are eliminated on consolidation. The Company has applied uniform accounting policies throughout all consolidated entities and the reporting dates of subsidiaries are consistent with the parent.

Subsidiaries are those entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over that entity. Subsidiaries are fully consolidated from the date control is obtained by the Company and are deconsolidated from the date control ceases.

### Financial instruments

Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred. Financial liabilities are derecognized when they are extinguished, discharged, cancelled, or expire.

All financial instruments are initially measured at fair value. Financial assets and financial liabilities are measured subsequently as described below.

### Financial assets

The Company's financial assets are comprised of cash and cash equivalents and accounts receivable. Cash and cash equivalents and accounts receivable have been classified as loans and receivables. Loans and receivables are subsequently measured at amortized cost using the effective interest method.

Financial assets measured at amortized cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Accounts receivable are also assessed for impairment on a collective basis. This is determined by reference to industry and past experience, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the accounts receivable and notes receivable is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in income (loss).

# **Dalmac Energy Inc.**

## **Notes to Consolidated Financial Statements**

**April 30, 2017 and 2016**

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(expressed in Canadian dollars)

### **Financial liabilities**

The Company's financial liabilities include accounts payable and accrued liabilities and long-term debt and have been classified as other financial liabilities. Financial liabilities are measured subsequently at amortized cost using the effective interest method.

### **Joint arrangements**

The Company applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and determined them to be joint operations.

The Company accounts for its rights and obligations in a joint operation by recognizing:

- a) its assets, including its share of any assets held jointly;
- b) its liabilities, including its share of any liabilities incurred jointly;
- c) its revenue from the sale of its share of the output arising from the joint operation;
- d) its share of the revenue from the sale of the output by the joint operation; and
- e) its expenses, including its share of any expenses incurred jointly.

### **Cash and cash equivalents**

Cash and cash equivalents consist of cash and balances with banks net of outstanding cheques and short-term highly liquid investments with original maturities of three months or less.

### **Inventory**

Inventory consists of maintenance supplies and consumables, and chemicals. Raw materials and consumables are comprised of spare parts, tires, materials and supplies. Chemicals comprise diesel fuel and various chemicals used to carry out operations to the oil and natural gas industries in Alberta. Inventory is stated at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Cost includes the direct purchase price of the goods and transportation costs from vendors. Net realizable value for raw materials and consumables is the current replacement cost and for chemicals, net realizable value is the estimated selling price less applicable selling expenses. If carrying value exceeds net realizable value, a writedown is recognized. The writedown may be reversed in a subsequent period if the circumstances which caused it no longer exist.

# Dalmac Energy Inc.

## Notes to Consolidated Financial Statements

April 30, 2017 and 2016

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(expressed in Canadian dollars)

### Property and equipment

Property and equipment are recorded at historical cost less accumulated amortization and accumulated impairment loss, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. When significant parts of property and equipment are required to be replaced and it is probable that future economic benefits associated with the item will be available to the Company, the expenditure is capitalized and the carrying amount of the item replaced is derecognized. Similarly, maintenance and inspection costs associated with major overhauls are capitalized and depreciated over their useful lives when it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognized. All other costs are expensed.

Property and equipment are amortized using the methods and rates designed to amortize the cost of the property and equipment over their estimated economic useful lives, net of residual value.

The annual amortization rates and methods are as follows:

Buildings	4% declining balance method with no residual value
Service vehicles and equipment	8 – 12 years straight-line method with 20% residual value
Improvements to service vehicles and equipment	4 years straight-line method with no residual value
Motor vehicles	8 years straight-line method with no residual value
Shop equipment	5 – 10 years straight-line method with no residual value
Leasehold improvements	term of lease straight-line method with no residual value
Computer and office equipment	3 – 4 years straight-line method with no residual value
Rental equipment	12 years straight-line method with 20% residual value

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

Gains and losses on the disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within expenses in profit or loss.

Amortization of an asset commences when it is available-for-use. Amortization of an asset ceases at the earlier of the date that the asset is classified as held-for-sale or the date the asset is derecognized. Amortization does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. Assets under construction are not amortized until they are available-for-use.

The residual value and useful lives of the assets are reviewed at least annually and adjusted if appropriate.

### Impairment of long-lived assets

Long-lived assets are comprised of property and equipment.

# **Dalmac Energy Inc.**

## **Notes to Consolidated Financial Statements**

**April 30, 2017 and 2016**

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(expressed in Canadian dollars)

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

### **Lease obligations**

Finance leases, which transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the income statement.

Leased assets are amortized over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is amortized over the shorter of the estimated useful life of the asset and the lease term.

All other leases are classified as operating leases whereby payments are recognized as an expense on a straight-line basis over the lease term.

### **Income taxes**

Tax expense comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

# Dalmac Energy Inc.

## Notes to Consolidated Financial Statements

April 30, 2017 and 2016

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(expressed in Canadian dollars)

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

### **Share-based compensation**

The Company has established a stock option plan for the executives and Board of Directors, and employees as described in note 13. The Company uses the fair value method of accounting for stock options. The fair value of the option grants is calculated on the grant date for employees using the Black-Scholes option pricing model and recognized as compensation expense over the vesting period of those granted options, adjusted for estimated forfeitures. The corresponding adjustment is recorded to contributed surplus. The fair value of the option grants to non-employees is calculated based on the value of the services provided in exchange for the option issue. When the options are exercised the proceeds received by the Company, together with the related amount in contributed surplus, are added to share capital. Forfeited or expired options are put back into the pool of available stock options for future grants. No adjustment is recorded for stock options that expire unexercised. Compensation expense related to forfeited options is not recorded after the forfeiture date.

### **Share purchase warrants**

Share purchase warrants issued to investors not in exchange for goods or services are classified as equity when a fixed amount of cash (or liability), denominated in the Company's functional currency, is exchanged for a fixed number of shares. Consideration received on the issue of shares and share purchase warrants is allocated using the residual method.

### **Revenue recognition**

The Company's services are provided based on orders and contracts with customers that include fixed or determinable prices and are based on daily, hourly or contracted rates. Contract terms do not include the provision for post-service obligations. Revenue is recognized for services on completion provided it is probable the economic benefits will flow to the Company, the sales price is fixed or determinable, and collectibility is reasonably assured. These criteria are generally met at the time the services are performed and have been accepted by the customer.

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

### **Earnings (loss) per share**

Basic earnings (loss) per share is calculated by dividing the net income (loss) applicable to common shareholders by the weighted average number of common shares outstanding during the year.

# Dalmac Energy Inc.

## Notes to Consolidated Financial Statements

April 30, 2017 and 2016

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(expressed in Canadian dollars)

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

### **Provisions and contingent liabilities**

Provisions are recognized when present obligations as a result of a past event will most likely lead to an outflow of economic resources from the Company that can be estimated reliably. The timing or amount of the liability may still be uncertain. Provisions are measured at the estimated amount required to settle the present obligation, taking into consideration the most reliable evidence available at the reporting date. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

When a business combination is undertaken, the Company initially measures any of the acquired company's contingent liabilities at the acquisition date fair value. The contingent liabilities are subsequently measured at the higher of the amount that would be recognized above and the amount initially recorded.

### **Critical accounting judgments and estimates**

Estimates and judgments are continually enhanced and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes judgments and estimates concerning the future. The resulting accounting estimate will by definition seldom equal the related actual results. The judgments and estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

### **Critical accounting judgments**

- Leases

Management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards of ownership. Management evaluates the lease terms and determines appropriate classification of a finance lease.

### **Critical accounting estimates**

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

# Dalmac Energy Inc.

## Notes to Consolidated Financial Statements

April 30, 2017 and 2016

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(expressed in Canadian dollars)

- Impairment of long-lived assets

An impairment loss is recognized when the amount of an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost of disposal and the value in use. Management estimates expected future cash flows from each asset or cash-generating unit when determining the value in use. Management makes assumptions about future operating results in the process of measuring expected future cash flows, which are based on future events and circumstances. Actual results may vary from those estimates and may cause significant adjustments to the Company's assets in following years.

- Inventories

Inventories are measured at the lower of cost and net realizable value. Management uses the most reliable evidence available at the time in determining the net realizable values of the inventories. Allowances against slow moving, obsolete, and damaged inventories are recorded in each reporting period as required based on management estimates.

- Share-based compensation

The Company uses the Black-Scholes option pricing model for valuing its stock options to employees and directors at the date of issue. Further information regarding this estimate is described in note 13.

### **New standards, amendments and interpretations not yet adopted**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after April 30, 2017, and have not been applied in preparing these consolidated financial statements. The Company is in the process of assessing the impact of these standards.

### **IFRS 9, Financial Instruments**

IFRS 9 replaces the multiple classification and measurement models in IAS 39, Financial Instruments: Recognition and Measurement with a single model that has initially only two classification categories: amortized cost and fair value.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognized at fair value.

# Dalmac Energy Inc.

## Notes to Consolidated Financial Statements

April 30, 2017 and 2016

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(expressed in Canadian dollars)

All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).

For financial liabilities that are measured under the fair value option, entities will need to recognize the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss.

In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. With these amendments, IFRS 9 is now complete. The changes introduce:

- a third measurement category (FVOCI) for certain financial assets that are debt instruments; and
- a new expected credit loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12-month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

The standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the impact that the new standard may have on the consolidated financial statements.

### **IFRS 15, Revenue from Contracts with Customers**

In May 2014, the IASB issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer.

Entities will have a choice of full retrospective application, or a modified retrospective approach for the adoption.

The new standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the impact that the new standard may have on the consolidated financial statements.

### **IFRS 16, Leases**

IFRS 16 was issued in January 2016. It will result in the recognition of almost all leases on the balance sheet, as the distinction between operating and financing leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting by lessors will not significantly change.

# Dalmac Energy Inc.

## Notes to Consolidated Financial Statements

April 30, 2017 and 2016

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(expressed in Canadian dollars)

The new standard is effective for annual periods beginning on or after January 1, 2019. The Company is in the process of evaluating the impact that the new standard may have on the consolidated financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

### 4 Inventories

	2017 \$	2016 \$
Maintenance supplies	402,210	423,132
Chemicals	173,252	115,656
	<u>575,462</u>	<u>538,788</u>

The cost of inventory expensed in costs – service and products for the year was \$1,737,584 (2016 – \$2,260,246). Inventory has been pledged as collateral against the secured revolving credit facility.

### 5 Joint arrangements

As at April 30, 2017, the Company had joint arrangements with the following entities where each investor has 50% ownership of certain service equipment and shares 50% of revenue and expenses from the joint operation:

- Jimco Holdings Inc.
- Mittsfit Trucking Ltd.
- 1538401 Alberta Inc.
- 1950381 Alberta Ltd.
- 1719412 Alberta Ltd. (ended February 2016)
- 1760909 Alberta Ltd. (ended February 2016)

The principal place of business of the joint operations referred to above is the Province of Alberta.

Net book value of the Company's share of the equipment held under the above joint arrangements amounts to \$630,525 as at April 30, 2017 (2016 – \$733,678) and is included in service vehicles and equipment under property and equipment in note 7.

During the year, the Company has recognized its share of revenue and expenses from the above joint arrangements in the amount of \$574,647 (2016 – \$880,354) and \$338,387 (2016 – \$473,401), respectively.

In addition, the Company has entered into joint arrangements with the following related parties:

- 1414956 Alberta Ltd. (Company owned by a Director)
- PCS Ltd. (Company owned by the President)
- 1991769 Alberta Ltd. (Company owned by a member of the key management of the Company)
- 1995990 Alberta Ltd. (Company owned by an employee related to the President of the Company)

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The above-related parties own certain service equipment which is rented by the Company. The Company shares 50% of revenues and expenses from the joint operations of the service equipment. During the year, the Company has recognized its share of revenue and expenses from the above joint arrangements with related parties in the amount of \$876,042 (2016 – \$373,350) and \$754,965 (2016 – \$524,317), respectively. Total expenses include equipment rent paid to related parties amounting to \$515,541 (2016 – \$415,044).

### 6 Prepaid expenses and deposits

	2017 \$	2016 \$
Deposits	176,635	177,866
Insurance	4,967	5,102
Other prepaid expenses	141,672	109,473
	323,274	292,441

Deposits relate to funds deposited for the purpose of entering into equipment and premises lease agreements. Other prepaid expenses include registration and rent for various properties paid in advance.

### 7 Property and equipment

	Land \$	Service vehicles and equipment \$	Motor vehicles \$	Shop equipment \$	Leasehold improve- ments \$	Computer and office equipment \$	Rental equipment \$	Work-in- process \$	Total \$
Cost									
At May 1, 2016	32,657	33,613,761	711,275	1,192,724	853,719	694,674	3,512,398	316,670	40,927,878
Additions	-	2,042,459	90,770	93,264	51,691	16,260	42,491	-	2,336,935
Disposals	-	(1,754,747)	-	-	-	-	(1,311,981)	(316,670)	(3,383,398)
Equipment trade	-	460,000	-	-	-	-	(460,000)	-	-
At April 30, 2017	32,657	34,361,473	802,045	1,285,988	905,410	710,934	1,782,908	-	39,881,415
Accumulated amortization and impairment									
At May 1, 2016	-	18,662,640	367,804	862,877	693,075	665,341	1,661,709	316,670	23,230,116
Amortization	-	2,272,209	90,278	102,947	126,763	45,336	120,073	-	2,757,606
Disposals	-	(953,445)	-	-	-	-	(1,106,736)	(316,670)	(2,376,851)
Equipment trade	-	35,047	-	-	-	-	(35,047)	-	-
At April 30, 2017	-	20,016,451	458,082	965,824	819,838	710,677	639,999	-	23,610,871
Net carrying amount									
At April 30, 2017	32,657	14,345,022	343,963	320,164	85,572	257	1,142,909	-	16,270,544

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

- service vehicles with a net book value of \$2,105,269 (2016 – \$2,285,031);
- computer and office equipment with a net book value of \$nil (2016 – \$15,272).

During the year, the Company disposed of certain assets with a net book value of \$1,006,547 (2016 – \$613,839) and recorded a loss on disposal of \$768,825 (2016 – \$315,167) in the consolidated statement of operations and comprehensive loss (note 17).

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In conjunction with the impairment test described in the summary of significant accounting policies, the Company also reviews its fleet of service vehicles and equipment and identifies certain assets that are currently not part of the Company's revenue-generating activities. As a result, these assets were reviewed for impairment on an individual basis and it was determined through external appraisals, obsolescence and economic benefits derived from such assets that the recorded net book value exceeded the recoverable value (higher of fair value less costs of disposal and value in use). Accordingly, the Company recognized an impairment charge of \$nil (2016 – \$1,044,391) against specific service vehicles and equipment. The impairment charge was included in the consolidated statement of operations and comprehensive loss.

	Land \$	Service vehicles and equipment \$	Motor vehicles \$	Shop equipment \$	Leasehold improve- ments \$	Computer and office equipment \$	Rental equipment \$	Work-in- process \$	Total \$
<b>Cost</b>									
At May 1, 2015	32,657	33,439,793	739,562	1,156,192	788,329	736,922	3,483,058	203,874	40,580,387
Additions	-	1,291,859	4,500	36,532	65,390	4,821	29,340	112,796	1,545,238
Disposals	-	(1,117,891)	(32,787)	-	-	(47,069)	-	-	(1,197,747)
At April 30, 2016	32,657	33,613,761	711,275	1,192,724	853,719	694,674	3,512,398	316,670	40,927,878
<b>Accumulated depreciation</b>									
At May 1, 2015	-	16,142,820	305,755	783,487	558,727	587,717	1,401,660	-	19,780,166
Amortization	-	2,348,341	89,715	79,390	134,348	77,624	260,049	-	2,989,467
Disposals	-	(556,242)	(27,666)	-	-	-	-	-	(583,908)
Impairment loss	-	727,721	-	-	-	-	-	316,670	1,044,391
At April 30, 2016	-	18,662,640	367,804	862,877	693,075	665,341	1,661,709	316,670	23,230,116
Net carrying amount At April 30, 2016	32,657	14,951,121	343,471	328,847	160,644	29,333	1,850,689	-	17,697,762

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

- service vehicles and equipment with a net book value of \$2,285,031 (2015 – \$2,972,970);
- shop equipment with a net book value of \$nil (2015 – \$1,122); and
- computer and office equipment with a net book value of \$15,272 (2015 – \$45,087).

**Impairment of long-lived assets**

The Company reviews the carrying value of its non-financial assets at each reporting period for indicators of impairment. During the year, the Company assessed for indicators of impairment which included:

- decrease in market demand;
- significant deterioration in the economic environment; and
- significant portion of assets becoming idle or under-utilized.

Management performed a comprehensive assessment of the carrying values of non-financial assets at year-end. The recoverable amount of non-financial assets was determined on the basis of fair value less cost of disposal. These calculations use an earnings multiple approach. In estimating earnings, the Company uses

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historical information, the past twelve months of actual data and the Board approved forecast to determine earnings before interest, taxes, depreciation and amortization (EBITDA) normalized for unusual and non-recurring items. To determine the recoverable amount, the earnings multiple was applied to EBITDA. The earnings multiple was estimated by reviewing information of comparable public companies. The earnings multiple applied by management was 4.86. For budgeted EBITDA, assumptions were made based on the likelihood that revenue would be earned based on estimated future economic assumptions.

Management performed sensitivity analysis on key assumptions. A decrease in normalized EBITDA of 20% would cause an impairment of \$600,000 and a decrease in earnings multiple of 1 would cause an impairment of \$700,000.

Management determined that there was one cash-generating unit for the purposes of the impairment test. On completion of the impairment assessment, it was determined that no impairment was to be recognized on the Company's non-financial assets.

### 8 Accounts payable and accrued liabilities

	2017 \$	2016 \$
Accounts payable	2,435,644	1,621,109
Accrued liabilities	540,384	708,854
GST payable	30,947	18,629
Other payables	297,174	90,235
	<u>3,304,149</u>	<u>2,438,827</u>

### 9 Finance lease obligations

	2017 \$	2016 \$
Computer equipment lease repaid during the year	-	5,049
Service vehicle lease, with monthly payments of \$12,997, including interest at 5.12%, expiring March 2018, secured by specific equipment with a net book value of \$230,210 (2016 – \$252,379)	63,535	136,229
Service vehicle lease, with monthly payments of \$2,850 including interest at 5.12%, expiring March 2018, secured by specific equipment with a net book value of \$109,369 (2016 – \$127,797)	27,939	59,818
Service vehicle lease, with monthly payments of \$7,242 including interest at 5.12%, expiring March 2018, secured by specific equipment with a net book value of \$343,409 (2016 – \$369,092)	70,852	151,872
Service vehicle lease, with monthly payments of \$10,870 including interest at 5.48%, expiring February 2018, secured by specific equipment with a net book value of \$189,008 (2016 – \$222,352)	106,012	227,009
Computer equipment lease, with payments of \$928 per month at an interest rate of 6.85%, maturing in November 2018, secured by equipment with a net book value of \$nil (2016 – \$nil)	17,504	27,090
Computer equipment lease, with payments of \$1,151 per month at an interest rate of 9.74%, maturing in January 2019, secured by equipment with a net book value of \$6,109 (2016 – \$15,272)	23,119	34,101

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	2017 \$	2016 \$
Service vehicle lease, with monthly payments of \$8,000 per month at an interest rate of 14.5%, expiring July 2017, secured by specific equipment with a net book value of \$251,750 (2016 – \$280,333)	23,431	109,151
Service vehicle lease, repaid during the year	-	70,901
Service equipment leases, with monthly payments of \$13,200 including interest at 7.0%, expiring May 2017, secured by specific equipment with a net book value of \$331,996 (2016 – \$367,665)	13,123	164,792
Service equipment leases, with monthly payments of \$6,858 including interest at 8.0%, expiring May 2020, secured by specific equipment with a net book value of \$316,667 (2016 – \$337,308)	221,574	283,414
Service equipment leases, with monthly payments of \$4,812 including interest at 5.99%, expiring November 2018, secured by specific equipment with a net book value of \$156,294 (2016 – \$179,569)	86,268	137,396
Service equipment lease, with monthly payment of \$759 including interest at 7.5%, expiring May 2019, secured by specific equipment with a net book value of \$38,698 (2016 – \$nil)	17,559	-
Service equipment leases, with monthly payments of \$4,548 including interest at 7.23%, expiring December 2021, secured by specific equipment with a net book value of \$248,559 (2016 – \$nil)	218,887	-
Service equipment lease, with monthly payments of \$1,386 including interest at 6.58%, expiring November 2017, secured by specific equipment with a net book value of \$44,194 (2016 – \$nil)	24,097	-
Service vehicle lease, with monthly payments of \$875 including interest at 8.01%, expiring October 2020, secured by specific equipment with a net book value of \$44,839 (2016 – \$nil)	38,233	-
	952,133	1,406,822
Less: Amounts due within one year	528,784	738,090
	423,349	668,732

### Minimum lease payments due

	Within one year \$	One to five years \$	Total \$
Lease payments	575,986	467,459	1,043,445
Finance charges	(47,202)	(44,110)	(91,312)
Net present value	528,784	423,349	952,133

Interest expense for the year on finance lease obligations amounted to \$106,221 (2016 – \$132,265).

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### 10 Long-term debt

	2017 \$	2016 \$
Vehicle sales contracts, with interest rates of 5.99% per annum repayable in monthly blended payments of \$2,695, maturing July 2019, secured by specific service vehicles with a carrying value of \$94,320 (2016 – \$199,317)	67,738	79,434
Non-revolving term loans which bear interest at lender prime plus 2.5% – 7.7% per annum, with terms ranging from 60 months to 68 months, monthly payments excluding interest ranging from \$750 to \$9,025, maturing from August 2017 to November 2021, secured by a first charge on specific equipment with a carrying value of \$591,691 (2016 – \$497,658)	481,799	419,822
Non-revolving term loan with an interest rate of 7.95% per annum, repayable in monthly blended payments of \$20,595 maturing April 2020, secured by a first charge on specific equipment with a carrying value of \$1,441,868 (2016 – \$nil)	656,919	-
Subordinated unsecured loan which bears an interest rate of 14% per annum with monthly payments of interest only. No principal payments are required until the maturity date of August 2021. Early repayment up to \$300,000 annually can be repaid throughout the term of the agreement. The facility is secured by a general security agreement with a general and continuing security interest on all the Company's present and future personal property and guarantees by the Company as well as a personal guarantee by the President of the Company. The security is subordinated in rank in favour of the senior lender	1,500,000	-
Secured revolving credit facility for up to \$17,000,000, subject to certain borrowing base restrictions, with an accordion feature which the Company may request for an additional \$3,000,000. This facility has an interest rate of lender prime plus 1.25%, and there are no principal payments required until the maturity date, which is September 10, 2018. The facility is secured by a general security agreement with a first charge on all the Company's assets	7,971,061	7,627,040
	<u>10,677,517</u>	<u>8,126,296</u>
Less: Amounts due within one year and demand obligations	9,880,032	7,829,965
	<u>797,485</u>	<u>296,331</u>

Approximate principal repayments due on demand and within each of the next five years are as follows:

	\$
2018	9,880,032
2019	403,997
2020	298,863
2021	56,621
2022	38,004
	<u>10,677,517</u>

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The aforementioned secured revolving credit facility is subject to certain financial covenants including fixed charge coverage and maximum senior leverage covenants. As at April 30, 2017, the Company failed to satisfy its obligations of the credit facility agreement in respect of the fixed charge coverage ratio for the fiscal quarter ended April 30, 2017 and the senior leverage ratio for the fiscal quarter ended April 30, 2017 and as a result, an event of default occurred. On the occurrence of default, all obligations under the agreement were immediately due and payable to the lender. Consequently, the secured revolving credit facility and the subordinated unsecured loan, which has a cross default clause, were classified as current liabilities as at April 30, 2017. Subsequent to year-end, management has executed a commitment letter with another lender to refinance its existing credit facility.

Interest expense for the year on long-term debt amounted to \$688,424 (2016 – \$561,918).

### 11 Income taxes

#### Tax assets (liabilities)

	2017 \$	2016 \$
Deferred	-	(355,300)

#### Non-capital losses

As at April 30, 2017, the Company has non-capital losses available for carry-forward of \$9,515,912 (2016 – \$8,110,212). The expiry of these non-capital losses is as follows:

	\$
2030	2,792,229
2031	262,940
2032	169,412
2033	163,519
2034	1,357,166
2035	875,104
2036	2,477,296
2037	1,418,246
	<u>9,515,912</u>

The Company did not recognize a deferred tax asset of \$112,603 (2016 – \$nil) in respect of non-capital losses.

# Dalmac Energy Inc.

## Notes to Consolidated Financial Statements

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### Temporary differences

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

	2017 \$	2016 \$
Income tax effect of taxable (deductible) temporary differences		
Net book value in excess of undepreciated capital cost for tax purposes	2,717,550	3,127,774
Non-capital losses carried forward	(2,457,231)	(2,300,944)
Financing costs deductible for tax purposes	-	5,003
Cumulative eligible capital	(3,243)	(96,691)
Finance lease obligations	(257,076)	(379,842)
	<u>-</u>	<u>355,300</u>

### Income tax reconciliation

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 27% (2016 – 26.67%) to the net income (loss) before income taxes for the year and is reconciled as follows:

	2017 \$	2016 \$
Expected income tax recovery	(575,408)	(940,439)
(Increase) decrease resulting from		
Non-deductible expenses	26,224	100,148
Adjustment in respect of prior years	112,432	5,304
Benefit for which no deferred tax asset has been recognized	81,452	-
Change in future tax rate	-	(16,437)
	<u>(355,300)</u>	<u>(851,424)</u>

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### 12 Capital management

The Company's strategy is to: (a) maintain a level of capital for operations and to sustain future growth of the business; and (b) meet the debt covenants imposed by its lenders. The Company strives to maintain a healthy balance between debt and equity to ensure the continued access to capital to fund growth and ensure long-term viability. The Company defines capital as long-term debt, long-term capital lease obligations and shareholders' equity. The Company monitors its capital balance through regular evaluations of its long-term debt to equity ratio. The components of capital used in the long-term debt to equity ratio as at April 30, 2017 are shown in the table below:

	2017 \$	2016 \$
Long-term debt	797,485	296,331
Finance lease obligations – long-term	423,349	668,732
Total long-term debt	1,220,834	965,063
Shareholders' equity	8,236,878	9,878,651
Total capital	9,457,712	10,843,714
Long-term debt to equity ratio	0.15	0.10

The Company is subject to externally imposed capital requirements in the form of fixed charge coverage and maximum senior leverage test ratios. The Company reviews these ratios on a monthly basis to assess the ongoing status of its financial condition. These covenants are required to be tested quarterly. As at April 30, 2017, the Company was not compliant with both these bank covenants. Further details on these bank covenants are included in note 18 under liquidity risk.

### 13 Share capital

Authorized

Unlimited common shares, voting

Unlimited preferred shares, non-voting, issuable in series

Common shares issued

	Number of shares	Amount \$
Balance – May 1, 2015	23,247,406	9,724,485
Shares issued on exercise of options	51,000	11,246
Balance – April 30, 2016	23,298,406	9,735,731
Balance – May 1, 2016	23,298,406	9,735,731
Shares issued on unit offering	5,000,000	450,000
Balance – April 30, 2017	28,298,406	10,185,731

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On March 31, 2016, the Company announced 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 entitled 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 entitled 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. The Company announced the closing of the private placement on May 3, 2016 under which 5,000,000 units were issued for gross proceeds of \$500,000. The Company received \$440,000 of the proceeds prior to April 30, 2016 for shares to be issued under the private placement.

### Stock options

The Company has a stock option plan under which directors, officers and employees of the Company and its affiliates are eligible to receive stock options. The maximum number of shares issuable pursuant to the exercise of outstanding options granted under the plan shall be 10% of the issued shares of the Company at the time of granting the options. The maximum number of common shares optioned to any one optionee shall not exceed 5% of outstanding common shares of the Company and options granted under the plan may not exceed five years. The exercise price of each option shall be determined by the directors at the time of grant but shall not be less than the price permitted by the policy or policies of the stock exchanges on which the Company's common shares are then listed.

The total cost of options vested in the current period resulted in stock-based compensation expense and an addition to contributed surplus of \$74,067 (2016 – \$31,103).

The following summarizes activity related to stock options:

	Number	Weighted average exercise price \$
Balance – May 1, 2015	1,426,000	0.47
Forfeited	(50,000)	-
Exercised	(51,000)	-
	<hr/>	
Outstanding – April 30, 2016	1,325,000	0.48
	<hr/>	
Exercisable – April 30, 2016	1,191,667	0.49
	<hr/>	
Balance – May 1, 2016	1,325,000	0.48
Expired	(625,000)	-
	<hr/>	
Outstanding – April 30, 2017	700,000	0.47
	<hr/>	
Exercisable – April 30, 2017	700,000	0.47
	<hr/>	

# Dalmac Energy Inc.

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The following summarizes stock options outstanding as at April 30, 2017:

<b>Expiry date</b>	<b>Number outstanding</b>	<b>Exercise price \$</b>
August 31, 2017	500,000	0.50
October 2, 2019	<u>200,000</u>	0.38
	<u>700,000</u>	

The weighted average exercise price of share options expired during the year was \$0.47 (2016 – \$0.50) per share option and the weighted average share price of options exercised during the year was \$nil (2016 – \$0.15) per share option.

### Share purchase warrants

Share purchase warrants were issued as part of the private placement that closed on May 3, 2016. The share purchase warrants were classified as equity and were included in contributed surplus.

The following summarizes activity related to share purchase warrants:

	<b>Number</b>	<b>Exercise price \$</b>
Balance – May 1, 2016	-	-
Issued	<u>5,000,000</u>	0.15
Outstanding	<u>5,000,000</u>	0.15

The following summarizes share purchase warrants outstanding as at April 30, 2017:

<b>Expiry date</b>	<b>Number outstanding</b>	<b>Exercise price \$</b>
November 3, 2017	<u>5,000,000</u>	0.15

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### 14 Earnings (loss) per share

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

	2017 \$	2016 \$
Numerator for basic and diluted earnings (loss) per share		
Net income attributable to common shareholders	(1,775,840)	(2,674,782)
Denominator for basic and diluted earnings (loss) per share		
Weighted average number of common shares	28,206,310	23,282,660
Basic loss per share	(0.06)	(0.11)
Diluted loss per share	(0.06)	(0.11)

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:

	2017	2016
Options issued and outstanding	700,000	1,325,000

### 15 Supplemental cash flow information

#### Non-cash financing and investing activities

Acquisition of property and equipment with finance leases of \$419,028 (2016 – \$24,459).

### 16 Commitments

The Company pays consulting fees to the CEO who is a director and officer of the Company, of \$11,823 (2016 – \$11,823) per month pursuant to a contract agreement expiring on November 14, 2019. In addition, when the Company's net income before tax reaches \$500,000, the contract agreement requires a bonus payment of 5% on the first \$500,000 of the Company's earnings before tax, 6% on amounts between \$500,001 and \$800,000, 7% on amounts between \$800,001 and \$1,000,000 and 7.5% on amounts over \$1,000,000.

The Company leases equipment and premises under long-term operating leases. The leases for premises are exclusive of operating costs. The lease terms are between one and four years.

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Future minimum annual payments are as follows:

	Minimum payments due		
	Within one year \$	One to five years \$	Total \$
Equipment leases	657,457	622,385	1,279,842
Premises leases	844,056	909,909	1,753,965
Management contracts	141,871	212,807	354,678
	<u>1,643,384</u>	<u>1,745,101</u>	<u>3,388,485</u>

### 17 Related party transactions

The related party transactions are conducted on the terms and conditions agreed to by the related parties.

#### Compensation of key management personnel

The remuneration of directors and other key members of management personnel during the year includes the following expenses:

	2017 \$	2016 \$
Salaries	347,553	378,704
Directors' fees	64,000	67,250
Benefits	14,000	21,350
Share-based payments	74,067	31,103
	<u>499,620</u>	<u>498,407</u>

The remuneration of directors and key executives is determined by the Executive Compensation Committee, taking into account the performance of individuals and market trends.

#### Transactions with related parties

The Company has entered into transactions in the normal course of business with corporations controlled by officers and directors of the Company. These transactions were recorded at the exchange amount established and agreed to by the parties. During the year ended April 30, 2017, the following expenses were incurred:

	2017 \$	2016 \$
Leased premises	407,099	488,508
Rental/equipment operating leases	515,541	415,044
	<u>922,640</u>	<u>903,552</u>

# Dalmac Energy Inc.

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The Company has entered into joint agreements with related parties which are described in note 5.

During the year, certain equipment with a net book value of \$71,269 was sold to 1991769 Alberta Ltd. (a Company owned by a member of the key management of the Company). The Company recorded a loss on disposal in the amount of \$7,849.

During the year, the Company exchanged an asset with a net book value of \$664,493 with PCS Ltd. The Company recorded a net loss on disposal in the amount of \$204,493.

As at April 30, 2017, the balance receivable from PCS Ltd. (a Company owned by the President) was \$112,045 (2016 – \$66,141), which has been included in accounts receivable on the consolidated statements of financial position.

As at April 30, 2017, the balance receivable from 1414956 Alberta Ltd. (a Company owned by a Director) was \$56,402 (2016 – \$nil), which has been included in accounts receivable on the consolidated statements of financial position.

As at April 30, 2017, accounts payable and accrued liabilities on the consolidated statements of financial position includes an amount of \$250,000 received from PCS Ltd. (a Company owned by the President) in respect of purchase of two assets by PCS Ltd. for which the title has not yet transferred.

## 18 Financial risk management

### a) Financial instruments – carrying values

	2017	2016
	\$	\$
Financial assets – classified as loans and receivables		
Cash	403,581	869,619
Accounts receivable	5,597,816	2,807,286
Financial liabilities – classified as other financial liabilities		
Accounts payable and accrued liabilities	3,304,149	2,438,827
Finance leases	952,133	1,406,822
Long-term debt	10,677,517	8,126,296

The estimated fair value of the Company's financial instruments approximates the amount for which the financial instruments could currently be exchanged in an arm's length transaction between willing parties under no compulsion to act. The Company has determined that the fair value of its short-term financial assets, including cash, accounts receivable and short-term liabilities including accounts payable and accrued liabilities approximates their respective carrying amounts as at the consolidated statement of financial position date because of the short-term maturity of those instruments. The fair value of the long-term debt obligations approximates their carrying value as the interest rates are similar to the current market rate for similar debt.

# Dalmac Energy Inc.

## Notes to Consolidated Financial Statements

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(expressed in Canadian dollars)

### b) Financial risk management

- Credit risk

Credit risk arises from the potential a counterparty will fail to perform its obligations. The Company is exposed to credit risk through its cash and accounts receivable. The Company manages this risk by holding its cash and investments with reputable financial institutions. The Company is exposed to credit risk from customers; however, it is the opinion of the Company's management that the credit risk is low. Accounts receivable carried at amortized cost are subject to periodic impairment review and are classified as impaired when, in the opinion of management, there is objective evidence that credit related losses are incurred, taking into consideration all circumstances known at the date of review. The Company's maximum exposure is the value of its cash and trade accounts receivable, which as at April 30, 2017, had a total carrying value of \$6,001,397. A significant portion (39%) of the outstanding accounts receivable as at April 30, 2017 is due from two customers (2016 – 37% from one customer). The Company considers customers to be significant when revenues from the account reach 10% of the Company's revenue. The Company has three significant customers that accounted for approximately 55% of the Company's revenue for the year (2016 – 72% from four customers).

The aging of accounts receivable balances as at April 30, 2017 was as follows:

	\$
0 to 30 days	2,615,108
30 to 60 days	1,727,331
60 to 90 days	649,446
90 to 120 days	304,850
Over 120 days	301,081
	<u>5,597,816</u>

Management is not currently aware of any receivables that would need to be classified as uncollectible. Historically, bad debts as a percentage of revenue are less than 1%.

- Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Company manages this risk by maintaining detailed cash flow forecasts for a year to ensure it has sufficient cash on hand to meet operational expenses, fund capital expenditure and service financial obligations. Liquidity adequacy is assessed in view of historical volatility and seasonal needs and the maturity profile of indebtedness. The Company also constantly monitors any financing opportunities to optimize its capital structure and maintain appropriate financial flexibility.

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(expressed in Canadian dollars)

The Company's current credit facility contains financial covenants that are based on fixed charge coverage and senior leverage ratios. As at April 30, 2017, the Company failed to satisfy its obligations of the credit facility agreement in respect of the fixed charge coverage ratio and the senior leverage ratio and as a result, an event of default occurred. On the occurrence of an event of default, all obligations under the agreement were immediately due and payable to the lender. Consequently, the secured revolving credit facility was classified as a current liability as at April 30, 2017. As at April 30, 2017, the Company had a working capital deficit of \$6.8 million (2016 – \$6.5 million) mainly due to the credit facilities of \$9.5 million being classified as a current liability. Subsequent to year-end, management has executed a commitment letter with another lender to refinance its existing credit facility.

The following table summarizes the contractual maturities of financial liabilities for continuing operations as at April 30, 2017.

	2018	2019	2020	2021
	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,304,149	-	-	-
Finance lease obligations*	575,986	206,255	148,126	74,691
Long-term debt	9,880,032	403,997	298,663	56,621
	<u>13,760,167</u>	<u>610,252</u>	<u>446,789</u>	<u>131,312</u>

\* Includes interest calculated to be paid.

- Interest rate risk

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

As at April 30, 2017, with other variables unchanged, an increase or decrease of 1% in the prime interest rate would impact the Company's net income by approximately \$84,529 (2016 – \$80,469).

## 19 Revenue

Revenue includes service revenue amounting to \$16,506,011 (2016 – \$20,627,066) and product revenue of \$1,169,008 (2016 – \$941,500).

# Dalmac Energy Inc.

## Notes to Consolidated Financial Statements

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(expressed in Canadian dollars)

### 20 Expenses by nature

	2017 \$	2016 \$
Wages and benefits	8,487,918	10,639,737
Amortization of property, plant and equipment	2,757,606	2,989,467
Parts and chemicals	1,737,584	2,260,246
Loss and impairment on assets	768,825	1,359,558
Finance charges	942,965	693,946
Repairs and maintenance	362,319	496,795
Vehicle expense	2,690,583	3,259,619
Rent, property taxes, utilities and other expenses	2,058,359	3,395,404
	<hr/>	
	19,806,159	25,094,772