



GALE FORCE PETROLEUM

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

As at September 30, 2011

(Unaudited)

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MANAGEMENT'S REPORT

Management is responsible for the preparation of the financial statements. Management believes that these financial statements fairly reflect the form and substance of transactions, and that they reasonably present the Company's financial position and the results of its operations.

The financial statements have been prepared in accordance with IAS 34, interim financial reporting, and IFRS 1, first-time adoption of IFRS, as issued by the IASB. Management has included in the Company's financial statements amounts based on best estimates and careful judgements that it believes are reasonable under the circumstances, and designed to ensure that the financial statements are presented fairly, in all material respects.

To fulfil its responsibility, management developed and continues to maintain systems of internal accounting controls and establishes policies and procedures to ensure the reliability of financial information and to safeguard assets. The internal control systems and financial records are subject to reviews by external auditors during the examination of the yearly financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performances of its financial reporting responsibilities.

A handwritten signature in black ink, appearing to read "McLellan". The signature is written in a cursive, flowing style.

Michael McLellan, CFA
Chairman and Chief Executive Officer
December 19, 2011

**GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES**

**Consolidated Statements of Financial Position
As At**

(In U.S. dollars)	Sept 30 2011	June 30 2011	July 1 2010
ASSETS			
Current assets			
Cash	\$ 1,264,127	\$ 2,631,103	\$ 239,671
Receivables (Note 3)	898,992	659,584	352,533
Prepaid (Note 4)	204,539	506,163	22,300
Total current assets	<u>2,367,659</u>	<u>3,796,850</u>	<u>614,504</u>
Capital assets (note 5)			
Deposits (note 6)	50,000	50,000	50,000
Other assets (note 7)	85,164	26,596	82,036
Total long-term assets	<u>12,222,025</u>	<u>10,876,884</u>	<u>1,411,969</u>
Total assets	<u>\$ 14,589,683</u>	<u>\$ 14,673,734</u>	<u>\$ 2,026,223</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Payables (note 8)	\$ 621,883	\$ 590,921	\$ 621,973
Accrued liabilities (note 8)	330,584	293,894	114,645
Payable for Thunder Properties (note 8)	1,600,000	1,600,000	-
Due to unrelated parties (note 9)	-	-	655,013
Balance of sale payable in shares (note 9)	276,759	300,777	282,859
Total current liabilities	<u>2,829,226</u>	<u>2,785,591</u>	<u>1,674,491</u>
Bank facility (note 10)			
Other long-term debt (note 9)	4,220,000	4,325,000	786,940
Decommissioning Liabilities (note 11)	46,591	55,733	-
Total long-term liabilities	<u>1,561,370</u>	<u>1,731,936</u>	<u>800,063</u>
Total liabilities	<u>5,827,961</u>	<u>6,112,669</u>	<u>1,587,003</u>
SHAREHOLDERS' EQUITY			
Share capital – common shares (note 12)	19,217,128	20,893,051	15,163,692
Share capital – preferred shares (note 12)	2,738,599	2,976,257	623,399
Warrants (note 12)	758,537	824,323	431,835
Contributed surplus (note 12)	1,758,429	1,911,026	1,647,657
Deficit (note 12)	(18,724,235)	(18,877,221)	(19,076,285)
Accumulated comprehensive income (note 12)	184,037	(1,951,962)	(25,568)
Total shareholders' equity	<u>5,932,496</u>	<u>5,775,475</u>	<u>(1,235,270)</u>
Total liabilities and shareholders' equity	<u>\$ 14,589,683</u>	<u>\$ 14,673,734</u>	<u>\$ 2,026,223</u>

Michael McLellan, CFA
Chairman & Chief Executive Officer

Guillaume Dumas
Director, Chairman of the Audit Committee

The accompanying notes form an integral part of these financial statements.

**GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES**

**Consolidated Statements of Income (loss)
For the three-month periods ended**

(In US dollars)	Sept 30 2011	Sept 30 2010
Revenues		
Oil and gas	\$ 897,973	\$ 292,381
Royalties and production taxes	(37,295)	(13,774)
Total revenues	<u>\$ 860,678</u>	<u>\$ 278,607</u>
Costs and expenses		
Operating expenses	515,103	82,020
Depreciation, depletion, amortization	148,180	45,559
Accretion	25,799	13,028
General and administrative	133,065	76,234
Total operating expenses	<u>\$ 822,147</u>	<u>\$ 216,840</u>
Income (loss) before financial expenses	<u>\$ 38,531</u>	<u>\$ 61,767</u>
Financial expenses (note 13)	80,482	55,075
Other expenses (income) (note 14)	(194,937)	26,643
	<u>\$ (114,455)</u>	<u>\$ 81,718</u>
Net Income (loss) before income taxes	<u>\$ 152,986</u>	<u>\$ (19,951)</u>
Income taxes	-	-
Net Income (loss)	<u>\$ 152,986</u>	<u>\$ (19,951)</u>
Deficit, beginning of period	<u>(18,877,221)</u>	<u>(15,141,462)</u>
Deficit, end of period	<u>\$ (18,724,235)</u>	<u>\$ (15,161,413)</u>
Income (loss) per share (note 15)		
Basic	\$ 0.0077	\$ (0.001)
Diluted	\$ 0.0077	\$ (0.001)

The accompanying notes form an integral part of these financial statements.

**GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income
For the three-month periods ended**

(In US dollars)	Sept 30 2011	Sept 30 2010
Net Income (loss)	\$ 152,986	\$ (19,951)
	-	-
Other Comprehensive Income:		
Items that will be reclassified to net income	-	-
CCTD:		
Exchange differences on translating foreign operations gain (loss)	2,135,999	(149,371)
Total OCI (note 15)	2,135,999	(149,371)
Total Comprehensive income	\$ 2,288,985	\$ (169,322)

**GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES**

Consolidated Statements of Equity

(In Canadian dollars)	Sept 30 2011	June 30 2011	July 1 2010
Balance at the beginning of the period	\$ (18,877,221)	\$(19,076,285)	\$ (19,330,871)
Net income (loss)	<u>152,986</u>	<u>199,063</u>	<u>254,586</u>
Balance at the end of the period (Note 12)	<u>\$ (18,724,235)</u>	<u>\$ (18,877,221)</u>	<u>\$(19,076,285)</u>

**GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES**

Consolidated Statements of Equity

(In US Dollars)

Equity Issuance during the period	Common shares		Preferred Shares		Warrants		Contributed Surplus
	Qty.	Amount	Qty.	Amount	Qty.	Amount	
Balance as at July 1, 2010	15,347,729	\$15,163,692	2,644,706	\$623,399	3,986,107	\$431,835	\$1,647,657
Share issued	20,740,475	4,833,709	9,894,718	2,277,500	-	-	-
Share issuance costs	-	(495,994)	-	-	-	-	-
Warrants grant	-	(726,983)	-	(68,077)	9,266,066	795,060	-
Warrants expired	-	458,004	-	-	(3,986,107)	(458,004)	-
Stock-based compensation	-	-	-	-	-	-	95,680
Balance as at June 30, 2011	36,088,204	\$20,893,051	12,539,424	\$2,976,257	9,266,066	\$824,323	\$1,911,026
Share issued	-	-	-	-	-	-	-
Share issuance costs	-	(8,113)	-	-	-	-	-
Warrants grant	-	-	-	-	-	-	-
Warrants expired	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	-
Balance as at Sept 30, 2011	36,088,204	\$19,217,128	12,539,424	\$2,738,599	9,266,066	\$758,537	\$1,758,429

GALE FORCE PETROLEUM INC.

AND SUBSIDIARIES

**Consolidated Statements of Equity
Other Consolidated Income
(Transition from GAAP to IFRS)**

As at

Equity Issuance during the period	Deficit	OCI	Total Equity
Balance as at July 1, 2010 – As per GAAP	\$ (14,822,586)	-	\$ 3,043,997
Open OCI	-		-
Impairment GFP USA	(725,876)		(725,876)
Impairment GFP Central	(2,349,275)		(2,349,275)
Impairment GFP Texas	(1,303,363)		(1,303,363)
Foreign Exchange	(130,004)		(130,004)
Net Income (loss) GAAP	234		234
Net Income (loss) IFRS	254,586	-	254,586
Other Comprehensive Income	-	(25,568)	(25,568)
Balance as at July 1, 2010 – As per IFRS	\$ (19,076,285)	\$ (25,568)	\$ (1,235,270)
Balance as at June 30, 2011 – As per GAAP	\$ (15,794,755)	-	\$ 10,809,904
Open OCI	-	(25,568)	(25,568)
Impairment GFP USA	(725,876)		(725,876)
Impairment GFP Central	(2,349,275)		(2,349,275)
Impairment GFP Texas	(1,303,363)		(1,303,363)
Foreign Exchange	1,328,179		1,328,179
Net Income (loss) GAAP	(486,017)		(486,017)
Net Income (loss) prior	254,820		254,820
Net Income (loss) IFRS	199,064	-	199,064
Other Comprehensive Income	-	(1,926,392)	(1,926,392)
Balance as at June 30, 2011 – As per IFRS	\$ (18,877,222)	\$ (1,951,962)	\$ 5,775,475
Balance as at Sept 30, 2011 – As per GAAP	\$ (14,713,936)	-	\$ 9,758,757
Open OCI	-	(1,951,962)	(1,951,962)
Impairment GFP USA	(725,876)		(725,876)
Impairment GFP Central	(2,349,275)		(2,349,275)
Impairment GFP Texas	(1,303,363)		(1,303,363)
Foreign Exchange	271,124		271,124
Net Income (loss) GAAP	(55,896)		(55,896)
Net Income (loss) prior	-		-
Net Income (loss) IFRS	152,986	-	152,986
Other Comprehensive Income	-	2,135,999	2,135,999
Balance as at June 30, 2011 – As per IFRS	\$ (18,724,235)	\$ 184,037	\$ 5,932,496

GALE FORCE PETROLEUM INC.

AND SUBSIDIARIES

**Consolidated Statements of Cash Flows
For the three-month period ended**

(In US dollars)	Sept 2011	Sept 2010
OPERATING ACTIVITIES		
Net Income	\$ 152,986	\$ (19,951)
Items not affecting cash-flows:		
Unrealized gain on hedges contracts	63,617	(45,617)
Net gain from adjustments to accounts payable and WC	-	-
Depreciation, depletion, amortization and accretion	173,979	58,587
	<u>387,655</u>	<u>(6,982)</u>
Net change in non-cash working capital items (Note 18)	104,024	(98,732)
Net cash provided in operating activities	<u>491,679</u>	<u>(105,714)</u>
INVESTING ACTIVITIES		
Additions to Capital Assets	(1,860,482)	(808,129)
Purchase of put options (hedges)	-	-
Purchase of deposit certificates	-	-
Net cash used in investing activities	<u>(1,860,482)</u>	<u>(808,129)</u>
FINANCING ACTIVITIES		
Issuance of equity securities	-	-
Balance of sale	-	-
Due to unrelated parties	1,827	(319,014)
Bank loan	-	1,087,678
Net cash provided by financing activities	<u>1,827</u>	<u>768,664</u>
Net cash increase (decrease) for period	(1,366,976)	(145,179)
Cash, beginning of period	2,631,103	239,671
Cash, end of period	<u>\$ 1,264,127</u>	<u>\$ 94,492</u>

The accompanying notes form an integral part of these financial statements.

NOTE 1 – INCORPORATION AND NATURE OF BUSINESS

The Company was continued under the *Canada Business Corporations Act* in 2001. The Company is a public oil and gas corporation focused on acquiring and exploiting undervalued 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.

NOTE 2 – ACCOUNTING POLICIES

Basis of Consolidation and Preparation

The interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Gale Force Petroleum USA Inc., GFP Central USA Inc., GFP Texas Inc. and Buccaneer Operating, LLC. Each of these subsidiaries is an entity wholly controlled and owned by the Company.

The interim consolidated financial statements are expressed in US dollars and have been prepared in accordance with IAS 34, interim financial reporting, and IFRS 1, First-time adoption of IFRS, as issued by the IASB. The interim consolidated financial statements should be read in conjunction with the audited Consolidated Financial statements and notes thereto prepared under previous Canadian GAAP included in the Corporation's Annual Report for the year ended June 30, 2011. Note 20 – Adoptions of IFRS explains how the transition from previous Canadian GAAP to IFRS affected the Corporation's reported financial position as at July 1, 2010 and June 30, 2011, as well as the financial performance and cash flows for the year ended June 30, 2011 and the three-month period ended September 30, 2011.

Intra-group balances, and any unrealized gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognized as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

Joint Interest Operations

A portion of the Company's exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Financial Instruments

i) Financial Instruments - Recognition and Measurement, IFRS 9

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification.

Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts are amortized into net income (loss), using the effective interest method.

Available-for-sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income until the asset is realized, at which time they will be recorded in net income.

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

Held-for-trading financial instruments are measured at fair value. All gains and losses resulting from changes in their fair value are included in the statement of operations in the period in which they arise.

All derivative financial instruments are classified as held-for-trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses resulting from changes in their fair value are included in the statement of operations in the period in which they arise.

The Company's financial instruments are classified as follows:

- Cash, cash equivalents and put options are classified as held-for-trading.
- Accounts receivables are classified as loans and receivables.
- Deposits are classified as loans and receivables.
- Accounts payable, bank facility, balance of sale, due to other unrelated parties and other long-term debt are classified as other financial liabilities.

Transaction cost for financial instruments are expensed in the period incurred.

The Company has no financial instruments that give rise to other comprehensive income. The Company will assess at each reporting period whether there is any objective evidence that a financial asset, other than those classified as held-for-trading, is impaired. When assessing impairment, the carrying value of financial assets carried at amortized cost is compared to the present value of estimated future cash flows, discounted using the instrument's original effective interest rate.

Use of Estimates

The preparation of the Company's interim consolidated financial statements in conformity with IFRS requires management to make judgement, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

Examples of significant estimates include the key economic assumptions used in determining the allowance for doubtful accounts; the recovery of future income tax assets, the useful lives of capital assets, the assumptions used for capital assets and impairment tests, decommissioning liabilities, the assumptions used for the calculation of stock-based compensation costs and the fair value of financial instruments.

Oil and Gas Assets

i) Capitalized Costs IFRS 6

All costs directly associated with the development of petroleum and natural gas reserves are Costs include lease acquisition costs, geological and geophysical expenses, costs of drilling both producing and non-producing wells, production facilities, asset retirement costs and certain general and administrative expenses directly related to exploration and development activities.

Proceeds from the sale of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would significantly alter the rate of depletion and depreciation.

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

Oil and Gas Assets (Continued)

ii) *Depletion and Depreciation - IAS16*

Depletion and depreciation of property and equipment is provided using the unit-of-production method based upon estimated proved petroleum and natural gas reserves. The costs of undeveloped properties are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred. Estimated future costs to be incurred in developing proved reserves are included in costs subject to depletion. For depletion and depreciation purposes, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

iii) *Impairment Test - IAS36*

Under the new IFRS rules, asset impairment testing will be performed on each “Cash Generating Unit”, which the Company defines as a set of properties operated together as a cohesive business unit. Formerly, under Canadian GAAP, impairment testing was performed on the pooled assets of the Company in each county. Each quarter the Company shall perform an impairment test to determine the recoverability of capitalized costs associated with reserves.

Also, under IFRS rules, gains and losses are recognized in net income on the disposal of an item of petroleum and natural gas assets; the amount of the gain or loss is determined by comparing the proceeds from disposal with the carrying amount of the item. This will include transactions such as sales of assets, farm-outs, asset swaps and other nonmonetary transactions which typically did not result in gains or losses being recorded under Canadian GAAP.

iv) *Decommissioning Liabilities (formerly “Asset Retirement Obligations” under GAAP)*

The Company recognizes the fair value of estimated decommissioning liabilities on the balance sheet in the period in which it incurs a legal obligation associated with the retirement of long-lived assets. Decommissioning Liabilities include those legal obligations where the Company will be required to retire tangible long-lived assets such as well sites, pipelines and facilities. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long lived-asset. The Company estimates future cost of abandonment and rehabilitation costs on each of its properties assuming annual cost inflation of 3% and using a discount rate of 10% to discount back to present value. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows are recognized as a change in the asset retirement obligation and the related asset retirement expense.

Asset retirement costs are amortized using the unit-of-production method and are included as a separate line in the statement of income. Increases in the decommissioning liabilities resulting from the passage of time are recorded as accretion of decommissioning liabilities in the consolidated statement of income.

Revenue Recognition

The sale of oil is recorded when the title passes from the Company to external parties.

Income Taxes

The Company follows the liability method of accounting for income taxes. According to this method, future income taxes are determined based on the difference between the accounting and tax basis of assets and liabilities using the substantively enacted tax rates and fiscal laws expected to apply in the periods in which those differences are expected to reverse. Future income tax assets are recognized when it is more likely than not that the assets will be realized.

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

Income per Share

Income per share is reported on the basis of the treasury stock method. This method recognizes the use of proceeds that could be obtained upon exercise of options and warrants in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common shares at the average market price during the period. The exercise of options and warrants that would result in an increase in income per share amounts or a decrease in loss per share amounts is excluded from the calculations as it becomes anti-dilutive.

Stock-Based Compensation – IFRS2

The Company has established a stock-based compensation plan which includes stock options. The Company records compensation expense in the statement of operations with a corresponding increase to contributed surplus for stock options granted to Directors, Officers, employees and consultants using the fair value method. Compensation costs are recognized over the vesting period. Fair value is determined using the Black-Scholes option pricing model.

Foreign currency translation - IAS 21

The interim consolidated financial statements are expressed in U.S. dollars, the functional currency of Gale Force Petroleum Inc. in the primary economic environment in which an entity operates.

The presentation currency for all subsidiaries and parent company will be in US dollars

Foreign currency transactions – Transactions denominated in foreign currencies are initially recorded in the functional currency of the related entity using the exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates. Any resulting exchange difference is recognized in income except for exchange differences related to intercompany and translation of monetary items are recognized in the statement of comprehensive income under OCI.

Non-monetary assets and liabilities denominated in foreign currencies and measured at historical cost are translated using historical exchange rates, and those measured at fair value are translated using the exchange rate in effect at the date the fair value is determined.

Revenues and expenses are translated using the average exchange rates for the period or the exchange rate at the date of the transaction for significant items.

Foreign currency translation - IAS 21 (Continued)

Foreign operations – Assets and liabilities of foreign operations whose functional currency is other than the U.S. dollar are translated into U.S. dollars using exchange rates in effect at period-end. Revenues and expenses, as well as cash flows, are translated using the average exchange rates for the period. Translation gains or losses are recognized in OCI and are reclassified in income on disposal or partial disposal of the investment in the related foreign operation.

The exchange differences created by the elimination of intercompany monetary items are recognized in OCI. Translation gains or losses are recognized in OCI and are reclassified in income on disposal or partial disposal of the investment in the related foreign operation.

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

Foreign Exchange Rates

The exchange rates for the currencies used in the preparation of the interim consolidated financial statements were as follows:

USD/CAD	Sept 30 2011	Sept 30 2010	June 30 2011	July 1 2010
Exchange rate as at end of period	0.9645	1.0290	1.0482	1.0606
Average rate	1.0016	1.03308	0.98036	1.0270

Changes in Accounting Policy: IFRS Implementation

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 is reporting its consolidated financial statements in accordance with IFRS and has restated the comparative information for the year ended June 30, 2011 and for the opening balance sheet as at July 1, 2010.

Future Accounting Pronouncements

i) **New standard IFRS 9 “Financial Instruments”**

This new standard is a partial replacement of IAS 39 “Financial Instruments: Recognition and Measurement”. This new standard is effective for the annual period beginning on or after January 1, 2013. The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements.

GALE FORCE PETROLEUM INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Sept 30, 2011 and 2010

NOTE 3 – RECEIVABLES

	Sept 30 2011	June 30 2011	July 1 2010
Accounts receivable in Canada	\$ 79,533	\$ 94,654	\$ 12,824
Accounts receivable in US	819,460	564,930	339,708
	\$ 898,992	\$ 659,584	\$ 352,533

NOTE 4 – PREPAID

	Sept 30 2011	June 30 2011	July 1 2010
Prepaid insurance	\$ 27,432	\$ 40,861	\$ 22,300
Prepaid financing expenses	-	7,102	-
Prepaid capital development expenses	177,107	458,200	-
	\$ 204,539	\$ 506,163	\$ 22,300

NOTE 5 – CAPITAL ASSETS

	Sept 30 2011	June 30 2011	July 1 2010
Petroleum and natural gas assets (Including decommissioning liabilities)	\$ 12,615,442	\$ 11,180,690	\$ 1,309,557
Accumulated Depreciation, Depletion and Amortization	528,582	308,402	29,624
Net Book Value	\$ 12,086,860	\$ 10,800,288	\$ 1,279,933

NOTE 6 – DEPOSITS

	Sept 30 2011	June 30 2011	July 1 2010
Deposits – State operator’s bond	\$ 50,000	\$ 50,000	\$ 50,000

NOTE 7 – OTHER ASSETS

	Sept 30 2011	June 30 2011	July 1 2010
Hedges (put options), at cost	\$ 24,472	\$ 30,506	\$ 80,100
Unrealized gain (loss) on fair value of options	60,691	(3,911)	1,936
Net Book Value	\$ 85,164	\$ 26,596	\$ 82,036

The Company purchases crude oil put options to reduce its exposure to crude price fluctuations. The intent of these instruments is not to speculate on future commodity prices, but rather to protect the downside risk to the Company’s cash flow. The Company recognizes the fair value of its put options on the balance sheet of each reporting period with the change in fair value recognized as a gain or a loss on the statement of operations. The fair value is based on quoted market prices. As at Sept 30, 2011, the fair value is estimated to be \$85,164.

NOTE 8 – PAYABLES & ACCRUED LIABILITIES**(In US dollars)**

	Sept 30 2011	June 30 2011	July 1 2010
Accounts payable in Canada	\$ 113,754	\$ 91,661	\$ 124,099
Accounts payable in US	503,129	499,260	497,876
Total accounts payables	621,883	590,921	621,975
Accrued liabilities in Canada	126,745	203,904	114,645
Accrued liabilities in US	202,012	-	-
Accrued liabilities in US – Thunder payable	1,600,000	1,660,000	-
Total accrued liabilities	1,928,757	1,893,894	114,645
Total accounts payables, accrued liabilities	\$ 2,550,640	\$ 2,484,815	\$ 736,620

The Company purchased the Thunder Properties, consisting of 800 acres with 4 producing wells and 1 disposal well in South Texas, with an effective date of June 30, 2011, and therefore had a liability recorded at the end of the quarter for the purchase price of US\$1,600,000. The purchase was concluded on October 18, 2011 and financed through the issuance of additional bank and vendor financing.

NOTE 9 – DUE TO OTHER UNRELATED PARTIES & OTHER LONG TERM DEBT

	Sept 30 2011	June 30 2011	July 1 2010
Due to unrelated parties	-	-	\$ 655,013
Balance of sale payable in shares	\$ 276,759	\$ 300,777	\$ 282,859
Other long-term debt	\$ 46,591	\$ 55,733	-

The balance of sale of \$276,759 is for the purchase of the Central Oklahoma properties and is payable through the issuance of up to 1,160,396 common shares of the Company when a litigation against the seller of the Central Oklahoma properties is resolved. 150% of any collateral costs incurred by the Company in the settlement of the claim shall be reduced from the balance of sale.

Other long-term debts represent liabilities due to various creditors, from which debts were assumed in the acquisition of the Pine Mills property and long-term payment agreements have been reached.

NOTE 10 – BANK FACILITY

	Sept 30 2011	June 30 2011	July 1 2010
Funds drawn from bank facility	\$4,220,000	\$ 4,325,000	\$ 786,940

As at Sept 30, 2011, the bank loan facility with Green Bank of Houston, Texas, was drawn to US\$4,220,000. As of the date hereof, the facility has a borrowing base of US\$6,100,000 and a maturity date of February 28, 2013. There are no required principal payments, however, in April, 2012 an engineering review will determine if any principal reductions are required. The loan amount bears interest equal to Green Bank's prime rate plus 2% but no less than 5% per annum.

The facility contains various additional covenants that restrict the Company from issuing additional debt or disposing of assets, require it to maintain hedges for the sale of 75% of the forecast production from its proved developed producing reserves for 18 months, and require it to maintain the following financial ratios:

- A current ratio of at least 1.0 to 1.0 defined as short-term assets divided by short-term liabilities (including in short-term asset any availability under the facility and excluding from short-term liabilities any debts not payable in cash)
- A debt to worth ratio of no more than 2.0 to 1.0, defined as total liabilities divided by total assets (excluding from assets all intangible assets).
- An interest coverage ratio of 1.25 to 1.0 defined as interest expense divided by EBITDAX (which is EBITDA plus any exploration costs deducted in determining net income)

The Company is in compliance with all covenants under the facility.

NOTE 11 – DECOMMISSIONING LIABILITIES (FORMERLY ASSET RETIREMENT OBLIGATIONS)

	Sept 30 2011	June 30 2011	July 1 2010
Decommissioning liabilities, beginning of period	\$ 1,731,936	\$ 800,063	\$ 57,127
New or disposed of liabilities	(196,365)	849,181	730,422
Accretion expense	25,799	82,692	12,514
Decommissioning liabilities	\$ 1,561,370	\$ 1,731,936	\$ 800,063

The above table provides a reconciliation of the carrying amount of the obligations associated with the decommissioning of oil and gas properties. The total estimated undiscounted cash flows required to settle the obligations is \$4,081,600 as at Sept 30, 2011.

New or disposed of liabilities recorded during the period are the estimated discounted costs of plugging and abandonment of wells and facility that were assumed by the Company when it purchased properties throughout the year. The key assumptions used by the Company in estimating the present value of its decommissioning liabilities include a 10% discount rate and an annual inflation rate of 3%. The settlement of decommissioning liabilities will be funded from the general corporate resources at the time of the property's retirement over the next 3 to 25 years.

GALE FORCE PETROLEUM INC.

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NOTE 12 – CAPITAL STOCK

Common Shares

The Company is authorized to issue an unlimited number of shares, without par value. The following tables describe the accounting for common shares, preferred shares and warrants issued.

Preferred Shares

The Series I Preferred shares are non-voting and have a non-cumulative dividend of 7 %, convertible over a period of five (5) years from their issuance at the option of the holder or of the Company at a conversion price equal to twenty-five cents CA (\$0.25) per common share.

The Series II Preferred Shares are non-voting, pay no dividend, and are convertible 1:1 into Common Shares at the election of the holder or the Company, subject to a conversion limit of 9.99%, whereby the shares cannot be converted should the holder, in conjunction with any Common Shares it already holds, own greater than 9.99% of the Company's voting Common Shares.

Options and Warrants

The following tables describe the options and warrants issued and outstanding:

Security	Issuance Date	Expiry Date	CA \$ Strike Price	Balance, beginning of year	Issued during year	Exercised/Cancelled/Expired	Balance, end of year	US \$ Strike Value
Options	Feb, 2010	Feb 11, 2015	\$0.25	124,000	-	-	124,000	\$ 29,575
Options	May, 2010	May 15, 2015	\$0.33	1,376,000	-	-	1,376,000	\$ 433,200
Options	Mar, 2011	Mar 22, 2016	\$0.33	-	400,000	-	400,000	\$ 125,930
Options	May, 2011	May 5, 2016	\$0.33	-	900,000	-	900,000	\$ 283,343
Total Options				1,500,000	1,300,000		2,800,000	\$ 872,047

Security	Issuance Date	Expiry Date	CA \$ Strike Price	Balance, beginning of year	Issued during year	Exercised/Cancelled/Expired	Balance, end of year	US \$ Strike Value
Warrants	May, 2010	May 14, 2011	\$0.38	3,986,107	-	3,986,107	-	-
Warrants	Feb, 2011	July 31, 2012	\$0.50	-	6,966,342	-	6,966,342	\$3,323,002
Warrants	Feb, 2011	July 31, 2012	\$0.30	-	194,400	-	194,400	\$55,638
Warrants	May, 2011	May 5, 2013	\$0.22	-	2,105,314	-	2,105,324	\$441,873
Total warrants				3,986,107	9,266,066	3,986,107	9,266,066	3,820,514

NOTE 13 – FINANCIAL EXPENSES AND BANK LOAN COSTS

	Sept 30 2011	Sept 30 2010
Interest on long-term debt	\$ 72,779	\$ 24,636
Costs related to financing	-	29,851
Other fees and bank charges	7,703	588
	\$ 80,482	\$ 55,075

In exchange for guarantying the Company's bank loan, guarantors were paid, being 2% of the potential borrowing base of the US\$2.2 million bank loan at that time. The Company is no longer required to have guarantors of its bank debt.

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NOTE 14 – OTHER (INCOME) AND EXPENSES

	Sept 30 2011	Sept 30 2010
Unrealized loss (gain) on hedging contracts	(60,691)	49,432
Reduction in decommissioning liabilities due to disposition	(108,309)	-
Net gain from adjustments to accounts payable and other working capital accounts	(25,937)	(22,789)
	\$ (194,937)	\$ 26,643

The Company sold several leases with 17 non-producing, shut-in wells, reducing its recorded abandonment retirement liabilities by \$108,309.

NOTE 15 – OTHER COMPREHENSIVE INCOME

	Sept 30 2011	Sept 30 2010
Exchange differences on translating foreign operations – Inter company	868,318	(149,371)
Exchange differences on translating foreign operations CA to US (Canada)	1,267,681	-
Exchange differences on translating foreign operations gain (loss)	\$ 2,135,999	\$ (149,371)

NOTE 16 – INCOME (LOSS) PER SHARE

The following table reconciles the numerators and denominators of the basic and diluted earnings per share:

(In US dollars)	Sept 30 2011	Sept 30 2010
Net income (loss)	\$ 152,986	\$ (19,951)
Weighted average number of shares outstanding - basic	35,630,789	15,347,729
Weighted average number of shares outstanding – diluted	35,630,789	15,347,729
Income (loss) per share - basic	\$ 0.0077	\$ (0.0013)
Income (loss) per share - diluted	\$ 0.0077	\$ (0.0013)

In 2010, the company excluded options, warrants and preferred from the calculation of the weighted average number of shares as they were anti-dilutive.

NOTE 17 – INCOME TAXES AND DEFERRED LOSSES

For income tax purposes in Canada, the Company can carry forward losses totalling \$10,566,477 at the Federal level and 12,481,617 at the Provincial level. The expiration dates for using these losses to reduce income taxes are as follows:

(In US dollars)

	Federal	Quebec
2015	\$ 1,054,833	\$ 957,852
2026 to 2031	9,511,644	11,523,766
	\$ 10,566,477	\$ 12,481,617

NOTE 18 – ADDITIONAL CASH FLOW INFORMATION**(In US dollars)**

	Sept 30 2011	Sept 30 2010
Accounts receivable	\$ (239,409)	\$ (36,331)
Prepaid expenses	301,624	(91,757)
Accrued liabilities	10,846	69,762
Payables	30,962	(40,406)
Changes in non-cash working capital items	\$ 104,024	\$ (98,732)

During the period, the Company made the following outlays for interest expense:

Interest expense	\$ 72,779	\$ 24,636
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NOTE 19 – IFRS TRANSITION

As a result of the Accounting Standards Board of Canada's decision to adopt IFRS for publicly accountable entities for financial reporting periods beginning on or after January 1, 2011, the Company has adopted IFRS in these financial statements, making them the first interim financial statements of the Company under IFRS. The Company previously applied the available standards under previous Canadian GAAP that were issued by the Accounting Standards Board of Canada. As required by IFRS 1 "First-time Adoption of International Financial Reporting Standards", July 1, 2010 has been considered to be the date of transition to IFRS by the Company. Therefore, the comparative figures that were previously reported under previous Canadian GAAP have been restated in accordance with IFRS. The Company's comparative figures are expressed in US dollars where previously they were reported in Canadian dollars, differences may result in foreign exchange.

The effect of the Company's transition to IFRS, described in note 2, is summaries in this note as follows:

- i. Transition elections
- ii. Reconciliation of equity and comprehensive income as previously reported under GAAP to IFRS
- iii. Explanatory notes
- iv. Adjustments to the statements of cash flows

NOTE 19 – IFRS TRANSITION (CONTINUED)

i. Transition elections

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

- IAS 21 – The effects of changes in Foreign Exchange rates. The functional currency of each of the Company’s entities is measured using the currency of the primary economic environment in which that entity operates. Under GAAP, foreign currency translations were included as part of Net income and into retained earnings. As per IFRS foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.
- IAS 36 – Deemed cost of property, plant and equipment – Under GAAP, the Company followed full cost accounting for its oil and gas activities. IFRS1 allows companies that followed full cost accounting to measure its oil and gas assets at the same value as measured under GAAP. GFP has elected to utilize this election. As part of the exemption, the total value of the oil and gas assets are to be allocated to the various units-of-accounts that make up each of the Company’s cost centers .The Company has allocated the property, plant and equipment amount recognized under GAAP as at July 1, 2010 to the assets at the CGU level using reserve values calculated using the discounted net cash flows. There is an overall change to the Company’s net book value of our property, plant and equipment and no IFRS impairment at July 1, 2010 and the Company determined that a write-down was required for a few of its subsidiaries. There is no impact to profit or loss; the company adjusted its retained earnings. As per IFRS 1 paragraph 11.
- IFRS 3 – Business combinations – Upon transition to IFRS, a company must adjust its accounting for business combinations carried out prior to transition to comply with IFRS. IFRS 1 provides an exemption which allows companies to carry forward their GAAP accounting for business combinations prior to the transition date. There was no impact to this election since the company was the guidelines to Section 1582 were similar to FRS 3 at the transition date.
- IFRS 2 – Share-based payments – Upon transition to IFRS, a company must adjust its accounting for grants of shares, options or other equity instruments, made prior to transition, in order to comply with the standards under IFRS. IFRS 1 provides an exemption that allows first-time adopters to not apply standards for share-based payments under IFRS for equity instruments that were granted prior to November 7, 2002 and to equity instruments that were granted after November 7, 2002 that have vested prior to transition to IFRS. The Company has elected to utilize this exemption. It should be noted that, for unvested stock options at the date of transition, the assumptions used to estimate the value of these options has not changed from the assumptions used under GAAP and, as a result, no adjustment is required upon transition to IFRS

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NOTE 19 – IFRS TRANSITION (CONTINUED)

i. Reconciliation of equity as previously reported under GAAP to IFRS

	Sept 30 2011	June 30 2011	July 1 2010
Deficit – in US Dollars			
Equity under GAAP	\$ (14,713,936)	\$(15,794,754)	\$(14,822,586)
Impairment GFP USA - IFRS 1 paragraph 11	(725,876)	(725,876)	(725,876)
Impairment GFP Central - IFRS 1 paragraph 11	(2,349,275)	(2,349,275)	(2,349,275)
Impairment GFP Texas - IFRS 1 paragraph 11	(1,303,363)	(1,303,363)	(1,303,363)
Foreign exchange variations prior years	271,124	1,328,179	(129,754)
Equity restated	(18,821,325)	(18,845,089)	(19,331,105)
Net Income (loss) under GAAP (a)	(55,895)	(486,017)	234
Net Income (loss) under IFRS (b)	152,986	199,064	254,586
	(c)	97,090	(286,952)
Net Income (loss) from prior year cum	-	254,820	-
Equity under IFRS	\$ (18,724,235)	\$(18,877,221)	\$(19,076,285)

	Sept 30 2011	June 30 2011	July 1 2010
Net Income			
Net Income (loss) under GAAP	\$55,895	\$486,017	\$(234)
CCTD:			
Total OCI	-	-	-
Total Comprehensive Income under old GAAP (a)	\$55,895	\$486,017	\$(234)

	Sept 30 2011	June 30 2011	July 1 2010
Net Income (loss) under GAAP (a)	\$55,895	\$486,017	\$(234)
IAS 21 to OCI (c)	97,090	(286,952)	254,820
Net Income (loss) under IFRS (b)	152,986	199,064	254,586

	Sept 30 2011	June 30 2011	July 1 2010
Comprehensive income			
Net Income (loss) under IFRS (b)	\$ 152,986	\$199,064	\$254,586
CCTD:			
Foreign Exchange translation	2,135,999	(1,926,393)	(25,568)
Total OCI	2,135,999	(1,926,393)	(25,568)
Total Comprehensive Income under IFRS	2,288,985	\$(1,727,331)	\$229,018

Note: CCTD - Cumulative currency translation differences.

NOTE 19 – IFRS TRANSITION (CONTINUED)

ii. Explanatory notes

The following are explanatory notes concerning the adoption of IFRS accounting standards:

- Under IFRS, depletion of petroleum and natural gas properties is calculated at a unit-of-account level using proved and probable reserves as the basis, as opposed to using only proved reserves as was required practice under GAAP. The Company has elected to use proved and probable reserves in calculating depletion.
- Under IFRS, the assumptions used in calculating decommissioning liabilities are to be analyzed at each balance sheet date and updated to reflect current market conditions when appropriate. The Company has chosen to show accretion separately on its financial statements as opposed to including with depletion and depreciation, as was common practice under GAAP.
- During 2011, the Company disposed of a number of non-core petroleum and natural gas properties. Under GAAP, the proceeds of these dispositions were credited to the Company's full-cost asset pool and no gain or loss was recorded unless the disposition had an effect of 20% or more on the Company's depletion rate. Under IFRS, a gain or loss is calculated on properties or assets disposed of by the Company. As per the IFRS 1 election the company disposed of capital assets of some of its subsidiaries. This impacted the company's capital assets and equity as at July 1, 2010.

iii. Adjustments to the statements of cash flows

The transition from GAAP to IFRS had no significant impact on cash flows generated by the Company except that, under IFRS, cash flows relating to interest are classified as either operating, investing or financing in a consistent manner each period. Given that the Company has long-term debt and all interest earned is on cash and cash equivalents, all interest is classified as operating. Under GAAP, cash flows relating to interest payments were also classified as operating.

NOTE 20 – FINANCIAL INSTRUMENTS

Market Risk

Market risk is the risk that results from changes in market prices such as crude oil and natural gas, foreign exchange rates and interest rates all which could affect the Company's net income or the value of its financial instruments.

The Company purchases crude oil put options to reduce its exposure to oil price fluctuations. The intent of these instruments is not to speculate on future commodity prices, but rather to protect the downside risk to the Company's cash flow.

The Company recognizes the fair value of its put options on the balance sheet of each reporting period with the change in fair value recognized as a gain or a loss on the statement of operations. On June 30, 2011 the fair value was estimated to be US\$85,163. The fair value is at a level 1 which is based on quote market prices.

Interest Rate Risk

The Company had a secured bank loan drawn to US\$4,220,000 at the end of the period, which bears interest of Wall Street Journal prime rate + 1 % or 5%, whichever is higher. Therefore, the interest rate has been and is currently 5% per annum.

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NOTE 20 – FINANCIAL INSTRUMENTS (CONTINUED)

Fair Value

Fair value is estimated on a specific date through the use of the information available on the financial instrument in itself. Estimates of fair value are of a subjective nature and cannot, in many cases, be established with any degree of precision.

The Company has determined that the book value of its short-term assets and liabilities approximates their fair value given their immediate and short-term expiry.

Liquidity Risk

The Company relies on funds raised by the shareholders to cover cash shortfalls from operations, unless it is cash-flow positive.

Credit Risk

Credit risk is the potential exposure of the Company to losses that would be recognized if its counterparties fail to pay amounts due to the Company. The Company is exposed to credit risk from the Company's oil and gas and potentially from its hedging counterparties. The Company mitigates credit risk through marketing relationships with large, healthy, reputable companies.

Foreign Exchange Risk

The Company is subject to risks associated with fluctuations in foreign currencies with regards to the operations in the USA. This includes foreign currency-denominated receivables, payables, debt, and other balance sheet positions as well as future cash flows resulting from anticipated transactions including intercompany transactions.

NOTE 21 – CAPITAL DISCLOSURES

The Company is not exposed to externally imposed capital requirements. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or refund capital to its shareholders. The Company considers the items included in shareholders' equity as capital. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

NOTE 22 – COMPARATIVE FIGURES FOR THE PRIOR YEAR

Certain figures for 2010 have been reclassified to make their presentation identical to that adopted in 2011.

NOTE 23 – SUBSEQUENT EVENTS

Further information is available on the Company's website or on www.SEDAR.com.