



GALE FORCETM
PETROLEUM

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six month periods ended December 31, 2014 and 2013

Continuous Disclosure Obligations Notice	2
Management's Report	3
Interim Consolidated Financial Statements	
Interim Consolidated Statements of Financial Position	4
Interim Consolidated Statements of Operations and Comprehensive (Loss) Income	5
Interim Consolidated Statements of Changes in Equity	6
Interim Consolidated Statements of Cash Flows	7
Notes to the Interim Consolidated Financial Statements	8 to 19

**GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES**

**NATIONAL INSTRUMENT 51-102
CONTINUOUS DISCLOSURE OBLIGATIONS NOTICE**

The financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*.

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 condensed consolidated financial statements together with all operational and other financial information contained in the quarterly 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
Chief Executive Officer



Don DeMoss, CPA
Chief Financial Officer

Toronto, Canada
February 24, 2015

**GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES**

**Interim Consolidated Statements of Financial Position (Unaudited)
As At**

(In U.S. dollars)

		Dec. 31, 2014	June 30, 2014
	<u>Note</u>		
ASSETS			
Current assets			
Cash		\$ 1,336,594	\$ 195,538
Receivables	4	491,492	648,649
Secured note receivable – current portion	5	90,000	100,000
Inventory – oil & gas equipment		16,945	16,945
Prepaid		122,390	89,802
Total current assets		<u>2,057,421</u>	<u>1,050,934</u>
Property and equipment	6	3,545,725	14,744,511
Oil and gas investments	7	-	1,303,388
Deposits		50,000	50,000
Secured note receivable	5	400,000	400,000
Hedges (oil swaps)	8	402,414	-
Total non-current assets		<u>4,398,139</u>	<u>16,497,899</u>
Total assets		<u>\$ 6,455,560</u>	<u>\$ 17,548,833</u>
LIABILITIES			
Current liabilities			
Payables	9	\$ 261,866	\$ 762,704
Accrued liabilities	9	328,701	640,701
Bank facility	11	1,750,000	-
Subordinate notes payable	10	-	701,255
Hedges (oil swaps) – current portion	8	-	193,448
Total current liabilities		<u>2,340,567</u>	<u>2,298,108</u>
Bank facility	11	-	4,750,000
Hedges (oil swaps)	8	-	92,426
Decommissioning liabilities	12	185,052	306,390
Total non-current liabilities		<u>185,052</u>	<u>5,148,816</u>
Total liabilities		<u>2,525,619</u>	<u>7,446,924</u>
SHAREHOLDERS' EQUITY			
Capital stock – common shares	13	24,126,432	23,951,749
Capital stock – preferred shares	13	2,487,797	2,649,971
Shares committed for issuance	14	103,444	99,505
Contributed surplus		2,360,763	2,309,837
Other comprehensive (loss) income	7	(1,303,388)	-
Deficit		(23,845,107)	(18,909,153)
Total shareholders' equity		<u>3,929,941</u>	<u>10,101,909</u>
Total liabilities and shareholders' equity		<u>\$ 6,455,560</u>	<u>\$ 17,548,833</u>

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)

(In U.S. dollars)

		Three Months Ended Dec 31 2014	Three Months Ended Dec 31 2013	Six Months Ended Dec 31 2014	Six Months Ended Dec 31 2013
	<u>Note</u>				
REVENUES					
Oil and natural gas		\$ 340,060	\$ 1,015,237	\$ 885,713	\$ 2,108,436
Production taxes		(15,622)	(47,368)	(40,735)	(97,268)
Total revenues		\$ 324,438	\$ 967,869	\$ 844,978	\$ 2,011,168
EXPENSES (INCOME)					
Change in fair value of embedded derivative liabilities	15	\$ -	\$ (405,028)	\$ -	\$ (986,721)
Depreciation, depletion and amortization	6	194,962	161,432	365,960	323,158
Financial expenses	16	25,561	74,267	79,597	149,774
Foreign exchange (gain) loss		26,759	(10,501)	26,888	(8,763)
General and administrative expenses	17	224,638	287,770	497,800	606,354
Loss on impairment of property and equipment	6	4,633,012	-	4,676,063	101,839
Loss on sale of assets		36,378	8,364	38,988	8,364
Operating expenses	18	329,105	386,217	653,055	797,852
Realized loss (gain) on hedges	8	(94,139)	(30,124)	(73,623)	27,582
Restructuring costs	19	-	-	153,566	-
Share-based compensation	13	18,775	33,727	50,926	67,819
Unrealized loss (gain) on hedges	8	(378,212)	36,994	(688,288)	287,173
Total expenses		\$ 5,016,839	\$ 543,118	\$ 5,780,932	\$ 1,374,431
Net (loss) income before income taxes		(4,692,401)	424,751	(4,935,954)	636,737
Income taxes		-	-	-	-
Net (loss) income after taxes		(4,692,401)	424,751	(4,935,954)	636,737
Other comprehensive (loss) income					
Change in fair value of oil and gas investments	7	(1,303,388)	-	(1,303,388)	-
Net comprehensive (loss) income		\$ (5,995,789)	\$ 424,751	\$ (6,239,342)	\$ 636,737
Weighted average number of shares	20				
Basic		79,697,046	73,941,081	79,402,443	70,304,052
Diluted		90,025,507	89,229,372	89,933,115	88,938,186
Earnings (loss) per share					
Basic		\$ (0.0589)	\$ 0.0057	\$ (0.0622)	\$ 0.0091
Diluted		\$ (0.0521)	\$ 0.0048	\$ (0.0549)	\$ 0.0072

See accompanying notes to interim consolidated financial statements.

**GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES**

**Interim Consolidated Statements of Changes in Equity (Unaudited)
For the six month periods ended December 31, 2014 and December 31, 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	725,289	162,174	(725,289)	(162,174)	-	-	-	-	-	-	-
Share-based compensation	-	-	-	-	-	-	-	50,926	-	-	50,926
Shares committed for issuance	-	-	-	-	-	-	19,937	-	-	-	19,937
Net loss	-	-	-	-	-	-	-	-	-	(4,935,954)	(4,935,954)
Change in fair value of available for sale assets	-	-	-	-	-	-	-	-	(1,303,388)	-	(1,303,388)
Balance as at Dec. 31, 2014	80,005,068	\$24,126,432	10,020,439	\$ 2,487,797	-	\$ -	\$ 103,444	\$ 2,360,763	\$(1,303,388)	\$(23,845,107)	\$ 3,929,941
Balance as at June 30, 2013	65,304,968	\$20,899,504	22,891,092	\$ 5,481,430	435,190	\$ 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	9,131,618	2,157,585	(9,131,618)	(2,157,585)	-	-	-	-	-	-	-
Share-based compensation	-	-	-	-	-	-	-	67,819	-	-	67,819
Net loss	-	-	-	-	-	-	-	-	-	636,737	636,737
Balance as at Dec. 31, 2013	75,396,586	\$23,213,689	13,759,474	\$ 3,323,845	435,190	\$ 79,357	\$ -	\$ 2,166,973	\$ 592,612	\$(14,538,526)	\$ 14,837,950

See accompanying notes to interim consolidated financial statements.

**GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES**

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

(In U.S. dollars)

**Dec. 31
2014**

**Dec. 31
2013**

OPERATING ACTIVITIES

Note

Net (loss) income		\$ (4,935,954)	\$ 636,737
Items not affecting cash-flows:			
Unrealized loss (gain) on hedges contracts		(688,288)	287,173
Change in fair value of embedded derivative liabilities		-	(986,721)
Share-based compensation		50,926	67,819
Stock issued for payable		-	14,270
Loss on impairment of property value		4,676,063	101,839
Depreciation, depletion and amortization		365,960	323,158
Non-cash accrued liabilities		19,937	729
Net change in non-cash working capital	21	(543,316)	(299,096)
Net cash provided by (used in) operating activities		(1,054,672)	145,908

INVESTING ACTIVITIES

Additions to property and equipment		(385,859)	(1,083,012)
Dispositions of PPE		6,252,996	237,501
Assets purchased with stock		-	141,600
Other assets		-	818
Net cash used in investing activities		5,867,137	(703,093)

FINANCING ACTIVITIES

Bank facility		(3,000,000)	-
Other long-term debt		(667,920)	-
Share issue costs		(3,489)	-
Net cash (used in) provided by financing activities		(3,671,409)	-
Net cash decrease for period		1,141,056	(557,185)
Cash, beginning of period		195,538	719,957
Cash, end of period		\$ 1,336,594	\$ 162,772

Additional information:

Interest paid		\$ 68,524	\$ 140,556
---------------	--	-----------	------------

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 February 24, 2015.

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.

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 operations and comprehensive (loss) income.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES & CRITICAL ACCOUNTING 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.

GALE FORCE PETROLEUM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013
(In U.S. dollars)

NOTE 4 – RECEIVABLES

	Dec. 31, 2014	June 30, 2014
Sales taxes receivable in CA\$ (converted to US\$)	\$ 8,959	\$ 2,552
Trade accounts receivable in CA\$ (converted to US\$)	12,867	9,367
Receivable from working interest owners on properties operated by the Company	236,324	205,155
Revenues receivable	146,193	431,575
Receivable held in escrow for balance of sale of property	87,149	-
	\$ 491,492	\$ 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).

	Dec. 31, 2014	June 30, 2014
Outstanding balance – beginning of period	\$ 500,000	\$ 368,431
Repayment during period	10,000	(95,810)
Addition of other amounts owing from receivables	-	227,379
Outstanding balance	\$ 490,000	\$ 500,000
Secured note receivable – current portion	90,000	100,000
Secured note receivable – non-current 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.

GALE FORCE PETROLEUM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

(In U.S. dollars)

NOTE 6 – PROPERTY AND EQUIPMENT

	Texas			Central	
	Wood County	Henderson & Anderson Counties	South Texas	Tennessee	Total
Cost					
Balance at June 30, 2014	\$ 6,930,876	\$ 8,216,130	\$ 1,120,820	\$ 141,795	\$ 16,409,621
Acquisitions	281,280	68,887	19,302	-	369,469
Disposition on sale	-	(5,861,224)	(1,045,820)	-	(6,907,044)
Impairment	(3,558,546)	(1,035,235)	(82,282)	-	(4,676,063)
Cap. decommissioning liabilities adjustment	-	(62,397)	-	-	(62,397)
Balance as at Dec. 31, 2014	\$ 3,653,610	\$ 1,326,161	\$ 12,020	\$ 141,795	\$ 5,133,586
Balance as at June 30, 2014	\$ 864,349	\$ 251,502	\$ 443,209	\$ 106,050	\$ 1,665,110
Disposition on sale	-	-	(443,209)	-	(443,209)
DD&A	318,180	44,978	-	2,802	365,960
Balance as at Dec. 31, 2014	\$ 1,182,529	\$ 296,480	\$ -	\$ 108,852	\$ 1,587,861
Net Book Values					
As at June 30, 2014	\$ 6,066,527	\$ 7,964,628	\$ 677,611	\$ 35,745	\$ 14,744,511
As at Dec. 31, 2014	\$ 2,471,081	\$ 1,029,681	\$ 12,020	\$ 32,943	\$ 3,545,725

GALE FORCE PETROLEUM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013
(In U.S. dollars)

NOTE 7 – OIL AND GAS INVESTMENTS

	Dec. 31, 2014	June 30, 2014
Membership interests in oil and gas company – beginning of period	\$ 1,303,388	\$ 1,896,000
Investments during the period	-	-
Change in fair value (other comprehensive (loss) income)	(1,303,388)	(592,612)
	\$ -	\$ 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, and the Company marked-to-market its membership interests to fair value of \$1,896,000 as at June 30, 2013. This \$592,612 increase in fair value was treated as other comprehensive income. Since then, given poorer than expected performance of the investment, resulting from the impact of infrastructure capacity limitations on pricing differentials in the Marcellus region, as at June 30, 2014 the Company recognized a decrease in the market value of its interests and adjusted fair value back to cost. During the current period, further deterioration in market conditions and poor performance of the investment has led to the Company recognize a decrease in book value to nil.

NOTE 8 – HEDGES (OIL SWAPS)

	Dec. 31, 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)	688,288	(488,749)
Realized loss from expiration of swaps contracts	-	(103,356)
Fair value – end of period	\$ 402,414	\$ (285,874)
Current portion	\$ -	\$ (193,448)
Non-current portion	\$ -	\$ (92,426)

The Company hedges its exposure to commodity price risk using swap contracts. During the six month period ended December 31, 2014, the Company was paid an aggregate \$94,139 due to the fixed price of its swaps being above market for the period, effectively increasing the average sales price it obtains for its oil production.

As at December 31, 2014, the Company had swaps in place for 1,150 bbls per month 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 operations and comprehensive (loss) income. The fair value is based on quoted market prices. As at December 31, 2014, the fair value is estimated to be \$402,414 (June 30, 2014: (\$285,874)).

GALE FORCE PETROLEUM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013
(In U.S. dollars)

NOTE 9 – PAYABLES & ACCRUED LIABILITIES

	Dec. 31, 2014	June 30, 2014
Trade accounts payable in CA\$ (converted to US\$)	\$ 28,358	\$ 127,221
Trade accounts payable	233,508	635,483
Total payables	\$ 261,866	\$ 762,704
	Dec. 31, 2014	June 30, 2014
Accrued liabilities in CA\$ (converted to US\$)	\$ 39,355	\$ 79,383
Accrued liabilities	289,346	561,318
Total accrued liabilities	\$ 328,701	\$ 640,701

NOTE 10 – SUBORDINATE NOTES PAYABLE

	Dec. 31, 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 5), 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

	Dec. 31, 2014	June 30, 2014
Funds drawn from \$1,750,000 bank facility	\$ 1,750,000	\$ 4,750,000

As at December 31, 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 January 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 currently no required principal payments on the loan, but following an engineering review to be completed in March, 2015, it will be determined 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 December 31, 2014 and as of the date hereof, the Company was not in compliance with the interest coverage and debt service coverage ratio requirements, nor is it meeting its hedging requirements. The Company expects that Green Bank will waive these requirements following a borrowing base review to be completed in March, 2015. However, since no waiver was obtained prior to the end of the period, the entire balance has been shown as a current liability.

GALE FORCE PETROLEUM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013
(In U.S. dollars)

NOTE 12 – DECOMMISSIONING LIABILITIES

	Total
Balance as at June 30, 2014	\$ 306,390
Change in liability estimate	-
Additions	-
Disposals	(121,338)
Accretion expense	-
Balance as at December 31, 2014	\$ 185,052

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 discounted cash required to settle the obligation is \$185,052 as at December 31, 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	725,289	162,174
Shares issued for services	(b)	Sep. 10, 2014	236,114	12,509
Balance as at December 31, 2014			80,005,068	\$ 24,126,432

- a) During the six months ended December 31, 2014, 725,289 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 a finder's fee in regards to 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.

GALE FORCE PETROLEUM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013
(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 December 31, 2014:

	Number of Shares	Amount (\$)
Balance as at June 30, 2014	10,745,728	\$ 2,649,971
Conversion of preferred shares	(725,289)	(162,174)
Balance as at December 31, 2014	10,020,439	\$ 2,487,797

Options

The following tables describe the options issued and outstanding and exercisable from July 1, 2014 through December 31, 2014:

	Number of options	Average exercise price	Average Expiry date
Balance as at June 30, 2014	3,700,000	\$ 0.15	May 22, 2018
Options cancelled	(3,100,000)	0.15	
Options granted	7,300,000	0.06	Nov. 18, 2019
Balance as at December 31, 2014	7,900,000	\$ 0.07	
Options exercisable as at December 31, 2014	600,000	\$ 0.15	January 31, 2015

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. During the period, 3,100,000 of the options outstanding at the end of the period were cancelled 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 granted during the period. The forfeiture rate estimated by the Company for the six month period ended December 31, 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	Expected Volatility	Risk-free interest rate	Expected life	Grant date fair value (per option)
Options granted – November 18, 2014	0%	100%	0.98%	1.5	0.0060

Total share-based compensation for the six month period ended December 31, 2014 was \$50,926 (December 31, 2013: \$67,819).

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 December 31, 2014, the Company owed \$103,444 in director fees and consulting fees, payable in common shares of the Company, which have not been issued as at February 24, 2015.

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 period.

NOTE 16 – FINANCIAL EXPENSES

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

	Dec. 31, 2014	Dec. 31, 2013
Interest on bank facility	\$ 68,524	\$ 140,556
Other fees and bank charges	11,073	9,218
	\$ 79,597	\$ 149,774

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:

	Dec. 31, 2014	Dec. 31, 2013
Office	\$ 42,727	\$ 10,706
Salaries & fees	308,184	349,668
Outside audit, accounting & legal	66,868	158,737
Marketing and public company costs	31,618	28,736
Travel & entertainment	19,040	28,185
Insurance	29,363	30,322
	\$ 497,800	\$ 606,354

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:

	Dec. 31, 2014	Dec. 31, 2013
Operating overhead	\$ 77,181	\$ 63,762
Lifting expenses	317,767	534,169
Repairs and maintenance	199,272	126,499
Ad valorem taxes	53,167	63,657
Insurance	5,668	9,765
	\$ 653,055	\$ 797,852

GALE FORCE PETROLEUM INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013
(In U.S. dollars)

NOTE 19 – RESTRUCTURING EXPENSES

During the six month period ended December 31, 2014, 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:

	Dec. 31, 2014	Dec. 31, 2013
Net (loss) income	\$ (4,935,954)	\$ 636,737
Shares outstanding at end of period	80,005,068	75,396,586
Weighted average number of shares outstanding – basic	79,402,443	70,304,052
Dilutive effect of preferred shares	10,530,672	18,628,270
Dilutive effect of warrants	-	-
Dilutive effect of options	-	5,864
Weighted average number of shares outstanding – diluted	89,933,115	88,938,186
Earnings (loss) per share – basic	\$ (0.0622)	\$ 0.0091
Earnings (loss) per share – diluted	\$ (0.0549)	\$ 0.0072

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 December 31, 2014, considering the Company was in a loss position for the six month period presented.

NOTE 21 – ADDITIONAL CASH FLOW INFORMATION

	Dec. 31, 2014	Dec. 31, 2013
Receivables	\$ 167,157	\$ (73,855)
Inventory	-	1,215
Prepaid	(32,588)	(59,939)
Payables	(426,290)	248,902
Accrued liabilities	(251,595)	(415,419)
Payable for property acquisitions	-	-
Changes in working capital items	\$ (543,316)	\$ (299,096)

NOTE 21 – ADDITIONAL CASH FLOW INFORMATION (CONTINUED)

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

Interest expense	\$ 68,524	\$ 140,556
-------------------------	------------------	-------------------

NOTE 22 – FINANCIAL INSTRUMENTS

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

Fair Value

Fair value is estimated on a specific date through the use of the information available concerning the financial instrument 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 carrying value of its financial assets and liabilities subsequently measured at amortized cost approximates their fair value.

Financial instruments that are subsequently measured at fair value are classified into one of the following categories based on the degree to which fair value is observable:

Level 1: quoted prices (unadjusted) of identical instruments in active markets that the reporting entity has the ability to access at the measurement date.

Level 2: inputs are quoted prices of similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices used in a valuation model that are observable for that instrument, and inputs that are derived principally from or corroborated by observable market data or other means.

Level 3: one or more significant inputs used in a valuation technique are unobservable for the instruments.

The Company's financial instruments are classified as follows:

Financial Instrument	Classification	Level
Cash, receivables, secured note receivable, and deposits	Loans and receivables	N/A
Hedges (oil swaps)	Financial liabilities at FVTPL	Level 1
Oil and gas investments	Available-for-sale financial asset	Level 2
Payables, accrued liabilities and bank facility	Other financial liabilities	N/A
Subordinate notes payable	Financial liabilities at FVTPL	N/A

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.

NOTE 22 – FINANCIAL INSTRUMENTS (CONTINUED)

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:

	Dec. 31, 2014	Dec. 31, 2013
Increase \$10.00/bbl	\$ 12,150	\$ 15,570
Decrease \$10.00/bbl	\$ (12,150)	\$ (15,570)

For both periods presented, the table demonstrates that given the hedge contracts in place for the period, 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:

	Dec. 31, 2014	Dec. 31, 2013
Increase \$1.00/Mcf	\$ 8,506	\$ 31,886
Decrease \$1.00/Mcf	\$ (8,506)	\$ (31,886)

(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:

	Dec. 31, 2014	Dec. 31, 2013
+7%	\$ 7,619	\$ (104,810)
-7%	\$ (7,619)	\$ 104,810

(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:

	Dec. 31, 2014	Dec. 31, 2013
+2.0%	\$ 27,409	\$ 56,222

NOTE 22 – FINANCIAL INSTRUMENTS (CONTINUED)

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 December 31, 2014 and June 30, 2014:

December 31, 2014	Amount payable	Less than 1 year	1 to 3 years
Payables	\$ 261,866	\$ 261,866	\$ -
Accrued liabilities	328,701	328,701	-
Bank facility	1,750,000	1,750,000	-
	\$ 2,340,567	\$ 2,340,567	\$ -

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 December 31, 2014 is the total value of its receivables of \$491,492 (June 30, 2014: \$648,649). The largest amount owing is \$93,279 (June 30, 2014 \$101,285) from a working interest partner for which all revenues for its property interests are paid to the Company. The second largest amount is owing is \$85,227 (June 30, 2014: \$202,770) from Lion Oil Trading and Transportation, which is the largest of the regular purchasers of the Company's oil.

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 December 31, 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 six month period ending December 31, 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 six month periods ended December 31 are as follows:

	Dec. 31, 2014	Dec. 31, 2013
Short-term employee benefits and director fees	\$ 341,125	\$ 303,250
Share-based compensation	50,926	67,819
	\$ 392,051	\$ 371,069

As at December 31, 2014, a total of \$82,020 (2013 - \$81,616) is owing to key management of the company and is included in payables and accrued liabilities. A total of \$243,000 (2013 - \$nil) was paid to officers as contractual severance 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 at February 24, 2015 an additional 115,690 Series III preferred shares had been converted to common shares since December 31, 2014.

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