



GALE FORCE™ PETROLEUM

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Annual Exercise Ended June 30, 2011

Prepared as of October 28, 2011



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BASIS OF PRESENTATION

Throughout this document, Gale Force Petroleum Inc. is referred to as “Gale Force Petroleum”, “we” or the “Company”. This management’s discussion and analysis of the financial condition and results of operations (“**MD&A**”) describes our business, the business environment, our vision and strategy as well as the critical accounting policies used in our Company that will help you understand our financial statements, the principal factors affecting the results of operations, and liquidity and capital resources. This discussion should be read in conjunction with the Company’s audited annual financial statements, including the notes, for the fiscal years ending June 30, 2010 and June 30, 2009. Gale Force Petroleum’s accounting policies are in accordance with Canadian generally accepted accounting principles (“**GAAP**”). All dollar amounts are in Canadian dollars unless otherwise indicated. Except as otherwise specified, references to the exercise or year indicate the year ended June 30, 2011, and all comparisons are to the year ended June 30, 2010.

FORWARD-LOOKING STATEMENTS

All statements in this MD&A that do not directly and exclusively relate to historical facts constitute “forward-looking statements”. These statements represent Gale Force Petroleum’s intentions, plans, expectations and beliefs, and are subject to risks, uncertainties and other factors, of which many are beyond the control of the Company. These factors could cause actual results to differ materially from such forward-looking statements. These factors include and are not restricted to general economic and business conditions, industry conditions, volatility of commodity prices, currency exchange rate fluctuations, imprecision of reserve estimates, environmental risks, competition from other explorers, stock market volatility, the ability to access sufficient capital, the timing and size of new contracts, acquisitions and other corporate developments, the ability to attract and retain qualified employees, contractors, managers and members of the board, and other risks identified in the MD&A, as well as assumptions regarding the foregoing. The words “believe,” “estimate,” “expect,” “intend,” “anticipate,” “foresee,” “plan,” and similar expressions and variations thereof, identify certain of such forward-looking statements, which speak only as of the date on which they are made. In particular, statements relating to future performance are forward-looking statements. Gale Force Petroleum disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on these forward-looking statements. You will find more information about the risks that could cause our actual results to significantly differ from our current expectations in the Risks and Uncertainties section.

DEFINITIONS, NOTES AND OTHER CAUTIONARY STATEMENTS

In this document, the abbreviations set forth below have the following meanings:

bbl	Barrel.
Mcf	Thousand cubic feet.
MMcf	Million cubic feet.
BOEs	Barrel of Oil Equivalent. Note that BOEs may be misleading, particularly if used in isolation. The BOE conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

OVERVIEW OF THE COMPANY

Gale Force Petroleum Inc. (the “Company”) is a public oil and gas corporation focused on acquiring and exploiting undervalued and under-developed oil and gas reserves in mature basins, bringing operational expertise and capital to lower-risk, development-type projects. The Company currently owns producing oil and natural gas properties in Texas, Oklahoma and Tennessee.

During the year ended June 30, 2011, the Company continued its business plan to acquire undervalued or underdeveloped properties, closing the purchase of the Colgate properties as at December 1, 2010 and the Thunder properties effective June 30, 2011. In the previous year ended June 30, 2010, the Company concluded a major restructuring eliminating nearly all its debts, re-launched with a new business plan, and closed several acquisitions. In total, the Company now has 1.23 million bbls of proved oil reserves, 113,000 bbls of probable oil reserves, 1.53 MMcfs of proved natural gas reserves and 225 MMcfs of probable natural gas, with an aggregate present value of approximately \$40.5 million using a discount rate of 10% (please see the Company’s Annual Statement of Oil and Gas Reserves filed on SEDAR).

STRATEGY, OBJECTIVES AND PLANS

Rapid Growth Strategy

The Company’s rapid growth strategy is to continue pursuing two key drivers of shareholder value creation:

1. Acquisitions and mergers: The Company is searching for additional accretive acquisitions in the Gulf Coast and Central USA, to take advantage of niche opportunities that have arisen due to higher oil prices and general financial distress of oil and gas companies in the USA since 2008. The Company has been executing this strategy with the purchase of seven producing properties since May, 2010.
2. “Monetizing” reserves: The Company has steadily and steadfastly invested to bring the reserves it has purchased on production and into the *proved developed producing* reserves category.

Objectives

In the short-term, by March, 2012 the Company intends to (a) increase oil production to approximately 400 BOE per day (80% oil) from development of its currently-owned properties, and (b) own 2 million BOEs of proved and probable oil and natural gas reserves with a present value exceeding \$50 million using a 10% discount rate. The Company’s longer-term objectives, within 3 years, are to (a) increase oil production to over 1,500 barrels per day, and (b) own in excess of 10 million BOEs of proved and probable oil reserves (mostly oil) with a present value exceeding \$250 million using a 10% discount rate. Attaining these objectives is subject to, amongst other factors, negotiating the purchase of additional undervalued properties and the availability of new equity and debt financing. These objectives are subject to change as different opportunities present themselves.

Current Acquisition, Development and Financing Plans

The Company has short-term plans to develop its properties to increase total oil production to approximately 400 BOE per day (80% oil) by March, 2012 from its existing properties. The Company is also currently evaluating, performing due diligence and negotiating for the purchase of several other properties for acquisition throughout the Gulf Coast and Central USA. The Company recently concluded a \$5 million equity financing on May 5, 2011, and has obtained an increase the availability of funds under its \$15 million bank facility (drawn to approximately \$5.1 million as of the date hereof) to help finance its growth. The Company is considering further bank and equity financings, and it may also issue shares to property vendors to help finance some of the acquisitions it is contemplating.

RESULTS OF OPERATIONS

During the year ended June 30, 2011, the Company accounted for the acquisitions of Colgate properties and the Thunder properties in Texas, which were 6th and 7th acquisitions made by the Company since its launch under its new business plan in May, 2010. The Company has also concluded several major equity and bank financings since then. The combined effects of the new financings and the purchase of these new properties have had a major positive impact on the Company's balance sheet, results of operations and its future outlook.

The following table shows selected balance sheet information:

SELECTED BALANCE SHEET INFORMATION

As at	June 30, 2011	June 30, 2010
	\$	\$
Assets	19,109,305	6,672,889
Current liabilities	2,686,702	1,775,965
Long-term liabilities (including bank loan)	4,225,217	834,628
Asset retirement obligations	1,771,234	833,833
Shareholders' equity	10,426,152	3,228,463

Total assets increased sizeably as a result of the Company's investments to finance, acquire and develop new properties. Total Current liabilities includes "Payable for Thunder Properties acquisition" in the amount of \$1,543,200.

The following table shows the Company's revenues and gross margin from these new activities in:

REVENUES

Annual exercises ended June 30	2011	2010
	\$	\$
Sales	2,223,996	255,662
Royalties and severance taxes	(112,297)	(31,531)
Total revenues	2,111,699	224,131

Oil and natural gas revenues increased by 842% for the year ended June 30, 2011 when compared with the prior year, which is the result of new production acquired or brought online on the Company's newly acquired properties.

The following table shows the “Adjusted EBITDA” of the Company”, which is a measure we use to show earnings (or losses) after all cash operating expenses, while separating out any non-cash expenses and the effects of capital structure or taxation. It provides better visibility of our cash requirements and/or our ability to generate cash, exclusive of the costs of depreciation, financing or income taxes.

ADJUSTED EBITDA

Annual exercises ended June 30	2011	2010
	\$	\$
Total revenues	2,111,699	224,131
Operating expenses	(977,690)	(50,498)
General and administrative	(449,277)	(603,153)
Adjusted EBITDA	684,732	(429,520)

Adjusted EBITDA was \$684,732, reflecting a net inflow of cash from total operations during the year, which shows early results of the Company’s purchase and development of new properties under its new business plan. This compares with a \$429,520 net outflow of cash from operations during the previous year.

The following table shows the operating loss before financial expenses and taxes (EBIT), which is calculated by deducting non-cash operating expenses from Adjusted EBITDA, or by deducting all cash and non-cash operating expenses from revenues. We use EBIT to measure earnings (or losses) after all cash and non-cash expenses, but before taking into account the costs arising from capital structure or taxation.

OPERATING LOSS BEFORE FINANCIAL EXPENSE

Annual exercises ended June 30	2011	2010
	\$	\$
Adjusted EBITDA	684,732	(429,520)
Depletion, depreciation and amortization – Oil and gas division	(455,559)	(43,275)
Stock-based compensation	(95,680)	(231,873)
Other income (expenses)	678,841	732,988
Operating profit (loss) before financial expenses	812,334	28,320

The Company generated an operating profit before financial expenses during the year of \$812,334, a 2,769% increase versus the previous year.

Other income is comprised of \$287,412 in foreign exchange gains, \$164,996 in hedging expenses and \$556,425 in net gains from negotiated settlement of debts. In the previous year, other income of \$732,988 was mainly the result of a write-down of debt as part of the Company’s restructuring, concluded in May, 2010.

The following table sets forth the income statements of the Company, as found in the accompanying financial statements:

PROFIT AND LOSS INFORMATION

Annual exercises ended June 30	2011	2010
	\$	\$
Revenues	2,223,996	255,662
Royalties and production taxes	(112,297)	(31,531)
Total revenues	2,111,699	224,131
Production expenses	(977,690)	(50,498)
General and administrative expenses	(449,277)	(603,153)
Depreciation, depletion, amortization and accretion	(455,559)	(43,275)
Stock-based compensation	(95,680)	(231,873)
Other income (expenses)	678,841	732,988
EBIT	812,334	28,320
Financial expenses	(325,540)	(28,560)
Net profit (loss)	486,794	(240)

The Company made a profit of \$486,794 during the year. This result reflects early operating results from the Company's new business plan, showing revenues from some of the Company's new properties purchased since May, 2010. With a healthy balance sheet, manageable obligations and new operational focus, the Company has set the stage for even greater overall positive income next year, subject in particular to oil prices remaining at their current or higher levels.

Financial expenses of \$325,540 were largely comprised of interest, initial loan fees and legal fees associated with the Company's bank loan, which currently bears interest of 5.0% per annum.

OPERATIONS PERFORMANCE OVERVIEW

The Company has begun to show the results of operations from its new business plan, including early production from the seven properties it has purchased since May, 2010. The following table shows in **Canadian dollars** production and revenue information from these new properties that were purchased in 2010:

PRODUCTION SUMMARY

Annual exercises ended June 30	2011	2010
Total oil production (BOE)	33,016	4,485
Average sale price (CA\$/BOE)	67.36	52.08
Gross Revenues	\$ 2,223,996	\$ 233,581

During the year 95.97% of the Company's sales were from crude oil and 4.03% of its sales were from natural gas production. In the aggregate, the Company received an average CA\$67.36 for each barrel of oil equivalent (BOE) it produced. That Company does not account for revenues before royalties paid to mineral owners; sales presented here are what are received to the Company's net revenue interest. We are also presenting the BOE sales in Canadian dollar terms that reconcile with the stated financial results, but the actual sales of oil and gas were in US dollars.

The following tables in **US dollars** show the Company's Oil and Natural Gas netbacks:

OIL NETBACK

Annual exercises ended June 30	2011	2010
	US\$/bbl	US\$/bbl
Sale price	67.25	65.01
Royalties and production taxes	3.40	3.17
Production and operations expenses	29.61	14.29
Oil netback	30.87	47.55

The Company has begun to account for some of its management and overhead as an operating expense, as these costs are fairly attributed to operations, and therefore netbacks have decreased somewhat, though profitability has not.

For readers who are accustomed to seeing netbacks from companies who have properties in Canada, the sales price, royalties and production taxes may appear low; this is because the Company is not the "first purchaser" of its crude produced in the USA, and therefore does not account for sales or pay royalties, accounting only for revenues to its own net revenue interest.

GAS NETBACK

Annual exercises ended June 30	2011	2010
	US\$/Mcf	US\$/Mcf
Sale price	4.33	4.84
Royalties and production taxes	0.30	0.35
Production and operations expenses	0.48	0.57
Gas netback	3.55	3.92

The Company has had limited production history with its newly purchased wells that are on production, and therefore future production and operations expenses could be vary materially from the data presented here.

QUARTERLY OPERATING INFORMATION

The following tables summarize key financial and operating information by quarter in Canadian dollar terms:

QUARTERLY OPERATING INFORMATION
July 1, 2010 TO June 30, 2011

Quarters Ended	Sep. 2010	Dec. 2010	Mar. 2011	Jun. 2011
	\$	\$	\$	\$
Production (BOE)	4,485	6,445	11,256	10,830
Realized oil and gas sales price (\$/BOE)	67.35	66.66	77.09	57.67
Oil and gas revenues, operator income	302,053	429,600	867,731	624,612
Royalties and production taxes	(14,229)	(22,414)	(68,695)	(6,959)
Operator Income	-	-	-	-
Total revenues	287,824	407,186	799,036	617,653
Cash operating expenses	(163,489)	(253,055)	(574,793)	(435,630)
Adjusted EBITDA	124,335	154,131	224,243	182,023
Non-cash operating expenses	(60,537)	(76,803)	(200,945)	(212,954)
Gain (loss) before financial expenses and income taxes	63,798	77,328	23,298	(30,931)
Financial expenses	(56,897)	(69,795)	(90,261)	(108,587)
Other income (expenses)	16,235	97,193	533,320	32,093
Net profit (loss)	23,136	104,726	466,357	(107,425)

QUARTERLY OPERATING INFORMATION
July 1, 2009 TO June 30, 2010

Quarters Ended	Sep. 2009	Dec. 2009	Mar. 2010	Jun. 2010
	\$	\$	\$	\$
Production (BOE)	-	-	1,455	3,030
Realized oil and gas sales price (\$/BOE)	-	-	39.59	58.08
Oil and gas revenues	-	-	57,597	175,984
Royalties and production taxes	-	-	(2,756)	(28,775)
Operator Income	-	-	3,555	18,526
Total revenues	-	-	58,396	165,735
Cash operating expenses	(103,856)	(182,844)	(147,080)	(219,871)
Adjusted EBITDA	103,856	(182,844)	(88,684)	(54,136)
Non-cash operating expenses	-	-	(22,329)	(252,819)
Loss before financial expenses and income taxes	(103,856)	(182,844)	(111,013)	(306,955)
Financial expenses	(244)	(937)	(6,700)	(20,679)
Other (income) expenses	67,242	(40,106)	847,277	(6,941)
Net loss	(171,342)	(223,887)	729,564	(334,575)

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

As at June 30, 2011, the current ratio of the Company was 3.20, which is composed of \$3,668,062 current assets divided by the current liabilities of \$1,143,502 (the CA\$1,543,200 accrued liability for the Thunder properties must be removed from current liabilities for this calculation as the full purchase price was financed through additional bank and vendor financing obtained after the end of the exercise).

Source of Funds

On May 5, 2011 the Company concluded a \$5 million equity financing, which enabled it to discharge all of its current and due liabilities, and begin a \$2 million program to improve production on its properties. Subsequent to the end of the year, the Company also obtained an increase in the borrowing base on its \$15 million bank facility to US\$6.1 million (currently drawn to US\$5.2 million as of the date hereof), making further funds available. Furthermore, the Company is generating some cash from operations, and oil and natural gas production are expected to increase measurably in the coming months. The Company's source of funding for future development of the Company's reserves will be derived from a combination of existing cash resources, cash-flows from operations, but possibly also from additional bank debt, new equity financing or similar arrangements.

Hedging

To hedge risks associated with a decline in oil prices, the Company has purchased "floors", consisting of series of put options. The Company purchased contracts during and subsequent to the end of the exercise. As of the date hereof, the Company owns the following hedges:

Contract Expiry	Floor Price (USD)	Quantity (Bbls)
31-Oct-11	\$70.00	3,000
30-Nov-11	\$70.00	3,000
31-Dec-11	\$70.00	3,000
31-Jan-12	\$70.00	3,000
28-Feb-12	\$70.00	3,000
31-Mar-12	\$70.00	3,000
30-Apr-12	\$70.00	4,000
31-May-12	\$70.00	4,000
30-Jun-12	\$70.00	4,000
31-Jul-12	\$70.00	4,000
31-Aug-12	\$70.00	4,000
30-Sep-12	\$70.00	4,000
31-Oct-12	\$70.00	4,000
30-Nov-12	\$70.00	4,000
31-Dec-12	\$70.00	4,000
31-Jan-13	\$70.00	4,000
28-Feb-13	\$70.00	4,000
31-Mar-13	\$70.00	3,000
30-Apr-13	\$70.00	3,000
31-May-13	\$70.00	2,000
30-Jun-13	\$70.00	2,000

SHARES ISSUED & OUTSTANDING, OPTIONS & WARRANTS

The following table summarizes the equity structure of the Company as of June 30, 2011:

Security	Quantity	Management % ⁽²⁾
Common shares	35,243,498	
Series I or II preferred shares ⁽¹⁾	12,539,434	
Total direct ownership	47,782,922	41.57%
Warrants at \$0.50 expiring July 31, 2012	6,966,342	
Warrants at \$0.30 expiring July 31, 2012	194,400	
Warrants at \$0.22 expiring May 5, 2013	2,105,314	
Options at \$0.25 expiring February 15, 2015	124,000	
Options at \$0.33 expiring 2015 or later	2,676,000	
Total warrants/options	12,066,066	58.72%
Total fully diluted	59,849,988	45.30%

(1) The series I preferred shares are convertible into common shares of the Company on a 1:1 basis, subject to the owner not exceeding certain ownership thresholds of voting stock by affecting such a conversion.

(2) Management includes officers and directors' direct holdings and indirect representation as nominees of institutional shareholders.

OUTLOOK

We mentioned two main growth strategies in the "Growth Strategies" section above. These were: (1) acquisitions and mergers, and (2) "monetizing" or "conversion" of reserves, which means developing the Company's properties to increase oil and gas production and revenues. The Company's success in the near and long-term will depend on its ability to execute these two key drivers of shareholders of value.

If the Company can continue to make accretive acquisitions and build greater scale and economies into its operations, it will have succeeded in adding to value created from its existing properties. In this vein, the Company is currently performing due diligence on and negotiating the purchase of several additional properties.

If the Company can continue to "monetize" its assets, by economically moving its reserves into production and increasing revenues, it will have succeeded in creating value for its shareholders from its existing assets. Though its track record is short, the Company has thus far increased from zero production in April, 2010 to establishing over 200 BOE per day (90% oil) as of the date hereof, and is on track to increase production to approximately 400 BOE per day (80% oil) by March, 2012.

The main external factors that will play a role in determining the outlook for the Company, but which are outside its control, are the price of crude oil and the state of capital markets in general. If crude oil prices decline, the Company's operations would become less profitable, and it would eventually become difficult to discharge its obligations. To hedge against this risk, the Company has a hedging program, where it has purchased approximately 60% of its current and forecast production at profitable oil prices for 18 to 21 months.

The state of general capital markets will greatly influence both the Company's ability to raise new financing, and the cost of capital associated with any new financing. New debt and equity financing will be necessary for the Company to make any new acquisitions and would also be required to fully develop its existing properties.

Overall, Management believes the Company's prospects are very good, but there remains numerous challenges to solidify the gains, and continue building a successful organization.

ACCOUNTING AND DISCLOSURE

Disclosure Controls and Procedures

Management has designed such disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to us by others, particularly during the interim period covered by this yearly report. We have designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the interim period covered by the annual filings and have caused the Company to disclose in this MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the interim period covered by the annual filings based on such evaluation. Management has concluded that the disclosure controls and procedures are effective.

Internal Control of Financial Reporting

During the interim period, the Company updated its financial control policies as part of a process of continuous improvement. These changes continue to ensure the quality and integrity of records and accounting as well as improving the timeliness of financial information.

Non-GAAP Measures

This document contains the terms "Adjusted EBITDA", "Oil Netback" and "Gas Netback", which do not have a standardized meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures by other companies. Adjusted EBITDA, Gas Netback and Oil Netback are used by Gale Force Petroleum as key measures of performance. Adjusted EBITDA and Oil Netback are not intended to represent operating profits or loss nor should they be viewed as an alternative to cash flow provided by operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP. "Adjusted EBITDA" is the Company's earnings or losses after cash operating expenses, or conversely, before non-cash operating expenses, including financial expenses, taxes, write-off of deferred development costs, stock-based compensation expense, depletion, depreciation and amortization. Adjusted EBITDA is used as management believes that this measure provides better visibility of our cash requirements and/or our ability to generate cash, exclusive of capital investments, exclusive of the costs to finance our activities and exclusive of income taxes. A reconciliation of this item to its closest GAAP measure may be found below. "Oil Netback" or "Gas Netback" is the average sales price of oil or natural gas less royalties, production taxes, transportation and selling expenses and production expenses. The Oil Netback or Gas Netback is used by management as a measure to provide better visibility of the efficiency our operations and their ability to generate cash, exclusive of capital investments, exclusive of the costs to finance our activities and exclusive of income taxes. A reconciliation of this item to its closest GAAP measure may be found herein. These non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. They should be considered as supplemental in nature and not a substitute for the related financial information prepared in accordance with GAAP.

Critical Accounting Estimates

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. Capitalized costs relating to the exploration and development of oil and gas reserves, along with estimated future capital expenditures required in order to develop proved and probable reserves, are depleted and depreciated on a unit-of production basis using estimated proved reserves. The carrying

value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash-flows. The cost recovery ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Liability recognition for asset retirement obligations associated with oil and gas well sites and facilities are determined using estimated costs discounted based on the estimated life of the asset. These capitalized costs are amortized on a unit-of-production basis, consistent with depletion and depreciation. Over time, the liability is accreted up to the actual expected cash outlay to perform the abandonment and reclamation. In order to recognize stock-based compensation expense, the Company estimates the fair value of stock options granted using assumptions related to interest rates, expected life of the option, volatility of the underlying security and expected dividend yields. These assumptions may vary over time. The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability (or asset) may differ significantly from that estimated and recorded on Gale Force Petroleum's financial statements.

Changes in Accounting Policies and Practices

There were no significant new accounting policies and practices adopted during the year. However, the Company did adopt various new accounting control and bookkeeping procedures which provide greater and more timely visibility of financial information management.

Future accounting pronouncements: International Financial Reporting Standards ("IFRS")

On October 2009, CICA confirmed that publicly accountable enterprises in Canada will be required to apply International Financial Reporting Standards (IFRS) beginning on or after January 1, 2011. Effective July 1, 2011, the Company will be required to report its consolidated financial statements in accordance with IFRS and restate the comparative information for the next year ended June 30, 2012 and of the opening balance sheet as at July 1, 2010.

RISKS AND UNCERTAINTIES

The Company's exploration and production activities are concentrated in areas where activity is highly competitive and includes a variety of different sized companies ranging from smaller junior producers, intermediate and senior producers and royalty trust organizations, to the much larger integrated petroleum companies. The Company is subject to a number of risks that are also common to other organizations involved in the oil and gas industry. Such risks include the possibility of not being able to find and/or to develop oil and gas reserves economically, mis-estimating amounts of recoverable reserves, being unable to produce oil and gas in commercial quantities, being unable to market oil and gas produced, being subject to fluctuations in commodity prices, not being able to secure adequate financing and/or obtain the liquidities to discharge near-term liabilities, incurring environmental or health and safety liabilities.

Liquidity

There is some uncertainty regarding the Company's ability to continue as a going concern, which is dependent upon achieving on-going cash flow from operating activities and receiving additional financing. In the event that oil and natural gas prices decrease, the future operations of the Company may be dependent on its ability to successfully raise capital. The outcome of these matters cannot be predicted at this time.

Substantial Capital Requirements

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Company may not be able to finance all such capital expenditures, the Company may be required to reduce capital expenditures. In addition, the recent global credit crisis exposes the Company to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Capital Markets

As a result of the weakened global economic situation, the Company has restricted access to capital and may face increased borrowing costs. The lending capacity of all financial institutions has diminished and risk premiums have increased independent of the Company's business and asset base. As future capital expenditures will be financed out of cash generated from operations and possible future equity sales or borrowings, the Company's ability to do so is dependent on, among other factors, the overall state of capital markets and investor demand for investments in the energy industry and in the Company's securities in particular. To the extent that external sources of capital become limited or unavailable or available on onerous terms, the Company's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

Volatility of Currency Exchange Rates, Oil and Natural Gas Prices

The Company's results of operations and financial condition will be dependent on the prices received for the Company's oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are subject to fluctuations in response to relatively minor changes in supply, demand, market uncertainty and other factors that are beyond the Company's control. These factors include, but are not limited to, worldwide political instability, foreign supply of oil and natural gas, the level of consumer product demand, government regulations and taxes, the price and availability of alternative fuels and the overall economic environment. Any decline in oil or natural gas prices could have a material adverse effect on the Company's operations, financial condition, proved reserves and the level of expenditures for the development of its oil and natural gas reserves. No assurance can be given that oil and natural gas prices will be at levels which will generate profits for the Company. The economics of producing from some of the Company's wells may change as a result of lower oil and natural gas prices, which could result in reduced production of oil or gas and a reduction in the volumes of the Company's reserves. See "*Risk Factors – Significant Factors or Uncertainties Affecting Reserves or Resource Data*". The Company might also elect not to produce from certain wells at lower oil and natural gas prices. All of these factors could result in a material decrease in the Company's future net production revenue, causing a reduction in its oil and gas acquisition and development activities.

The Company is exposed to market risk to the extent that the demand for oil and natural gas produced by the Company exists within Canada and the United States. External factors beyond the Company's control may affect the marketability of oil and natural gas produced. These factors include commodity prices and variations in the Canada-United States currency exchange rate, which in turn respond to economic and political circumstances throughout the world. Oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are affected by North American supply and demand fundamentals.

Oil and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008, continued in 2009, and are continuing in 2010, causing a loss of confidence in the broader Canada, U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward. These factors may impact the ability of the the Company to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of Common Shares could continue to be adversely affected.

The Company is Dependant on its Key Personnel

The Company is dependent upon its President and CEO, its COO, its CFO and its contracted personnel responsible for exploration and development of the Company's properties. The loss of services of any member of the management team could have a material adverse impact on the Company. The Company faces significant competition for qualified personnel and there can be no assurance that it will be able to attract and retain such personnel. The Company does not currently have a formal succession program or management training program in place for succession or training of management.

Changes to Government Taxes and Royalties

In addition to USA and Canadian federal regulations, each state and province has legislation and regulations which govern corporate taxation, land tenure, royalties, production rates, environmental protection and other matters. The corporate taxes, severance taxes, production taxes and government royalties payable are significant factors in the profitability of producing crude oil, natural gas liquids and natural gas production. With or without notice, any of these bodies may make changes to corporate taxation, land tenure, royalties, production rates, environmental protection and other matters, which could have a material impact on the business of the Company.

Significant Factors or Uncertainties Affecting Reserves and Resource Data

There are numerous uncertainties inherent in estimating quantities of proved reserves, including many factors beyond the control of the Company. The reserve and resource data included herein represent estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary considerably from actual results. Accordingly, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially. The actual production, revenues, taxes and development and operating expenditures of the Company with respect to these reserves will vary from such estimates, and such variances could be material. Estimates with respect to proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be substantial, in the

estimated reserves. Consistent with the securities disclosure legislation and policies of Canada, as interpreted by the securities regulatory authorities in Canada, the Company has used forecast prices and costs in calculating reserve quantities included herein. Actual future net cash flows also will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs. The reserve value may be affected by changes in corporate, production or severance taxes or government royalties. The Company is required to perform a ceiling test annually to determine any impairment concerns on its oil and natural gas assets.

Competitive Conditions

The Company actively competes for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and natural gas companies, many of which have significantly greater financial resources and personnel than the Company. The Company's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators. The oil and gas industry is highly competitive. Certain of the Company's customers and potential customers are themselves exploring for oil and natural gas, and the results of such exploration efforts could affect the Company's ability to sell or supply oil or gas to these customers in the future. The Company's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Business Cycle and Seasonality

The Company's revenue from the sale of natural gas is highly seasonal, with demand for natural gas rising during cold winter months and hot summer months.

Need to Replace and Grow Reserves

The Company's future oil and natural gas reserves and production, and therefore its cash flows, are highly dependent upon success in exploring and/or exploiting its current reserve base and acquiring or discovering additional reserves. Without reserve additions through exploration, acquisition or development activities, the Company's reserves and production will decline over time as reserves are exploited. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flows from operations are insufficient and external sources of capital become limited or unavailable, the Company's ability to make the necessary capital investments to maintain and expand its oil and natural gas reserves will be impaired. In addition, there can be no assurance that the Company will be able to find and develop or acquire additional reserves to replace production at acceptable costs.

Environmental Protection Requirements

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, state, provincial, county, and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Operating Hazards and Other Uncertainties

Acquiring, developing and exploring for oil and natural gas involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. These risks include, but are not limited to, encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, equipment failures and other accidents, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution, other environmental risks, fires and spills. Although the Company intends to maintain insurance in accordance with customary industry practice, the Company is not fully insured against all of these risks. Losses resulting from the occurrence of these risks could have a material adverse impact on the Company. Like other oil and natural gas companies, the Company attempts to conduct its business and financial affairs so as to protect against political and economic risks applicable to operations in the jurisdictions where the Company operates but there can be no assurance that the Company will be successful in so protecting itself. The Company is also subject to deliverability uncertainties related to the proximity of its reserves to pipeline and processing facilities and the possible inability to secure space on pipelines, which deliver oil and natural gas to commercial markets.

Issuance of Debt

From time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Conflicts of Interest

Certain of the directors of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as directors of the Company and as officers and directors of such other companies.

Dilution and Future Issuances of Common Shares

The Company may issue additional common or preferred shares in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of an unlimited number of Common Shares and an unlimited number of Preferred Shares, which are issuable in series, and the Company shareholders will have no pre-emptive rights in connection with such further issuances. The Company's Board has the discretion to determine the provisions attaching to any series of Preferred Shares and the price and the terms of issue of further issuances of such shares.

Governmental Regulation

The oil and natural gas business is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possibly expropriation or cancellation of contract rights. As well, governments may regulate or intervene with respect to prices, taxes, royalties and the exportation of oil and natural gas. Such regulation may be changed from time to time in response to economic or political

conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for oil and natural gas, increase the Company's costs and have a material adverse impact on the Company.

Management of Growth

The business plan of the Company includes the acquisition of additional oil and natural gas properties. This will place additional strains on the Company's financial and human resources. The future success of the Company is dependent upon its ability to successfully manage the integration of such new properties and the required expansion of its management and financial resources that will result.

ADDITIONAL INFORMATION

The Company is an issuer in accordance with the securities legislations of all the Canadian provinces; therefore it has the obligation to deliver financial statements, proxy circulars and annual notices to the various regulating authorities. You can obtain a copy of such documents free of charge by sending your requests to the Company or by visiting www.SEDAR.com.



Michael McLellan, CFA
Chairman & Chief Executive Officer



Antoinette Lizzi, CMA
Chief Financial Officer