GALE FORCE™ PETROLEUM

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three month periods ended September 30, 2014 and 2013

GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES

NATIONAL INTRUMENT 51-102
CONTINUOUS DISCLOSURE OBLIGATIONS NOTICE

The financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting.* Pursuant to Part 4.3 (3) of National Instrument 51-102, these unaudited interim consolidated financial statements of Gale Force Petroleum Inc. as at and for the three month periods ended September 30, 2014 and 2013 have not been reviewed by the Company's external auditors.

These interim condensed consolidated financial statements are intended to provide an update on the Company's annual financial statements as at June 30, 2014. Accordingly, they do not include all of the information required for annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements as at and for the year ended June 30, 2014.

GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES

MANAGEMENT'S REPORT

The Management of Gale Force Petroleum Inc. (the "Company") is responsible for the preparation of the interim consolidated financial statements together with all operational and other financial information contained in the annual report. The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and utilize the best estimates and careful judgments of Management, where appropriate. Operational and other financial information contained throughout the report is consistent with that provided in the interim consolidated financial statements.

Management has developed and maintains a system of internal controls designed to provide reasonable assurance that all transactions are accurately and reliably recorded, that the interim consolidated financial statements accurately report the Company's operating and financial results within acceptable limits of materiality, that all other operational and financial information presented is accurate, and that the Company's assets are properly safeguarded.

The Audit Committee, comprised of a majority of non-management directors, acts on behalf of the Board of Directors to ensure that Management fulfills its financial reporting and internal control responsibilities. The Audit Committee is responsible for meeting regularly with Management and the external auditors to discuss internal controls over financial reporting processes, auditing matters and various aspects of financial reporting. The Audit Committee reviewed the interim consolidated financial statements with Management and recommended approval to the Board of Directors. The Board of Directors has approved these interim consolidated financial statements.

Michael McLellan, CFA	Don DeMoss, CPA
Chief Executive Officer	Chief Financial Officer

Toronto, Canada
November 25, 2014

GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES

Interim Consolidated Statements of Financial Position (Unaudited)
As At

(In U.S. dollars)	Note	Sep. 30, 2014	June 30, 2014
ASSETS			
Current assets			
Cash		$ **1,144,664**	$ 195,538
Receivables	4	**1,050,285**	648,649
Secured note receivable – current portion	5	**100,000**	100,000
Inventory – oil & gas equipment		**16,945**	16,945
Prepaid		**125,220**	89,802
Total current assets		**2,437,114**	1,050,934
Property and equipment	6	**8,747,907**	14,744,511
Oil and gas investments	7	**1,303,388**	1,303,388
Deposits		**50,000**	50,000
Secured note receivable	5	**400,000**	400,000
Hedges (oil swaps)	8	**24,202**	-
Total non-current assets		**10,525,497**	16,497,899
Total assets		$ **12,962,611**	$ 17,548,833
LIABILITIES			
Current liabilities			
Payables	9	$ **358,665**	$ 762,704
Accrued liabilities	9	**715,559**	640,701
Subordinate notes payable	10	**-**	701,255
Hedges (oil swaps) – current portion	8	**-**	193,448
Total current liabilities		**1,074,224**	2,298,108
Bank facility	11	**1,750,000**	4,750,000
Hedges (oil swaps)	8	**-**	92,426
Decommissioning liabilities	12	**243,994**	306,390
Total non-current liabilities		**1,993,994**	5,148,816
Total liabilities		**3,068,218**	7,446,924
SHAREHOLDERS' EQUITY			
Capital stock – common shares	13	**23,972,607**	23,951,749
Capital stock – preferred shares	13	**2,641,622**	2,649,971
Broker's warrants	13	**-**	-
Shares committed for issuance	14	**90,881**	99,505
Contributed surplus		**2,341,989**	2,309,837
Other comprehensive income		**-**	-
Deficit		**(19,152,706)**	(18,909,153)
Total shareholders' equity		**9,894,393**	10,101,909
Total liabilities and shareholders' equity		$ **12,962,611**	$ 17,548,833

See accompanying notes to interim consolidated financial statements. Approved, on behalf of the Board of Directors, by:

Michael McLellan, CFA, Co-Chairman and CEO

Allan Bezanson, Director and Chairman of Audit Committee

GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES

Interim Consolidated Statements of Operations and Comprehensive (Loss) Income (Unaudited)
For the three month period ended

(In U.S. dollars)	Note		Sep. 30, 2014		Sep. 30, 2013
REVENUES					
Oil and natural gas		**$**	**545,653**	$	1,093,199
Production taxes			**(25,113)**		(49,900)
Total revenues		**$**	**520,540**	$	1 ,043,299
EXPENSES (INCOME)					
Change in fair value of embedded derivative liabilities	15		-		(581,693)
Depreciation, depletion and amortization	6		**170,998**		161,725
Financial expenses	16		**54,165**		77,245
General and administrative expenses	17		**273,161**		318,584
Loss on impairment or sale of property and equipment	6		**45,661**		101,839
Operating expenses	18		**323,950**		411,637
Realized (gain) loss on hedges	8		**20,516**		57,706
Restructuring costs	19		**153,566**		-
Share-based compensation	13		**32,152**		34,092
Unrealized (gain) loss on hedges	8		**(310,076)**		250,179
Total expenses		**$**	**764,093**	$	831,314
Net (loss) income before income taxes		**$**	**(243,553)**	$	211,985
Income taxes			**-**		-
Net (loss) income after income taxes		**$**	**(243,553)**	$	211,985
Other comprehensive (loss) income			**-**		-
Net comprehensive (loss) income		**$**	**(243,553)**	$	211,985
Weighted average number of outstanding shares	20				
Basic			**79,107,840**		66,667,021
Diluted			**89,840,722**		89,153,576
Earnings (loss) per share	20				
Basic		**$**	**(0.0031)**	$	0.0032
Diluted		**$**	**(0.0027)**	$	0.0024

See accompanying notes to interim consolidated financial statements.

GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES

Interim Consolidated Statements of Changes in Equity (Unaudited)
For the three month periods ended September 30, 2014 and September 30, 2013
(In U.S. dollars)

	Common shares		Preferred shares		Broker's warrants		Shares committed for issuance	Contributed surplus	Other comprehensive (loss) income	Deficit	Total shareholders' equity
	Quantity	Amount	Quantity	Amount	Quantity	Amount					
Balance as at June 30, 2014	**79,043,665**	**$23,951,749**	**10,745,728**	**$ 2,649,971**	**-**	**$ -**	**$ 99,505**	**$ 2,309,837**	**$ -**	**$(18,909,153)**	**$ 10,101,909**
Shares issued (net of share issuance costs of $3,489)	236,114	12,509	-	-	-	-	(15,998)	-	-	-	(3,489)
Conversion of preferred shares	37,342	8,349	(37,342)	(8,349)	-	-	-	-	-	-	-
Share-based compensation	-	-	-	-	-	-	-	32,152	-	-	32,152
Shares committed for issuance	-	-	-	-	-	-	7,374	-	-	-	7,374
Net loss	-	-	-	-	-	-	-	-	-	(243,553)	(243,553)
Balance as at Sep. 30, 2014	**79,317,121**	**$23,972,607**	**10,708,386**	**$ 2,641,622**	**-**	**$ -**	**$ 90,881**	**$ 2,341,989**	**$ -**	**$(19,152,706)**	**$ 9,894,393**
Balance as at June 30, 2013	**65,304,968**	**$20,899,504**	**22,891,092**	**$ 5,481,430**	**441,878**	**$ 79,357**	**$ -**	**$ 2,099,154**	**$ 592,612**	**$(15,175,263)**	**$ 13,976,794**
Shares issued	960,000	156,600	-	-	-	-	-	-	-	-	156,600
Conversion of preferred shares	1,109,378	267,915	(1,109,378)	(267,915)	-	-	-	-	-	-	-
Share-based compensation	-	-	-	-	-	-	-	34,093	-	-	34,093
Net loss	-	-	-	-	-	-	-	-	-	211,985	211,985
Balance as at Sep. 30, 2013	**67,374,346**	**$21,324,019**	**21,781,714**	**$ 5,213,515**	**441,878**	**$ 79,357**	**$ -**	**$ 2,133,247**	**$ 592,612**	**$(14,963,278)**	**$ 14,379,472**

See accompanying notes to interim consolidated financial statements.

GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES

Interim Consolidated Statements of Cash Flows (Unaudited)
For the three month period ended

(In U.S. dollars)	Note	Sep. 30, 2014	Sep. 30, 2013
OPERATING ACTIVITIES			
Net income (loss)		**$ (243,553)**	$ 211,985
Items not affecting cash flows:			
Unrealized loss (gain) on hedges contracts		**(310,076)**	250,179
Foreign exchange (gain)		**-**	1,738
Change in fair value of embedded derivative liabilities		**-**	(581,693)
Share-based compensation		**32,152**	34,092
Stock issued for payables		**-**	14,270
Loss on Impairment or sale of property and equipment		**43,051**	101,839
Depreciation, depletion and amortization		**170,998**	161,725
Non-cash accrued liabilities		**-**	(253)
		(307,428)	193,882
Net change in non-cash working capital items	21	**(808,191)**	(382,768)
Net cash provided by (used in) operating activities		**(1,115,619)**	(188,886)
INVESTING ACTIVITIES			
Additions to property and equipment		**(193,222)**	(529,949)
Dispositions of property and equipment		**5,913,380**	-
Assets purchased with stock		**-**	141,600
Net cash provided by (used in) investing activities		**5,720,158**	(388,349)
FINANCING ACTIVITIES			
Bank facility		**(3,000,000)**	-
Repayment of subordinate loans		**(667,921)**	-
Share capital – common shares		**12,508**	-
Net cash provided by (used in) financing activities		**(3,655,413)**	-
Net cash (decrease) increase for period		**949,126**	(577,235)
Cash, beginning of period		**195,538**	719,957
Cash, end of period		**$ 1,144,664**	142,722
Additional information:			
Interest Paid		**$ 46,215**	$ 70,278

See accompanying notes to interim consolidated 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 underdeveloped and 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 and Tennessee, as well as an investment in a limited liability company owning liquids-rich natural gas properties in West Virginia. The Company's corporate office is at 100 King Street West, Suite 5700, Toronto, Ontario M5X 1C7. The Company's head operations office is at 4925 Greenville Avenue, Suite 200, Dallas, Texas 75206.

NOTE 2 – BASIS OF PRESENTATION

Statement of compliance

The Company's interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The interim consolidated financial statements were authorized for issuance by the Board of Directors on November 25, 2014.

Basis of Measurement

The interim consolidated financial statements have been prepared based on the historical cost basis except for certain financial instruments which are measured at fair value as explained in the Company's annual consolidated financial statement for the year ended June 30, 2014.

Basis of Consolidation

The interim consolidated financial statements include the accounts of the Company and its wholly-owned U.S. subsidiaries: GFP Texas Inc., GFP Central USA Inc., and Buccaneer Operating, LLC.

Intra-group balances, and any unrealized gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the interim 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.

Functional and presentation currency

The functional currency of the Company and of its wholly-owned U.S. subsidiaries is the U.S. dollar. The interim consolidated financial statements are presented in U.S. dollars. All references to US$ or to $ are to U.S. dollars and references to CA$ are to Canadian dollars.

The Company translates the foreign currency transactions and balances as follows: non-US$ denominated monetary assets and liabilities are translated at period-end exchange rates, while non-US$ denominated revenues and expenses are translated using the exchange rate on the date of the transaction or the average rates for the quarter in which they were incurred. Translation gains and losses related to the operations are included in the interim consolidated statement of income.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES & CRITICAL ACOUNTING ESTIMATES AND JUDGEMENTS

The Company's accounting policies and disclaimers regarding critical accounting estimates and judgements can be found in Notes 3 and 4 in the annual audited consolidated financial statements for the year ended June 30, 2014 (the "June 30, 2014 Financial Statements") found on the Company's website at www.GaleForcePetroleum.com or at www.SEDAR.com.

(In U.S. dollars)

NOTE 4 – RECEIVABLES

		Sep. 30, 2014		June 30, 2014
Sales taxes receivable in CA$ (converted to US$)	**$**	**1,882**	$	2,552
Trade accounts receivable in CA$ (converted to US$)		**9,111**		9,367
Receivable from working interest owners on properties operated by the Company		**226,587**		205,155
Revenues receivable		**246,005**		431,575
Receivable held in escrow for balance of sale of property		**566,700**		-
	$	**1,050,285**	$	648,649

NOTE 5 – SECURED NOTE RECEIVABLE

The Company holds a note receivable secured by a lien on the 100% working interest in the Thunder Properties, plus the personal guarantee of the owners of these working interests (the "**Secured Note**"). The terms of the Secured Note were amended when the Company sold its interests to the other working interest owner, the closing of which occurred on November 14, 2014, in accordance with the terms of a binding agreement signed on August 18, 2014 (the "**Thunder Sale Agreement**"). However, the impact of the Thunder Sale Agreement and the amending of the Secured Note have been recognized in these financial statements (see greater details described below in this section).

		Sep. 30, 2014		June 30, 2014
Outstanding balance – beginning of period	**$**	**500,000**	**$**	**368,431**
Repayment during period		**-**		(95,810)
Addition of other amounts owing from receivables		**-**		227,379
Outstanding balance	**$**	**500,000**	$	500,000
Secured note receivable – current portion		**100,000**		100,000
Secured note receivable – long term portion		**400,000**		400,000

Following the closing of the Thunder Sale Transaction, the collateral for the Secured Note was increased from a 50% working interest to a 100% working interest in the properties. The Secured Note also now has an interest rate of 12% per annum, and the Company will have the right to receive monthly interest and principal payments equal to the greater of $10,000 per month or the net profits from a 50% working interest in the Thunder Properties.

The balance of the Secured Note at the time of its issuance on October 17, 2011 was $831,821, which was repaid over time from net operating profits from the Thunder Properties, to a balance of $272,621 on June 30, 2014. As part of the Thunder Sale Agreement, a combination of the $272,621 remaining owing under the Secured Note Receivable and other joint interest billing amounts owing from the other working interest owner in the property, was converted to an aggregate negotiated balance of $500,000 owing, which was recognized in these statements. The current portion of the Secured Note Receivable is an estimate based on the minimum payments required under the note.

(In U.S. dollars)

NOTE 6 – PROPERTY AND EQUIPMENT

	Wood County	Texas Henderson & Anderson Counties	South Texas	Central Tennessee	Total
Cost					
Balance at June 30, 2014	**$ 6,930,876**	**$ 8,216,130**	**$ 1,120,820**	**$ 141,795**	**$ 16,409,621**
Acquisitions	171,764	-	19,302	-	191,066
Disposition on sale	-	(5,861,224)	(50,000)	-	(5,911,224)
Impairment	(23,749)	-	(19,302)	-	(43,051)
Cap. decommissioning liabilities adjustment	-	(62,397)	-	-	(62,397)
Balance as at Sep. 30, 2014	**$ 7,078,891**	**$ 2,292,509**	**$ 1,070,820**	**$ 141,795**	**$ 10,584,015**
Balance as at June 30, 2014	**$ 864,349**	**$ 251,502**	**$ 443,209**	**$ 106,050**	**$ 1,665,110**
Disposition upon sale	-	-	-	-	-
DD&A	151,148	18,263	-	1,587	170,998
Balance as at Sep. 30, 2014	**$ 1,015,497**	**$ 269,765**	**$ 443,209**	**$ 107,637**	**$ 1,836,108**
Net Book Values					
As at June 30, 2014	**$ 6,066,527**	**$ 7,964,628**	**$ 677,611**	**$ 35,745**	**$ 14,744,511**
As at Sep. 30, 2014	**$ 6,063,394**	**$ 2,022,744**	**$ 627,611**	**$ 34,158**	**$ 8,747,907**

(In U.S. dollars)

NOTE 7 – OIL AND GAS INVESTMENTS

		Sep. 30, 2014		June 30, 2014
Membership interests in oil and gas company – beginning of period	**$**	**1,303,388**	$	1,896,000
Investments during the year		**-**		-
Change in fair value (other comprehensive (loss) income)		**-**		(592,612)
	$	**1,303,388**	$	1,303,388

On January 31, 2012, the Company purchased non-operated interests in the liquids-rich Marcellus shale gas field in Wetzel and Marshall Counties, West Virginia (the "Marcellus Properties"). The Marcellus Properties consist of approximately 10,000 acres, operated by a major oil and gas company, in which the Company owns approximately a 1.1% interest through its 14.63% membership interest in ICO Marcellus, LLC. The Company has invested an aggregate amount of $1,303,388 in the Marcellus Properties.

In a previous fiscal year, one of the Company's co-investors in the Marcellus Properties sold part of their ownership, recognizing a 58% increase in value on the cash invested, requiring the Company to mark-to-market its Marcellus Property investment to fair value of $1,896,000 as at June 30, 2013. The $592,612 change in fair value was treated as other comprehensive (loss) income. During the prior fiscal year, given poorer than expected performance of the investment due mainly to delays and lower returns from infrastructure capacity issues, and also to market environment for the Company's minority interest in the limited liability company that owns the Marcellus Properties, the Company recognized a decrease in the market value of its interest in the ICO Marcellus, LLC, and as such, has adjusted the fair value of its investment to cost.

NOTE 8 – HEDGES (OIL SWAPS)

		Sep. 30, 2014		June 30, 2014
Fair value – beginning of period	**$**	**(285,874)**	$	306,231
Unrealized (loss) gain on fair value of hedges (swaps and put options)		**310,076**		(488,749)
Realized loss from expiration of swaps contracts		**-**		(103,356)
Fair value – end of period	**$**	**24,202**	$	(285,874)
Current portion	**$**	**-**	$	(193,448)
Non-current portion	**$**	**24,202**	$	(92,426)

The Company hedges its exposure to commodity price risk using swap contracts. During the quarter, the Company was paid an aggregate $2,584 due to the fixed price of its swaps being slightly above market for the quarter, effectively increasing the average sales price it obtains for its oil production.

As at September 30, 2014, the Company had swaps in place for 1,250 bbls from October 2014 through December 2014 at a price of $98.25/bbl. and for 1,150 bbls at a price of $87.32/bbl. for all swaps expiring in 2015.

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 hedges on the statement of financial position of each reporting period with the change in fair value recognized as a gain or a loss on the statement of income. The fair value is based on quoted market prices. As at September 30, 2014, the fair value is estimated to be $24,202 (June 30, 2014: ($285,874).

(In U.S. dollars)

NOTE 9 – PAYABLES & ACCRUED LIABILITIES

	Sep. 30, 2014	June 30, 2014
Trade accounts payable in CA$ (converted to US$)	**$ 24,849**	$ 127,221
Trade accounts payable	**333,816**	635,483
Total payables	**$ 358,665**	$ 762,704

	Sep. 30, 2014	June 30, 2014
Accrued liabilities in CA$ (converted to US$)	**$ 88,105**	$ 79,383
Accrued liabilities	**627,454**	561,318
Total accrued liabilities	**$ 715,559**	$ 640,701

NOTE 10 – SUBORDINATE NOTES PAYABLE

	Sep. 30, 2014	June 30, 2014
Texas Reef note payable – current	**$ -**	$ 408,334
Primatlantis bridge loan	**-**	259,588
Iroquois Capital Opportunity Fund	**-**	33,333
	$ -	$ 701,255

The Texas Reef note was a no-interest note issued to the seller of a minority interest in the prospect, secured by the same minority interest in the property. The Primatlantis bridge loan had an 18% interest rate and was secured by a first-rank security interest in the Marcellus property and the Thunder Note Receivable (Note 6), which was itself secured by the 50% working interest in the Thunder property not owned by the Company. The Iroquois Capital Opportunity Fund note was a no-interest note with a subordinate security interest in the Texas Reef properties. All three notes payable were fully repaid by the Company on August 28, 2014, following the conclusion of the sale of a majority stake in the Texas Reef Property.

NOTE 11 – BANK FACILITY

	Sep3 30, 2014	June 30, 2014
Funds drawn from $1,750,000 bank facility	**$ 1,750,000**	$ 4,750,000

As at September 30, 2014, the bank loan facility with Green Bank, N.A. (Houston, TX), was drawn to $1,750,000. As of the date hereof, the facility has a borrowing base of $1,750,000 and a maturity date of July 1, 2016. The loan is interest-only, and bears interest equal to Green Bank's prime rate plus 2%, but no less than 5% per annum. There are no required principal payments on the loan until after January 1, 2015, when an engineering review will determine if any monthly principal reductions are required. The loan 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 production forecast by the bank's engineer 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 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 3.50 to 1.0 defined as interest expense divided by EBITDAX (which is EBITDA plus any exploration costs, unusual items or non-cash items deducted in determining net income).
- A debt service coverage ratio of 1.25 to 1.0 defined as interest expense plus monthly committed reduction divided EBITDA, this covenant being applicable when there are monthly commitment reductions (i.e. principal reductions).

As at September 30, 2014 and as of the date hereof, with the exception for the interest coverage ratio, the Company was in compliance with all financial covenants under the facility. The Company and Green Bank expected this interest coverage ratio violation, and the Company expects that a waiver of the violation will be forthcoming.

(In U.S. dollars)

NOTE 12 – DECOMMISSIONING LIABILITIES

		Total
Balance as at June 30, 2014	**$**	**306,390**
Change in liability estimate		-
Additions		-
Disposals		(62,396)
Accretion expense		-
Balance as at September 30, 2014	**$**	**243,994**

The above table provides a reconciliation of the carrying amount of the obligations associated with the decommissioning of oil and gas properties. New or disposed of liabilities recorded during the period are the estimated discounted costs of plugging and abandonment of wells or facilities that were assumed or released by the Company when it purchased or sold properties throughout the year.

The total estimated undiscounted cash required to settle the obligation is $243,994 as at September 30, 2014 (June 30, 2014: $306,390). The key assumptions used by the Company in estimating the present value of its decommissioning liabilities include an annual inflation rate of 2.00% (June 30, 2014: 2.00%) and a 2.00% risk-free discount rate (June 30, 2014: 2.00%). The decommissioning of assets will be funded from the general corporate resources at the time of each property's retirement over the next 3 to 25 years.

NOTE 13 – CAPITAL STOCK

Common Shares

Authorized Common Shares

The Company is authorized to issue an unlimited number of shares, without par value.

Issued Common Shares

		Date	Number of shares	Amount ($)
Balance as at June 30, 2014			**79,043,665**	**$ 23,951,749**
Shares issued upon conversion of Series III preferred shares	(a)	various	37,342	8,349
Shares issued for services	(b)	Sep. 10, 2014	236,114	12,509
Balance as at September 30, 2014			**79,317,121**	**$ 23,972,607**

a) During the quarter ended September 30, 2014, 37,342 common shares were issued upon the conversion of Series III preferred shares.
b) On September 10, 2014, 236,114 shares were issued as payment for acquisition cost in the Company's sale of its Lisa Layne and Gulftex properties in May 2014.

Preferred Shares

Authorized Preferred Shares

The Company is authorized to issue an unlimited number of preferred shares, in series. All the Series I preferred shares and Series II preferred shares were converted into common shares in a prior fiscal year. The Series III preferred shares are non-voting, pay no dividend, and are convertible one-for-one into common shares at the election of the holder at any time or by the Company if the 20-day average trading price of the Company's common shares is over $0.30 provided there is average trading volume of over 200,000 shares per day, using the combined trading volumes on the TSX Venture Exchange and OTCQX market. The conversion price is $0.25 per share.

(In U.S. dollars)

NOTE 13 – CAPITAL STOCK (CONTINUED)

Issued Preferred Shares

The following table describes the Series III preferred shares issued and outstanding from July 1, 2014 through to September 30, 2014:

	Number of Shares	Amount ($)
Balance as at June 30, 2014	**10,745,728**	**$ 2,649,971**
Conversion of preferred shares	(37,342)	(8,349)
Balance as at September 30, 2014	**10,708,386**	**$ 2,641,622**

Options

The following tables describe the options issued and outstanding and exercisable from July 1, 2014 through September 30, 2014:

	Number of options	Average exercise price	Average Expiry date
Balance as at June 30, 2014	**3,700,000**	**$ 0.15**	**May 22, 2018**
Balance as at September 30, 2014	**3,700,000**	**$ 0.15**	**May 22, 2018**

Stock options are issued by the Company to directors, officers, employees and consultants, to incentivize and align the interests of such persons with the shareholders, and are also issued in lieu of greater cash compensation. Per the Company's Stock Option Plan, options are generally issued for a period of five years from the date of grant with vesting in six equal installments exercisable three months following grant date and vesting every three months thereafter. Subsequent to the period, 3,100,000 of the options outstanding at the end of the period were forfeited and 7,300,000 new options were issued to directors, officers, employees and consultants, all exercisable at $0.06 per share, and all expiring the later of 90 days following the termination of employment of the grantee or 365 days following the closing of a strategic transaction.

The Black-Scholes option valuation model was used to estimate the fair value of the options with the following assumptions. The forfeiture rate estimated by the Company for the year ended September 30, 2014 was zero (June 30, 2014: zero) for all options granted based on the Company's historical data. The following table summarizes the assumptions used by the Company:

	Dividend Yield	Volatility	Risk-free interest rate	Expected life	Grant date fair value (per option)
Options granted – May 22, 2013	0%	100%	1.13%	1.5	0.0571

Total share based compensation for the three month period ended September 30, 2014 was $32,152 (September 30, 2013: $34,092).

Broker's Warrants, presented in equity

All Broker's Warrants expired in the previous fiscal year. In prior periods, the Black-Scholes option valuation model was used to estimate the fair value of the broker warrants.

NOTE 14– SHARES COMMITTED FOR ISSUANCE

As at September 30, 2014, the Company owed $90,881 in director fees and consulting fees, payable in common shares of the Company, which have not been issued as at November 25, 2014.

NOTE 15 – EMBEDDED DERIVATIVE LIABILITIES

Since the functional currency of the Company is the U.S. dollar and certain warrants issued by the Company had a strike price in Canadian dollars and therefore fell under the scope of IAS 32, in accordance with IFRS these warrants were recognized as embedded derivative liabilities and were being measured at fair value, with changes in fair value recorded at each reporting date in the consolidated statement of operations and comprehensive loss. All such warrants expired in the previous fiscal year resulting in no outstanding balance in the current fiscal year.

NOTE 16 – FINANCIAL EXPENSES

The following table provides a breakdown of the financial expenses included in the interim consolidated statements of operations and comprehensive income.

	Sep. 30, 2014	Sep. 30, 2013
Interest on long-term debt	**$ 46,215**	$ 70,278
Other fees and bank charges	**7,821**	5,229
Foreign exchange gain (loss)	**129**	1,738
	$ 54,165	$ 77,245

NOTE 17 – GENERAL AND ADMINISTRATIVE EXPENSES

The following table provides a breakdown of the general and administrative expenses included in the interim consolidated statements of operations and comprehensive (loss) income:

	Sep. 30, 2014	Sep. 30, 2013
Office	**$ 19,885**	$ 8,388
Salaries & fees	**175,823**	161,633
Outside audit, accounting & legal	**35,621**	102,590
Marketing and public company costs	**15,550**	14,747
Travel & entertainment	**8,600**	15,892
Insurance	**17,682**	15,334
	$ 273,161	$ 318,584

NOTE 18 – OPERATING EXPENSES

The following table provides a breakdown of the operating expenses included in the interim consolidated statements of operations and comprehensive (loss) income:

	Sep. 30, 2014	Sep. 30, 2013
Operating overhead	**$ 38,590**	$ 34,382
Lifting expenses	**156,619**	278,742
Repairs and maintenance	**92,358**	60,056
Ad valorem taxes	**33,490**	33,575
Insurance	**2,893**	4,882
	$ 323,950	$ 411,637

(In U.S. dollars)

NOTE 19 – RESTRUCTURING EXPENSES

During the quarter, the Company reduced staffing levels, resulting in one-time expenses totalling $153,566 for severance and associated payroll taxes.

NOTE 20 – EARNINGS (LOSS) PER SHARE

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

	Sep. 30, 2014	Sep. 30, 2013
Net comprehensive (loss) income	**$ (243,553)**	$ 211,985
Shares outstanding at end of period	**79,317,121**	67,374,346
Weighted average number of shares outstanding – basic	**79,107,840**	66,667,021
Dilutive effect of preferred shares	**10,732,882**	21,968,250
Dilutive effect of warrants	**-**	-
Dilutive effect of options	**-**	518,305
Weighted average number of shares outstanding – diluted	**89,840,722**	89,153,576
Earnings (loss) per share – basic	**$ (0.0031)**	$ 0.0032
Earnings (loss) per share – diluted	**$ (0.0027)**	$ 0.0024

The weighted average number for basic common shares for the years presented is in the previous table. Other than basic common shares and convertible preferred shares, all equity instruments have been excluded in calculating the diluted loss per share as they were anti-dilutive for the period ending September 30, 2014, considering the Company was in a loss position for the three month period presented.

NOTE 21 – ADDITIONAL CASH FLOW INFORMATION

	Sep. 30, 2014	Sep. 30, 2013
Receivables	**$ (401,636)**	$ 59,687
Inventory	**-**	1,215
Prepaid	**(35,418)**	(50,120)
Payables	**(445,995)**	(275,985)
Accrued liabilities	**74,858**	(117,565)
Payable for property acquisitions	**-**	-
Changes in working capital items	**$ (808,191)**	$ (382,768)

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

Interest expense	**$ 46,215**	$ 70,278

(In U.S. dollars)

NOTE 22 – FINANCIAL INSTRUMENTS

There has been no change from last year in assessed risk or risk management approaches by the Company.

Market Risk

The Company is exposed to risk from changes in market conditions resulting in fluctuations of crude oil and natural gas prices, foreign exchange rates and interest rates, all which could affect the Company's net income or the value of its financial instruments.

(i) Commodity Price Risk

The Company is exposed to risk from fluctuations in prevailing market commodity prices on the mix of oil and gas it produces. The Company's policy is to manage these risks through the use of either put options (which limit the Company's exposure to fluctuations in commodity prices) or swap contracts (which put a floor under the selling price of some the Company's production) on 50% to 75% of the Company's proved developed producing production (by quantity) for a minimum 18 months at any given time, assuming no production increases. These criteria ensure that the Company maintains the minimum hedging requirement under the terms of its bank facility (see Note 11).

The tables below summarize the impact on profit before tax for changes in commodity prices. In particular, the Company is exposed to fluctuations in crude oil prices based on NYMEX Crude and natural gas prices based on NYMEX gas, therefore the analysis is based on the assumption that these crude oil and natural gas prices fluctuated by as much as 10% upwards or downwards from the price obtained during the periods.

The following table shows the effect on profit before tax from an increase or decrease in the price of crude oil, with all other variables held constant:

	Sep. 30, 2014	Sep. 30, 2013
Increase $10.00/bbl	$ -	$ -
Decrease $10.00/bbl	$ -	$ -

For both periods presented, the table demonstrates that given the hedge contracts in place for the quarter, all volumes produced were protected from price fluctuations.

The following table shows the effect on profit before tax from an increase or decrease in the price of natural gas, with all other variables held constant:

	Sep. 30, 2014	Sep. 30, 2013
Increase $1.00/Mcf	$ 3,863	$ 15,733
Decrease $1.00/Mcf	$ (3,863)	$ (15,733)

(ii) Foreign Exchange Risk

Nearly all of the Company's operations are in its subsidiaries that carry out business in the U.S., which have U.S. dollars as their functional currency. As a result, the Company is not exposed to significant fluctuations resulting from changes in foreign exchange rates.

The following table shows the effect on profit before tax from an increase or decrease in the CA$/US$ exchange rate, with all other variables held constant:

	Sep. 30, 2014	Sep. 30, 2013
+7%	$ (19,996)	$ (70,851)
-7%	$ 19,996	$ 70,851

(In U.S. dollars)

NOTE 22 – FINANCIAL INSTRUMENTS (CONTINUED)

(iii) Interest Rate Risk

The Company had a secured bank loan drawn to $1,750,000 at the end of the period after repaying $3,000,000 on August 27, 2014, which bears interest equal to Green Bank's prime rate plus 2%, but no less than 5% per annum. Therefore, the interest rate has been and is currently 5% per annum.

The following table shows the effect on profit before tax from an increase in the interest rate payable on the Company's bank debt, all other variables being held constant:

	Sep. 30, 2014	Sep. 30, 2013
+2.0%	$ 18,486	$ 28,111

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages this risk by monitoring its cash flows to ensure that it has enough on hand to meet its maturing liabilities. The following are the contractual maturities of the Company's financial liabilities as at September 30, 2014 and June 30, 2014:

September 30, 2014	Amount payable	Less than 1 year	1 to 3 years
Payables	$ 358,665	$ 358,665	$ -
Accrued liabilities	715,559	715,559	-
Bank facility	1,750,000	-	1,750,000
	$ 2,824,224	**$ 1,074,224**	**$ 1,750,000**

June 30, 2014	Amount payable	Less than 1 year	1 to 3 years
Payables	$ 762,704	$ 762,704	$ -
Accrued liabilities	640,701	640,701	-
Subordinate notes payable	701,255	642,922	58,333
Bank facility	4,750,000	-	4,750,000
	$ 6,854,660	**$ 2,046,327**	**$ 4,808,333**

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 sales receivables and from its hedging counterpart. The Company's mitigates credit risk through marketing relationships with large, healthy, reputable companies.

The maximum exposure of the Company as at September 30, 2014 is the total value of its receivables of $1,050,285 (June 30, 2014: $648,649), from which $567,700 is an escrow account jointly controlled with the purchaser of the Texas Reef property. The second largest amount owing is $162,347 (June 30, 2014: $202,770) from Lion Oil Trading and Transportation, which is the largest of the regular purchasers of the Company's oil.

(In U.S. dollars)

NOTE 22 – FINANCIAL INSTRUMENTS (CONTINUED)

Working interest Owings on Properties where the Company is the Operator

Amounts owing from working interest owners on properties where the Company is the operator are past due, but the Company is continuing to collect these amounts from those interest owners' share of net profits earned on the properties in question. Management expects to continue collection of all these debts and therefore there are no amounts considered to be past due or impaired as at September 30, 2014. The fair value of the financial assets classified as loans and receivables and all financial liabilities classified as other financial liabilities have a carrying value which approximates fair value due to their short-term nature.

NOTE 23 – CAPITAL DISCLOSURES

The Company is required to meet the covenants of its bank loan facility, as described in Note 11. 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.

There has been no change in the Company's approach to managing capital during the three month period ending September 30, 2014.

NOTE 24 – KEY MANAGEMENT COMPENSATION

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors. Key management personnel compensation for the three month periods ended September 30 are as follows:

	Sep. 30, 2014	Sep. 30, 2013
Short-term employee benefits and director fees	$ 105,000	$ 147,000
Share-based compensation	32,152	34,092
	$ 137,152	$ 181,092

As at September 30, 2014, a total of $323,225 (2013 - $nil) is owing to key management of the company and is included in payables and accrued liabilities. There were no additional related party transactions or balances in any of the periods presented.

NOTE 25 – SEGMENTED INFORMATION

Substantially all of the Company's revenues and assets are generated from one single industry segment (oil and gas exploitation) located in the United States.

NOTE 26 – SUBSEQUENT EVENTS

As discussed in Note 5, on November 14, 2014 the Company closed the anticipated sale of its 50% working interest in the Thunder Properties (South Texas CGU), to the other owner of the properties for $550,000 and the reduction of the debts owed to the Company by the buyer. A $50,000 deposit was received in August 2014 and the remaining $500,000 was received at closing.

As at November 25, 2014 an additional 679,683 Series III preferred shares had been converted to common shares since September 30, 2014.

Further information is available on www.GaleForcePetroleum.com or www.SEDAR.com