Dalmac Energy Inc.

(unaudited)

Interim Condensed Consolidated Financial Statements
January 31, 2019

(expressed in Canadian dollars)

NOTICE OF NO AUDITORS REVIEW OF INTERIM FINANCIAL STATEMENTS
Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed financial statements of Dalmac Energy Inc. have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

Dalmac Energy Inc.

Condensed Consolidated Statement of Financial Position

(Unaudited)

(expressed in Canadian dollars)

	January 31 2019 $	April 30 2018 $
Assets		
Current assets		
Cash and cash equivalents	13,728	24,241
Accounts receivable (note 11)	4,883,330	4,947,068
Inventories	487,578	521,689
Prepaid expenses and deposits	267,415	360,914
	5,652,051	5,853,912
Property and equipment (note 4)	15,644,341	16,071,325
	21,296,392	21,925,237
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	3,981,469	2,711,851
Revolving overdraft facility (note 5)	3,708,083	2,686,476
Current portion of finance lease obligations (note 5)	348,218	291,943
Current portion of borrowings (note 5)	6,994,119	7,821,306
	15,031,889	13,511,576
Finance lease obligations (note 5)	632,578	511,730
Borrowings (note 5)	204,433	444,510
Convertible Debenture (note 6)	594,304	642,870
	16,463,204	15,110,686
Shareholders' Equity		
Share capital (note 7)	10,185,731	10,185,731
Contributed surplus	1,338,003	1,323,603
Deficit	(6,690,546)	(4,694,783)
	4,833,188	6,814,551
	21,296,392	21,925,237

Going concern (note 1)

Commitments (note 10)

Dalmac Energy Inc.

Condensed Consolidated Statements of Comprehensive Loss

(Unaudited)

(expressed in Canadian dollars)

	Three months ending January 31		Nine months ending January 31	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Revenue				
Service and products (note 12)	4,934,476	5,123,205	13,538,885	14,923,949
Expenses				
Costs – service and products	3,713,208	3,826,520	10,342,233	10,704,908
Amortization of property and equipment	746,535	681,557	2,142,925	1,916,821
General and administrative	706,088	712,791	2,118,301	2,159,073
Finance charges	264,662	449,996	785,380	968,455
Other losses (note 4)	109,909	154,346	252,759	370,339
Change in fair value of embedded derivative (note 6)	(35,650)	-	(106,949)	-
	5,504,752	5,825,210	15,534,649	16,119,596
Loss before income taxes	(570,276)	(702,005)	(1,995,763)	(1,195,647)
Income tax expense (recovery) (note 8)	-	45,704	-	(322,807)
Net loss for the period	(570,276)	(747,709)	(1,995,763)	(872,840)
Loss per share basic and diluted (note 9)	(0.02)	(0.02)	(0.07)	(0.03)

Dalmac Energy Inc.

Condensed Consolidated Statement of Changes in Equity

(Unaudited)

(expressed in Canadian dollars)

					2019
	Share capital $	Contributed surplus $	Deficit $	Shares to be issued $	Total $
Balance – May 1, 2018	10,185,731	1,323,603	(4,694,783)	-	6,814,551
Net loss and comprehensive loss for the year	-	-	(1,995,763)	-	(1,995,763)
Transactions with owners in their capacity as owners					
Employee share-based payements	-	14,400	-	-	14,400
Balance – January 31, 2019	10,185,731	1,338,003	(6,690,546)	-	4,833,188

					2018
	Share capital $	Contributed surplus $	Deficit $	Shares to be issued $	Total $
Balance – May 1, 2017	10,185,731	1,281,620	(3,230,473)	-	8,236,878
Net loss and comprehensive loss for the year	-	-	(872,840)	-	(872,840)
Transactions with owners in their capacity as owners					
Proceeds from issuance of convertible debenture		89,689			89,689
Employee share-based payements	-	32,833	-	-	32,833
Balance – January 31, 2018	10,185,731	1,404,142	(4,103,313)	-	7,486,560

Dalmac Energy Inc.

Condensed Consolidated Statement of Cash Flows

(Unaudited)

(expressed in Canadian dollars)

	For the nine month period ended January 31	
	2019	2018
	$	$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(1,995,763)	(872,840)
Items not affecting cash		
Amortization of property and equipment	2,142,925	1,916,821
Other losses (note 4)	252,759	370,339
Finance charges	785,380	968,455
Deferred income tax recovery	-	(322,807)
Change in the fair value of embedded derivative	(106,949)	-
Share-based payment	14,400	32,833
	1,092,752	2,092,801
Change in non-cash operating working capital		
Accounts receivable	63,738	1,114,750
Inventories	34,111	(48,946)
Prepaid expenses and deposits	93,499	(110,279)
Accounts payable and accrued liabilities	1,269,618	(502,080)
	2,553,718	2,546,246
Financing activities		
Proceeds from the issuance of convertible debenture	-	89,689
Repayment of borrowings	(1,207,244)	(8,779,990)
Proceeds from borrowings	1,121,608	8861247
Repayment of obligations under finance lease	(286,377)	(485,176)
Interest paid	(687,019)	(890,986)
	(1,059,032)	(1,205,216)
Investing activities		
Purchase of property and equipment	(1,607,184)	(1,899,953)
Proceeds of disposal of property and equipment	101,985	177,450
	(1,505,199)	(1,722,503)
Increase (decrease) in cash and cash equivalents during the period	(10,513)	(381,473)
Cash and cash equivalents – Beginning of period	24,241	403,581
Cash and cash equivalents – End of period	13,728	22,108

1 Description of operations and going concern

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 condensed 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 come due. These condensed Interim Financial statements comply with IAS 34 Interim Financial Reporting and do not include all of the information required for annual financial statements.

As at April 30, 2018, the Company failed to satisfy the obligations of its credit facility agreement in respect of certain financial covenants for the year ended April 30, 2018 and as a result, and event of default occurred. On the occurrence of an event of default, all obligations under the agreement were deemed to be immediately due and payable to the lender upon demand. Consequently, the secured Evergreen facility and, as a result of cross default provisions, the subordinated unsecured loan with its secondary l ender were classified as current liabilities.

For the nine-month period ended January 31, 2019, the Company had a net loss of $1,995,763 (2018 - $872,840), a working capital deficiency of $9,379,838 (2018 – $5,998,746) and an accumulated deficit of $6,690,546 (2018 - $4,103,313). As at the date of the approval of these condensed consolidated financial statements, the lenders have not exercised their right to demand repayment of the credit facilities. These circumstances may lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles application to a going concern.

In view of the above circumstances, management is working with its lender to obtain and amend the credit facility agreement that will provide a waiver to the specific defaults referred to above. Management is continuously looking at securing contracts with new customers and pursuing increase in pricing with existing customers. There can be no assurances as to the success of these initiatives.

The Company's ability to continue as a going concern is dependent upon amending the existing credit facilities, generating positive cash flows, and being successful on the various initiatives described in the preceding paragraph. These condensed consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues, expenses and statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2 Basis of presentation

Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board and should be read in conjunction with the Company’s annual financial statements for the year ended April 30, 2018 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The accounting policies followed in these condensed consolidated financial statements are consistent with those of the previous financial year, other than those described below.

These condensed consolidated financial statements were approved by the Board of Directors for issuance on March 29, 2019.

Functional and presentation currency

These condensed 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 condensed consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of measurement

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

The preparation of condensed 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 condensed consolidated financial statements are disclosed further in this note.

The company adopted the following accounting policies effective May 1, 2018:

IFRS 15 - Revenue from Contracts with Customers

Revenue contracts are accounted for using the cumulative effect method starting January 1, 2018, with no restatement of comparative periods. The Company’s services are mostly provided based on daily, hourly, or contracted rates. Contract terms do not include provisions for post-service obligations. Revenue is measured based on the consideration specified with a customer on either an “over time” or “point in time” basis.

The following table summarizes the revenue recognition method:

Service Offering	
Transportation	Over time
Rental	Over time
Product sales	Point in time

IFRS 9 – Financial instruments

Effective January 1, 2018, Dalmac adopted recent amendments to IFRS 9- Financial instruments, which did not result in a material change to its condensed consolidated financial statements. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. Classification of financial assets under IFRS 9 is generally based on the business model and its contractual cash flow characteristics. IFRS 9 eliminates the previously IFRS 39 categories of held to maturity, loans and receivables, and available for sale. The new standard also introduces an expected credit loss model for evaluating impairment of financial assets, which result in credit losses being recognized earlier than the previous standard.

After initial adoption, management will monitor debt instruments for significant events that affect fair value of future cash flows. Significant events may include amendments, large debt repayments, or large draws on the debt instrument. In the current three-month period, there are no significant changes to borrowings.

Accounts receivable and cash do not have a significant financing component, and balances have been recorded at transaction price. The Company applies an expected credit loss approach in determining provisions for financial assets carried at amortized cost or fair value through net income and total comprehensive income. The approach that the Company has taken for trade receivables is a provision matrix approach whereby 12 month expected loss and lifetime expected credit losses are recognized based on age characterization and credit worthiness of customers. On transition, there was not a material change in the provision recognized.

4 Property and equipment

During the nine months ended January 31, 2019, the Company had additions to property and equipment with a value of $2,070,684 (2018 - $2,539,235). Acquisition of property and equipment with finance leases of $463,500 (2018 - $441,098).

During the nine months ended January 31, 2019, proceeds on sale of assets were $101,985 (2018 - $177,450).

5 Loans and Borrowings

The Company is subject to certain financial covenants with its senior lender that are tested annually. As at April 30, 2018, the company failed to satisfy its obligations of the facility agreement in respect of a certain financial covenant for the year ended April 30, 2018 and as a result, an event of default occurred. On the occurrence of a default, all obligations under the agreement were immediately due and payable to the lender. Consequently, the senior lender and the subordinated unsecured loan, which has a cross default clause, were classified as current liabilities as at April 30, 2018. The senior lender is still in the process of assessing the breach in covenant, and as such, the senior and subordinate loans are classified as current.

	Interest Rate	Maturity Date	Carrying Amount $
Balance at April 30, 2018			11,755,965
New issues			
Finance Leases	5.9%	June 2022 - June 2023	463,500
Borrowings	9.0%	December 2020	100,000
Repayments			
Finance Leases			(286,377)
Long Term Debt			(1,207,244)
Secured revolving credit facility			1,021,607
Deferred financing fees			39,980
Balance at January 31, 2019			11,887,431

6 Convertible debenture

On September 15, 2017, the Company issued a secured subordinated convertible debenture to the President of the Company for gross proceeds of $750,000. The debenture bears interest of 12.5% per annum, payable monthly, and has a maturity date of September 15, 2020. The debenture can be converted into 7,894,737 units of the Company having a conversion value of $0.095 per unit. Each unit will entitle the holder to one fully paid common share and one common share purchase warrant of the Company at a price of $0.13 per share.

The conversion feature was separated as an embedded derivative measured at fair value at each reporting period and presented as a financial liability. The fair value of the embedded derivative liability upon issuance was $260,187 calculated based on the difference between the fair value of the debt with the conversion feature and the fair value of the debt without the conversion feature. The main inputs for the valuations are the Canadian risk-free rate curve, the Company's stock price, and dividend yields as at valuation dates, credit spread, and volatility of the Company's stock. See table below for details:

	Host instrument	**Conversion feature (embedded derivative)**	**Total**
	$	**$**	**$**
Balance - April 30, 2018	507,457	135,413	642,870
Deferred financing fees	5,779	-	5,779
Accretion interest	52,604	-	52,604
Fair value adjustment on conversion feature	-	(106,949)	(106,949)
Balance - October 31, 2018	565,840	28,464	594,304

7 Share capital

Shares issued and authorized are as follows:

	Number of shares	**Amount $**
Balance – May 1, 2017	28,298,406	10,185,731
Balance – April 30, 2018	28,298,406	10,185,731
Balance – May 1, 2018	28,298,406	10,185,731
Balance – January 31, 2019	28,298,406	10,185,731

The following summarizes activity related to stock options:

	Number	Weighted average exercise price $
Balance – May 1, 2017	700,000	0.47
Granted	1,200,000	
Expired	(500,000)	
Outstanding – April 30, 2018	1,400,000	0.15
Exercisable – April 30, 2018	600,000	0.20
Balance – May 1, 2018	1,400,000	0.15
Outstanding – January 31, 2019	1,400,000	0.15
Exercisable – January 31, 2019	1,000,000	0.16

The following summarizes stock options outstanding as at January 31, 2019:

Expiry Date	Number outstanding	Exercise price $
October 2, 2019	200,000	0.38
January 22, 2021	1,200,000	0.11
	1,400,000	

The following summarizes activity related to warrants:

	Number	Weighted average exercise price $
Balance – May 1, 2017	**5,000,000**	**0.15**
Expired	(5,000,000)	
Outstanding – April 30, 2018	-	-
Balance – May 1, 2018	-	-
Outstanding – January 31, 2019	-	-

8 Income taxes

The Company did not recognize a net deferred tax asset of $889,304 (2018 - $nil) in respect of non-capital losses. Based on management's current estimates of future taxable earnings, the recoverability of these non-capital losses is indeterminable and as such, deferred tax assets have not been recognized in respect of these amounts.

9 Earnings (loss) per share

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

	Three months ending January31		Nine months ending January31	
	2019 $	2018 $	2019 $	2018 $
Numerator for basic and diluted earnings (loss) per share Net income attributable to common shareholders	(570,276)	(747,709)	(1,995,763)	(872,840)
Denominator for basic and diluted earnings (loss) per share Weighted average number of common shares	28,298,406	28,298,406	28,298,406	28,298,406
Basic and diluted loss per share	(0.02)	(0.03)	(0.07)	(0.03)

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, 2019	April 30, 2018
Options and warrants issued and outstanding	1,400,000	1,400,000

10 Commitments

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.

Future minimum annual payments are as follows:

			Minimum Payments due
	Within one year	One to five years	Total
	$	$	$
Equipment leases	631,484	156,000	787,484
Premises leases	1,012,395	1,629,060	2,641,455
Management contracts	141,871	496,549	638,420
	1,785,750	2,281,609	4,067,359

11 Related party transactions

Joint arrangements

The Company has joint arrangements with related parties sharing in a 50-60% of revenue and 50-60% of expenses from joint operations.

For the nine-month period ending January 31, 2019 the Company has recognized its share of revenue and expenses from the joint arrangements with related parties in the amount of $530,019 (2018 - $629,825) and $510,282 (2018 - $429,118) respectively.

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.

For the three months ending January 31, 2019 the following expenses were incurred:

	January 31, 2019	January 31, 2018
	$	$
Leased Premises	296,878	325,679
Rental/equipment operating lease	46,500	347,339
	103,210	415,876

During the nine-month period ended January 31, 2019, an amount of $668,842 (2018 - $426,229) related to rent and net earnings from joint operations was forgiven by PCS Ltd.

As at January 31, 2019, the balance receivable from PCS Ltd. was $193,511 (2018 - $537,169) which has been included in accounts receivable on the consolidated statement of financial position.

As at January 31, 2019, the balance receivable from 1414956 Alberta Ltd. (a company owned by a Director) was $56,402 (2017 - $56,402), which has been included in accounts receivable on the consolidated statements of financial position.

As at January 31, 2019, the balance payable to related parties was $279,243 (2018 - $233,450), which has been included in accounts payable and accrued liabilities on the consolidated statement of financial position.

12 Revenue

For the nine-month period ended January 31, 2019, revenue includes services revenue amounting to $12,369,548 (2018 - $12,785,881), product revenue of $296,603 (2018 - $687,152), and rental revenue $872,734 (2018 - $1,450,916)

13 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.