



**GALE FORCE<sup>TM</sup>**  
**PETROLEUM**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the nine month periods ended March 31, 2015 and 2014**

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**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  
May 27, 2015

**GALE FORCE PETROLEUM INC.  
AND SUBSIDIARIES**

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

**(In U.S. dollars)**

	<u>Note</u>	<b>Mar. 31, 2015</b>	<b>June 30, 2014</b>
<b>ASSETS</b>			
Current assets			
Cash		\$ 891,633	\$ 195,538
Deposits		50,000	-
Receivables	4	314,564	648,649
Secured notes receivable – current portion	5	607,700	100,000
Inventory – oil & gas equipment		16,945	16,945
Prepaid		99,832	89,802
Hedges	6	343,691	-
Total current assets		<u>2,324,365</u>	<u>1,050,934</u>
Property and equipment	7	3,626,090	14,744,511
Oil and gas investments	8	-	1,303,388
Deposits		-	50,000
Secured notes receivable (non-current portion)	5	-	400,000
Total non-current assets		<u>3,626,090</u>	<u>16,497,899</u>
Total assets		<u>\$ 5,950,455</u>	<u>\$ 17,548,833</u>
<b>LIABILITIES</b>			
Current liabilities			
Payables	9	\$ 210,938	\$ 762,704
Accrued liabilities	9	532,542	640,701
Bank facility	11	1,750,000	-
Subordinate notes payable	10	-	701,255
Hedges (oil swaps) – current portion	6	-	193,448
Total current liabilities		<u>2,493,480</u>	<u>2,298,108</u>
Bank facility	11	-	4,750,000
Hedges (oil swaps)	6	-	92,426
Decommissioning liabilities	12	176,027	306,390
Total non-current liabilities		<u>176,027</u>	<u>5,148,816</u>
Total liabilities		<u>2,669,507</u>	<u>7,446,924</u>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock – common shares	13	24,152,301	23,951,749
Capital stock – preferred shares	13	2,461,928	2,649,971
Shares committed for issuance	14	109,631	99,505
Contributed surplus		2,393,859	2,309,837
Other comprehensive (loss)	8	(1,303,388)	-
Deficit		(24,533,383)	(18,909,153)
Total shareholders' equity		<u>3,280,948</u>	<u>10,101,909</u>
Total liabilities and shareholders' equity		<u>\$ 5,950,455</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, 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 Mar. 31 2015	Three Months Ended Mar. 31 2014	Nine Months Ended Mar. 31 2015	Nine Months Ended Mar. 31 2014
	<u>Note</u>				
<b>REVENUES</b>					
Oil and natural gas		\$ 237,224	\$ 1,125,956	\$ 1,122,937	\$ 3,234,392
Production taxes		(10,966)	(51,830)	(51,701)	(149,097)
<b>Total revenues</b>		<b>\$ 226,258</b>	<b>\$ 1,074,126</b>	<b>\$ 1,071,236</b>	<b>\$ 3,085,295</b>
<b>EXPENSES (INCOME)</b>					
Adjustment of note receivable	5	\$ 40,000	\$ -	\$ 40,000	\$ -
Change in fair value of embedded derivative liabilities	15	-	(18,942)	-	(1,005,663)
Depreciation, depletion and amortization	7	102,708	177,745	468,668	500,903
Financial expenses	16	21,947	112,913	101,543	262,687
Foreign exchange (gain) loss		76,719	(310)	103,607	(9,074)
General and administrative expenses	17	172,052	295,259	669,850	901,613
Loss on impairment of property and equipment	7	270,759	43,294	4,946,822	145,133
Loss (gain) on sale of assets		57,888	(3,250)	96,876	5,114
Operating expenses	18	208,305	448,236	861,360	1,246,090
Realized loss (gain) on hedges	6	(127,661)	18,483	(201,283)	46,065
Restructuring costs	19	-	-	153,566	-
Share-based compensation	13	33,095	31,388	84,022	99,207
Unrealized loss (gain) on hedges	6	58,723	93,109	(629,565)	380,283
<b>Total expenses</b>		<b>\$ 914,535</b>	<b>\$ 1,197,925</b>	<b>\$ 6,695,466</b>	<b>\$ 2,572,358</b>
<b>Net (loss) income before income taxes</b>		<b>(688,277)</b>	<b>(123,799)</b>	<b>(5,624,230)</b>	<b>512,937</b>
Income taxes		-	-	-	-
<b>Net (loss) income after taxes</b>		<b>(688,277)</b>	<b>(123,799)</b>	<b>(5,624,230)</b>	<b>512,937</b>
Other comprehensive (loss) income					
Change in fair value of oil and gas investments	8	-	-	(1,303,388)	-
<b>Net comprehensive (loss) income</b>		<b>\$ (688,277)</b>	<b>\$ (123,799)</b>	<b>\$ (6,927,618)</b>	<b>\$ 512,937</b>
<b>Weighted average number of shares</b>	20				
Basic		80,086,267	77,019,837	79,638,386	72,509,966
Diluted		90,013,651	89,594,812	89,963,462	90,196,673
<b>Earnings (loss) per share</b>					
Basic		\$ (0.0086)	\$ (0.0016)	\$ (0.0706)	\$ 0.0071
Diluted		\$ (0.0076)	\$ (0.0014)	\$ (0.0625)	\$ 0.0057

See accompanying notes to interim consolidated financial statements.

**GALE FORCE PETROLEUM INC.  
AND SUBSIDIARIES**

**Interim Consolidated Statements of Changes in Equity (Unaudited)  
For the nine month periods ended March 31, 2015 and March 31, 2014  
(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					
<b>Balance as at June 30, 2014</b>	<b>79,043,665</b>	<b>\$23,951,749</b>	<b>10,745,728</b>	<b>\$ 2,649,971</b>	-	\$ -	<b>\$ 99,505</b>	<b>\$ 2,309,837</b>	<b>\$ -</b>	<b>\$(18,909,153)</b>	<b>\$ 10,101,909</b>
Shares issued (net of share issuance costs of \$3,489)	236,114	12,509	-	-	-	-	(15,998)	-	-	-	(3,489)
Conversion of preferred shares	840,979	188,043	(840,979)	(188,043)	-	-	-	-	-	-	-
Share-based compensation	-	-	-	-	-	-	-	84,022	-	-	84,022
Shares committed for issuance	-	-	-	-	-	-	26,124	-	-	-	26,124
Net loss	-	-	-	-	-	-	-	-	-	(5,624,230)	(5,624,230)
Change in fair value of available for sale assets	-	-	-	-	-	-	-	-	(1,303,388)	-	(1,303,388)
<b>Balance as at Mar. 31, 2015</b>	<b>80,120,758</b>	<b>\$24,152,301</b>	<b>9,904,749</b>	<b>\$ 2,461,928</b>	-	\$ -	<b>\$ 109,631</b>	<b>\$ 2,393,859</b>	<b>\$(1,303,388)</b>	<b>\$(24,533,383)</b>	<b>\$ 3,280,948</b>

  

<b>Balance as at June 30, 2013</b>	<b>65,304,968</b>	<b>\$20,899,504</b>	<b>22,891,092</b>	<b>\$ 5,481,430</b>	<b>435,190</b>	<b>\$ 79,357</b>	<b>\$ -</b>	<b>\$ 2,099,154</b>	<b>\$ 592,612</b>	<b>\$(15,175,263)</b>	<b>\$ 13,976,794</b>
Shares issued	1,593,333	220,787	-	-	-	-	-	-	-	-	220,787
Conversion of preferred shares	11,736,318	2,739,996	(11,736,318)	(2,739,996)	-	-	-	-	-	-	-
Share-based compensation	-	-	-	-	-	-	-	99,207	-	-	99,207
Net income	-	-	-	-	-	-	-	-	-	512,937	512,937
<b>Balance as at Mar. 31, 2014</b>	<b>78,634,619</b>	<b>\$23,860,287</b>	<b>11,154,774</b>	<b>\$ 2,741,434</b>	<b>435,190</b>	<b>\$ 79,357</b>	<b>\$ -</b>	<b>\$ 2,198,361</b>	<b>\$ 592,612</b>	<b>\$(14,662,326)</b>	<b>\$ 14,809,725</b>

See accompanying notes to interim consolidated financial statements.

**GALE FORCE PETROLEUM INC.  
AND SUBSIDIARIES**

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

**(In U.S. dollars)**

**Mar. 31  
2015**

**Mar. 31  
2014**

**OPERATING ACTIVITIES**

Note

Net (loss) income		\$ (5,624,230)	\$ 512,937
Items not affecting cash-flows:			
Unrealized loss (gain) on hedges contracts		(629,565)	380,283
Change in fair value of embedded derivative liabilities		-	(1,005,663)
Share-based compensation		84,022	99,207
Stock issued for payable		-	14,270
Loss on impairment of property value		4,946,822	145,133
Depreciation, depletion and amortization		468,668	500,903
Non-cash accrued liabilities		26,124	729
Adjustment of note receivable	5	40,000	-
Net change in non-cash working capital	21	(854,220)	(397,677)
<b>Net cash provided by (used in) operating activities</b>		<b>(1,542,379)</b>	<b>250,122</b>

**INVESTING ACTIVITIES**

Additions to property and equipment		(349,467)	(2,287,694)
Dispositions of property and equipment		6,407,050	237,500
Other investments		(147,700)	83,538
<b>Net cash provided by (used in) in investing activities</b>		<b>5,909,883</b>	<b>(1,966,656)</b>

**FINANCING ACTIVITIES**

Bank facility		(3,000,000)	250,000
Subordinate notes payable		(667,920)	1,097,443
Share capital – common shares, net of share issuance costs		(3,489)	64,186
<b>Net cash provided by (used in) financing activities</b>		<b>(3,671,409)</b>	<b>1,411,629</b>

Net cash increase (decrease) for period		696,095	(304,905)
Cash, beginning of period		195,538	719,957
<b>Cash, end of period</b>		<b>\$ 891,633</b>	<b>\$ 415,052</b>

**Additional information:**

Interest paid		\$ 90,399	\$ 210,486
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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 May 27, 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](http://www.GaleForcePetroleum.com) or at [www.SEDAR.com](http://www.SEDAR.com).



**GALE FORCE PETROLEUM INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2015 and 2014****(In U.S. dollars)****NOTE 4 – RECEIVABLES**

	<b>Mar. 31, 2015</b>	<b>June 30, 2014</b>
Sales taxes receivable in CA\$ (converted to US\$)	\$ 2,698	\$ 2,552
Trade accounts receivable in CA\$ (converted to US\$)	8,185	9,367
Receivable from working interest owners on properties operated by the Company	43,663	205,155
Revenues receivable	213,502	431,575
Receivable held in escrow for balance of sale of property	46,516	-
	<b>\$ 314,564</b>	<b>\$ 648,649</b>

**NOTE 5 – SECURED NOTES RECEIVABLE**

	<b>Mar. 31, 2015</b>	<b>June 30, 2014</b>
Outstanding balance – beginning of period	\$ 500,000	\$ 500,000
Repayments during the period	(10,000)	-
Adjustment to balance owing	(40,000)	-
New Loans	157,700	-
<b>Outstanding balance</b>	<b>\$ 607,700</b>	<b>\$ 500,000</b>
Secured note receivable – current portion	607,700	100,000
Secured note receivable – non-current portion	-	400,000

On March 31, 2015, The Company held a note receivable for \$450,000, secured by a lien on the 100% working interest in the Thunder Properties (the “Thunder Note”). On May 11, 2015, the Company accepted \$450,000 as full and final repayment of the Thunder Note.

On March 12, 2015, the Company made an initial secured loan of US\$157,700 (the “Secured Note”) to an arms’ length oil and gas company at a rate of 5% per annum, and a maturity date of June 7, 2015, after which time if the loan is not fully repaid to the Company, the interest rate increases to 15% per annum. On April 28, 2015, the Company loaned additional funds, increasing the Secured Note to US\$320,000, followed by an additional loan of US\$80,000 on May 12, 2015, bring the total loan to US\$400,000 as of the date hereof. The Secured Note is secured by a first-ranked mortgage and production assignment on producing oil assets.

**NOTE 6 – HEDGES (OIL SWAPS)**

	<b>Mar. 31, 2015</b>	<b>June 30, 2014</b>
Fair value – beginning of period	\$ (285,874)	\$ 306,231
Unrealized (loss) gain on fair value of hedges (swaps and put options)	629,565	(488,749)
Realized loss from expiration of swaps contracts	-	(103,356)
Fair value – end of period	<b>\$ 343,691</b>	<b>\$ (285,874)</b>
Current portion	<b>\$ 343,691</b>	<b>\$ (193,448)</b>
Non-current portion	<b>\$ -</b>	<b>\$ (92,426)</b>

The Company hedges its exposure to commodity price risk using swap contracts. During the nine month period ended March 31, 2015, the Company was paid an aggregate \$201,283 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 March 31, 2015 the Company held swaps for 1,100 bbls per month at a price of \$87.32/bbl. for each remaining month of 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 March 31, 2015, the fair value is estimated to be \$343,691 (June 30, 2014: (\$285,874)).

**GALE FORCE PETROLEUM INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2015 and 2014

(In U.S. dollars)

**NOTE 7 – PROPERTY AND EQUIPMENT**

	Texas			Central	
	Wood County	Henderson & Anderson Counties	South Texas	Tennessee	Total
<b>Cost</b>					
Balance at June 30, 2014	\$ 6,930,876	\$ 8,216,130	\$ 1,120,820	\$ 141,795	\$ 16,409,621
Acquisitions	744,137	68,887	19,302	-	832,326
Disposition on sale	-	(5,861,224)	(1,045,820)	-	(6,907,044)
Impairment	(3,558,547)	(1,293,973)	(94,302)	-	(4,946,822)
Cap. decommissioning liabilities adjustment	-	(71,422)	-	-	(71,422)
Balance as at Mar. 31, 2015	\$ 4,116,466	\$ 1,058,398	\$ -	\$ 141,795	\$ 5,316,659
<b>Depreciation, Depletion and Amortization (“DD&amp;A”)</b>					
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	405,391	56,896	-	6,381	468,668
Balance as at Mar. 31, 2015	\$ 1,269,740	\$ 308,398	\$ -	\$ 112,431	\$ 1,690,569
<b>Net Book Values</b>					
As at June 30, 2014	\$ 6,066,527	\$ 7,964,628	\$ 677,611	\$ 35,745	\$ 14,744,511
As at Mar. 31, 2015	\$ 2,846,726	\$ 750,000	\$ -	\$ 29,364	\$ 3,626,090

**GALE FORCE PETROLEUM INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2015 and 2014

(In U.S. dollars)

**NOTE 8 – OIL AND GAS INVESTMENTS**

	<b>Mar. 31, 2015</b>	<b>June 30, 2014</b>
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)	<b>(1,303,388)</b>	(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 of \$1,303,388. Previously during this period, further deterioration in market conditions and poor performance of the investment led the Company to recognize a decrease in book value to \$nil.

**NOTE 9 – PAYABLES & ACCRUED LIABILITIES**

	<b>Mar. 31, 2015</b>	<b>June 30, 2014</b>
Trade accounts payable in CA\$ (converted to US\$)	\$ 18,910	\$ 127,221
Trade accounts payable	<b>192,028</b>	635,483
Total payables	\$ <b>210,938</b>	\$ 762,704

	<b>Mar. 31, 2015</b>	<b>June 30, 2014</b>
Accrued liabilities in CA\$ (converted to US\$)	\$ 47,507	\$ 79,383
Accrued liabilities	<b>485,035</b>	561,318
Total accrued liabilities	\$ <b>532,542</b>	\$ 640,701

**NOTE 10 – SUBORDINATE NOTES PAYABLE**

	<b>Mar. 31, 2015</b>	<b>June 30, 2014</b>
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.

**GALE FORCE PETROLEUM INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2015 and 2014****(In U.S. dollars)****NOTE 11 – BANK FACILITY**

	<b>Mar. 31, 2015</b>	<b>June 30, 2014</b>
Funds drawn from \$1,750,000 bank facility (June 30, 2014 - \$4,750,000)	\$ <b>1,750,000</b>	\$ 4,750,000

As at March 31, 2015, the bank loan facility with Green Bank, N.A. (Houston, TX), was drawn to \$1,750,000. On May 8, 2015 a repayment of \$750,000 was made reducing the bank facility balance to \$1,000,000. As of the date hereof, the facility has a borrowing base of \$1,000,000 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 June, 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 March 31, 2015 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 June, 2015 or upon pay down of the loan. However, since no waiver was obtained prior to the end of the period, the entire balance has been shown as a current liability.

**NOTE 12 – DECOMMISSIONING LIABILITIES**

	<b>Total</b>
<b>Balance as at June 30, 2014</b>	<b>\$ 306,390</b>
Change in liability estimate	-
Additions	-
Disposals	(130,363)
Accretion expense	-
<b>Balance as at March 31, 2015</b>	<b>\$ 176,027</b>

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 \$176,027 as at March 31, 2015 (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.

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**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

		<b>Date</b>	<b>Number of shares</b>	<b>Amount (\$)</b>
<b>Balance as at June 30, 2014</b>			<b>79,043,665</b>	<b>\$ 23,951,749</b>
Shares issued upon conversion of Series III preferred shares	(a)	various	840,979	188,043
Shares issued for finder's fee	(b)	Sep. 10, 2014	236,114	7,509
<b>Balance as at March 31, 2015</b>			<b>80,120,758</b>	<b>\$ 24,147,301</b>

- a) During the nine months ended March 31, 2015, 840,979 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.

Issued Preferred Shares

The following table describes the Series III preferred shares issued and outstanding from July 1, 2014 through to March 31, 2015:

	<b>Number of Shares</b>	<b>Amount (\$)</b>
<b>Balance as at June 30, 2014</b>	<b>10,745,728</b>	<b>\$ 2,649,971</b>
Conversion of preferred shares	(840,979)	(188,043)
<b>Balance as at March 31, 2015</b>	<b>9,904,749</b>	<b>\$ 2,461,928</b>

**NOTE 13 – CAPITAL STOCK (CONTINUED)**

*Options*

The following tables describe the options issued and outstanding and exercisable from July 1, 2014 through March 31, 2015:

	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 or expired	(3,700,000)	0.15	
Options granted	7,300,000	0.06	Nov. 18, 2019
Balance as at March 31, 2015	7,300,000	\$ 0.06	
Options exercisable as at March 31, 2015	1,216,667	\$ 0.06	

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 previous quarter, 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. During the current quarter, 600,000 options expired.

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 nine month period ended March 31, 2015 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%	0.94%	2.5	0.0096

Total share-based compensation for the nine month period ended March 31, 2015 was \$84,022 (March 31, 2014: \$99,207). The weighted average remaining life of all outstanding stock options at March 31, 2015 is 4.63 years (June 30, 2014 – 3.89 years).

*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 March 31, 2015, the Company owed \$109,631 in director fees and consulting fees, payable in common shares of the Company, which have not been issued as at the date hereof.

**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.

	Mar. 31, 2015	Mar. 31, 2014
Interest on bank facility	\$ 90,399	\$ 210,486
Other fees and bank charges	11,144	52,201
	<b>\$ 101,543</b>	<b>\$ 262,687</b>

**NOTE 17 – GENERAL AND ADMINISTRATIVE EXPENSES**

The following table provides a breakdown of the general and administrative expenses incurred for the nine months ended March 31, 2015:

	Mar. 31, 2015	Mar. 31, 2014
Office	\$ 66,733	\$ 27,297
Salaries & fees	393,705	543,481
Outside audit, accounting & legal	99,183	200,561
Marketing and public company costs	45,600	49,374
Travel & entertainment	24,575	40,349
Insurance	40,054	40,551
	<b>\$ 669,850</b>	<b>\$ 901,613</b>

**NOTE 18 – OPERATING EXPENSES**

The following table provides a breakdown of the operating expenses incurred for the nine months ended March 31, 2015:

	Mar. 31, 2015	Mar. 31, 2014
Operating overhead	\$ 118,683	\$ 110,319
Lifting expenses	455,986	813,841
Repairs and maintenance	224,694	210,998
Ad valorem taxes	53,188	96,245
Insurance	8,809	14,687
	<b>\$ 861,360</b>	<b>\$ 1,246,090</b>

**NOTE 19 – RESTRUCTURING EXPENSES**

During the nine month period ended March 31, 2015, the Company reduced staffing levels, resulting in one-time expenses totalling \$153,566 for severance and associated payroll taxes.

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**NOTE 20 – EARNINGS (LOSS) PER SHARE**

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

	<b>Mar. 31, 2015</b>	<b>Mar. 31, 2014</b>
Net (loss) income	\$ (5,624,230)	\$ 512,937
Shares outstanding at end of period	<b>80,120,758</b>	78,634,619
Weighted average number of shares outstanding – basic	<b>79,638,386</b>	72,509,966
Dilutive effect of preferred shares	<b>10,325,076</b>	17,686,707
Dilutive effect of warrants	-	-
Dilutive effect of options	-	-
Weighted average number of shares outstanding – diluted	<b>89,963,462</b>	90,196,673
Earnings (loss) per share – basic	\$ (0.0706)	\$ 0.0071
Earnings (loss) per share – diluted	\$ (0.0625)	\$ 0.0057

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 March 31, 2015, considering the Company was in a loss position for the nine month period presented.

**NOTE 21 – ADDITIONAL CASH FLOW INFORMATION**

	<b>Mar. 31, 2015</b>	<b>Mar. 31, 2014</b>
Receivables	\$ 334,085	\$ (76,361)
Inventory	-	1,215
Prepaid	(10,030)	(38,774)
Payables	(620,116)	144,306
Accrued liabilities	(558,159)	(428,063)
<b>Changes in working capital items</b>	<b>\$ (854,220)</b>	<b>\$ (397,677)</b>

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

<b>Interest expense</b>	<b>\$ 90,399</b>	<b>\$ 210,486</b>
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During the nine month period ended March 31, 2015, there were no non-cash investing and financing activities. During the nine month period ended March 31, 2014, the Company issued 885,000 common shares to acquire additional working interest in its Henderson & Anderson County CGU with a fair value of \$141,600. As at March 31, 2015, property and equipment costs remaining in payables totalled \$35,015 and costs remaining in accrued liabilities totalled \$450,000. There were no other non-cash investing and financing activities during the period.



## 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 notes receivable, and deposits	Loans and receivables	N/A
Hedges (oil swaps)	Financial assets 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

### *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:

	Mar. 31, 2015	Mar. 31, 2014
Increase \$10.00/bbl	\$ 32,250	\$ 40,000
Decrease \$10.00/bbl	\$ (32,250)	\$ (40,000)

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:

	Mar. 31, 2015	Mar. 31, 2014
Increase \$1.00/Mcf	\$ 11,534	\$ 49,979
Decrease \$1.00/Mcf	\$ (11,534)	\$ (49,979)

*(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:

	Mar. 31, 2015	Mar. 31, 2014
+7%	\$ 63,380	\$ (136,764)
-7%	\$ (63,380)	\$ 136,764

*(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:

	Mar. 31, 2015	Mar. 31, 2014
+2.0%	\$ 36,160	\$ 84,194

**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 March 31, 2015 and June 30, 2014:

<b>March 31, 2015</b>	<b>Amount payable</b>	<b>Less than 1 year</b>	<b>1 to 3 years</b>
Payables	\$ 210,938	\$ 210,938	\$ -
Accrued liabilities	532,542	532,542	-
Bank facility	1,750,000	1,750,000	-
	<b>\$ 2,493,480</b>	<b>\$ 2,493,480</b>	<b>\$ -</b>

  

<b>June 30, 2014</b>	<b>Amount payable</b>	<b>Less than 1 year</b>	<b>1 to 3 years</b>
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
	<b>\$ 6,854,660</b>	<b>\$ 2,046,327</b>	<b>\$ 4,808,333</b>

*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 mitigates credit risk through marketing relationships with large, healthy, reputable companies.

The maximum exposure of the Company as at March 31, 2015 is the total value of its receivables of \$314,564 (June 30, 2014: \$648,649). The largest amount owing is \$62,897 (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 March 31, 2015. 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 nine month period ending March 31, 2015.

**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 nine month periods ended March 31, 2015 are as follows:

	<b>Mar. 31, 2015</b>	<b>Mar. 31, 2014</b>
Short-term employee benefits and director fees (payable in cash or shares)	\$ 539,500	\$ 425,250
Share-based compensation (stock options)	84,022	99,207
	<b>\$ 623,522</b>	<b>\$ 524,457</b>

As at March 31, 2015, a total of \$86,045 (June 30, 2014 - \$81,616) is owing to key management of the company and is included in payables and accrued liabilities. In the first quarter, 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**

On May 11, 2015, the Company accepted \$450,000 as full and final repayment of the Thunder Note (Note 5).

On April 24, 2015, the Company purchased an additional 10% working interest in a Wood County property for \$200,000 and mutual release of all claims thereby increasing the Company's working interest in its Pine Mills property to approximately 99%.

On April 28, 2015, the Company increased its loan to an oil and gas company, increasing the Secured Note to \$320,000, followed by an additional loan of \$80,000 on May 12, 2015, bringing the total loan to \$400,000 as of the date hereof. The Secured Note is secured by a first-ranked mortgage and production assignment on profitable, producing oil and gas assets (Note 5).

The sale of the Company's remaining interests in its Henderson and Anderson County CGU closed on May 8, 2015 for \$750,000 (Note 7). With the proceeds from the sale of the properties, the Company paid down \$750,000 on its bank loan facility, reducing the outstanding balance owing on the facility to \$1,000,000 (Note 11).

On May 21, 2015, the Company announced that it has entered into a purchase and sale agreement to sell 80% out of its 99% working interest in its Pine Mills property in Wood County, Texas, for US\$2 million. The Closing of the transaction is expected in early June, 2015, and is subject to customary environmental and title due diligence.

As at May 27, 2015 there have been no additional common shares issued nor preferred shares converted to common shares since March 31, 2015.

Further information is available on [www.GaleForcePetroleum.com](http://www.GaleForcePetroleum.com) or [www.SEDAR.com](http://www.SEDAR.com)