



GALE FORCETM
PETROLEUM

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Prepared as at February 24, 2015



TABLE OF CONTENTS

BASIS OF PRESENTATION	3
FORWARD-LOOKING STATEMENTS	3
DEFINITIONS, NOTES AND OTHER CAUTIONARY STATEMENTS.....	3
OVERVIEW OF THE COMPANY	4
STRATEGY, OBJECTIVES AND PLANS	4
RESULTS OF OPERATIONS	5
OPERATIONS PERFORMANCE OVERVIEW	8
QUARTERLY OPERATING INFORMATION	9
HEDGING	10
LIQUIDITY AND CAPITAL RESOURCES.....	10
SHARES ISSUED & OUTSTANDING, OPTIONS & WARRANTS.....	10
OUTLOOK	11
ACCOUNTING AND DISCLOSURE/RISKS AND UNCERTAINTIES	11
ADDITIONAL INFORMATION	11

BASIS OF PRESENTATION

Throughout this document, Gale Force Petroleum Inc. is referred to as “Gale Force Petroleum”, “we” or the “Company”. This management’s discussion and analysis of the financial condition and results of operations (“**MD&A**”) describes our business, the business environment, our vision and strategy as well as the critical accounting policies used by the Company, which should help the reader understand our financial statements, the principal factors affecting the results of operations, and the Company’s liquidity and capital resources. This discussion should be read in conjunction with the Company’s interim consolidated financial statements, including the notes, as at and for the periods ended December 31, 2014 and December 31, 2013.

The Company’s accounting policies are in accordance with International Financial Reporting Standards (“**IFRS**”) and interpretations of the International Financial Reporting Interpretations Committee (“**IFRIC**”). **All dollar amounts herein are in U.S. dollars unless otherwise indicated.**

Except as otherwise specified, references herein to the period indicated the quarter ended December 31, 2014, and all comparisons are to the quarter ended December 31, 2013. References herein to the year indicate the fiscal year ended June 30, 2015, and all comparisons are to the fiscal year ended June 30, 2014.

FORWARD-LOOKING STATEMENTS

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

DEFINITIONS, NOTES AND OTHER CAUTIONARY STATEMENTS

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

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

OVERVIEW OF THE COMPANY

Gale Force Petroleum Inc. (the “**Company**”) is a publicly-traded oil and gas company with working interests in conventional oil and gas properties in Texas, and membership interests in an LLC that owns producing Marcellus shale gas in West Virginia.

Following the end of the quarter, due to the decline in oil prices, the Company revised its reserves estimates using an effective date of December 31, 2014, and WIT oil and NYMEX gas swaps pricing on that date. Using these parameters, the Company has proved and probable reserves of 213,000 net bbls of oil and 268,000 net MCF of natural gas, with a net present value of these reserves being estimated at \$3.3 million using a 10% discount rate. As a result of these reserves estimate revisions, the Company took a significant impairment charge to reflect the decline in value of its property, plant and equipment. Additionally, given deteriorating market conditions and poorer than expected performance of the investment resulting from the impact of infrastructure capacity limitations on pricing differentials in the Marcellus region, the Company has recognized that the value of the investment has decreased and has written the asset down to nil value.

Effective August 1, 2014, the Company sold a majority interest of its Texas Reef Properties as well as its working interest in the Thunder Properties, which reduced its production from 175 BOE per day at the end of June 30, 2014 to 78 BOE per day at the quarter ended December 31, 2014 (to the company’s working interests before royalties).

STRATEGY, OBJECTIVES AND PLANS

The Company’s business plan since May 2010 was to acquire and develop oil and gas properties in the southern U.S., initially taking advantage of the general undervaluation and underinvestment that existed in the Southern U.S. following the financial crisis and oil price collapse in 2008-2009. The funding for these acquisitions and property development projects came from a combination of equity raised through Canadian markets and low-interest U.S. bank debt.

Between May, 2010 and January, 2013, the Company completed ten important acquisitions, various smaller transactions and a land acquisition program, which, in the aggregate, increased the Company’s reserves and grew the Company’s total oil and gas production from zero to a high in 2012 of approximately 650 BOE per day (to its working interests before royalties).

The macroeconomic conditions that helped make the Company’s business plan initially successful have changed. Firstly, the Canadian dollar has declined by roughly 30%, reducing the buying power of funds raised from equity issued in Canada. Also, since the fall of 2012, there has been a significant reduction in demand for the shares of micro and junior oil and gas companies, resulting in a self-fulfilling cycle of decreasing liquidity, and increasing difficulty for junior oil and gas companies to raise new equity financing at reasonable or attractive valuations. At the same time, there is no longer a general undervaluation in the Southern U.S. as the effects of the 2009 U.S. financial crisis have faded.

The Company therefore believes that its business plan to acquire and aggregate smaller properties in the Southern U.S. is no longer appropriate in view of these market trends, and continuing to pursue this business plan would be unlikely to create shareholder value. As a result, the Board of Directors of the Company initiated a strategic review, and has since then sold several assets to pay down debts and free-up capital, while searching for a strategic option to provide the greatest shareholder value.

Strategic Alternative Review Process

The Company has not found an *en bloc* buyer of the Company’s assets, but there has been a high level of interest in its individual properties. As a result, the Company has therefore sold assets to free-up capital and pay down debt, making itself more attractive for a strategic combination or acquisition. The Company is currently evaluating oil and gas companies and assets in North America, where the Company’s cash and near-cash assets would have an impact in creating value.

RESULTS OF OPERATIONS

Comparative Financial Analysis

The following table shows selected consolidated statements of financial position information:

SELECTED INFORMATION CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Dec 31, 2014 (unaudited)	June 30, 2014 (audited)
Total assets	\$ 6,455,560	\$ 17,548,833
Property and equipment	3,545,725	14,744,511
Oil and gas investments	-	1,303,388
Subordinate notes payable	-	701,255
Bank facility	1,750,000	4,750,000
Decommissioning liabilities	185,052	306,390
Shareholders' equity	\$ 3,929,941	\$ 10,101,909
Current assets	\$ 2,057,421	\$ 1,050,934
Current liabilities	\$ 2,340,567	\$ 2,298,108

During the first six months of the fiscal year net property and equipment decreased by \$11 million due to sales of \$5.9 million in Texas Reef property and \$1.0 million in South Texas. Additionally, the Company has impaired its Texas Reef property by \$1.0 million and its Wood County properties by \$3.6 million. These impairments are based on new reserve estimates using current oil pricing, which reflect an approximate 35% reduction in oil prices versus the June 30, 2014 reserves estimates.

A portion of the proceeds from property sales was used to repay \$3.0 million of outstanding bank debt and fully repay the \$701,255 of subordinate notes.

The following table shows the Company's consolidated sales and revenues:

	Quarters ended December 31			Six months ended December 31		
	2014	2013	change	2014	2013	change
Sales	\$ 340,060	\$ 1,015,237	-67%	\$ 885,713	\$ 2,108,436	-58%
Severance taxes	(15,622)	(47,368)	-67%	(40,735)	(97,268)	-58%
Total revenues	\$ 324,438	\$ 967,869	-66%	\$ 844,978	\$ 2,011,168	-58%

For the second quarter of the fiscal year revenues decreased 67% compared to the same quarter in the prior fiscal year. The average sales price decreased \$16.76 to \$59.26 per BOE between the comparable periods. Production for the second quarter of the fiscal year declined 57% to 5,738 BOE compared to 13,355 BOE for the second quarter of the prior fiscal year. For the first half of the fiscal year revenues decreased 58% compared to the first half of the prior fiscal year. The average sales price decreased \$7.69 to \$72.11 per BOE between the comparable periods. Production for the first half of the fiscal year declined 54 % to 12,283 BOE compared to 26,420 BOE for the first half of the prior fiscal year. The production decline was due to the sale of various properties.

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

CASH-ADJUSTED EBITDA						
	Quarters ended December 31			Six months ended December 31		
	2014	2013	change	2014	2013	change
Revenues	\$ 324,438	\$ 967,869	-66%	\$ 844,978	\$ 2,011,168	-58%
Realized (loss) gain on swaps – payments (made) received	94,139	30,124	213%	73,623	(27,582)	367%
Operating expenses	(329,105)	(386,217)	-15%	(653,055)	(797,852)	-18%
General and administrative expenses	(224,638)	(287,770)	-22%	(497,800)	(606,354)	-18%
Cash-Adjusted EBITDA	\$ (135,166)	\$ 324,006	-142%	\$ (232,254)	\$ 579,380	-140%

Cash-adjusted EBITDA decreased \$811,634, or 140% for the first half of the fiscal year compared to the prior year period. As noted above, revenues declined 58%, or \$1,166,190 between the periods. The decline in revenues was partially offset by a realized swap gain of \$73,623 for the first half of the fiscal year compared to a \$27,582 realized swap loss in the comparable prior year period. Operating expense decreased \$144,797 between comparable periods due to the sale of properties. General and administrative expenses decreased \$108,554, or 18%, between comparable six month periods primarily due to reductions in audit, accounting, and legal fees.

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

EBIT / NET INCOME (LOSS)						
	Quarters ended December 31			Six months ended December 31		
	2014	2013	change	2014	2013	change
Cash-Adjusted EBITDA	\$ (135,166)	\$ 324,006	-142%	\$(232,254)	\$ 579,380	-140%
Depletion, depreciation and amortization	194,962	161,432	21%	365,960	323,158	13%
Share-based compensation	18,775	33,727	-44%	50,926	67,819	-25%
Loss (gain) on sale of assets	36,378	8,364	335%	38,988	8,364	366%
Loss on impairment of property and equipment	4,633,012	-	-	4,676,063	101,839	4,492%
Loss on change in fair value of oil and gas investments	1,303,388	-	-	1,303,388	-	-
Restructuring costs	-	-	-	153,566	-	-
Unrealized loss (gain) on hedges	(378,212)	36,994	1,122%	(688,288)	287,173	340%
Foreign exchange (gain) loss	26,759	(10,501)	-355%	26,888	(8,763)	-407%
Change in fair value of embedded derivative liabilities	-	(405,028)	-	-	(986,721)	-
Net income (loss) before interest and taxes	\$(5,970,228)	\$ 499,018	-1,296%	\$(6,159,745)	\$ 786,511	-883%

EBIT declined 883% to a \$6,159,745 loss for the first half of the fiscal year compared to the prior year period. The principal driver was the \$4,676,063 impairment expense and the loss on the fair value of the oil and gas investment as noted above. In the first half of the prior fiscal year the fair value of embedded derivative liabilities (broker warrants) decreased \$986,721.

All outstanding broker warrants expired unexercised in the fourth quarter of the prior fiscal year. The unrealized value of hedges (oil swaps) moved to a \$688,288 gain in the first half of the current fiscal year compared to a \$287,173 loss in the same period of the prior year. See Note 8 of the Company's September 30, 2014 interim consolidated financial statements for information concerning its outstanding oil swaps. The Company incurred \$153,566 in the first half of the current fiscal year due to severance obligations and related payroll taxes.

The following table shows the consolidated statements of comprehensive (loss) income of the Company:

**CONSOLIDATED STATEMENTS OF
OPERATIONS AND COMPREHENSIVE (LOSS) INCOME**

	Quarters ended December 31		Six months ended December 31	
	2014	2013	2014	2013
Sales	\$ 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
Operating expenses	329,105	386,217	653,055	797,852
General and administrative expenses	224,638	287,770	497,800	606,354
Share-based compensation	18,775	33,727	50,926	67,819
Depreciation, depletion and amortization	194,962	161,432	365,960	323,158
Realized (gain) loss on hedges	(94,139)	(30,124)	(73,623)	27,582
Unrealized (gain) loss on hedges	(378,212)	36,994	(688,288)	287,173
Foreign exchange (gain) loss	26,759	(10,501)	26,888	(8,763)
Change in fair value of embedded derivative liabilities	-	(405,028)	-	(986,721)
Restructuring costs			153,566	
Loss on change in fair value of oil and gas investments	1,303,388	-	1,303,388	-
Loss on sale of assets	36,378	8,364	38,988	8,364
Loss on impairment of property and equipment	4,633,012	-	4,676,063	101,839
Net (loss) income before interest and taxes	(5,970,228)	499,018	(6,159,745)	786,511
Financial expenses	25,561	74,267	79,597	149,774
Net comprehensive income (loss)	\$ (5,995,789)	\$ 424,751	\$ (6,239,342)	\$ 636,737

Financial expenses for the first half of the fiscal year declined \$70,177, or 47%, compared to the first half of the prior fiscal year as subordinate notes were paid in full and bank debt was reduced \$3.0 million in the first quarter of the current fiscal year.

The net loss for the first half of the fiscal year was \$6,239,342 compared to \$636,737 in net income for the prior fiscal year period. Cash-Adjusted EBITDA (see above table) decreased 140%, or \$811,634 and net non-cash expenses increased \$6,134,622 from the comparable period due primarily to property and investment impairment.

OPERATIONS PERFORMANCE OVERVIEW

The following table shows production and revenue information from the Company's properties:

PRODUCTION SUMMARY						
	Quarters ended December 31			Six months ended December 31		
	2014	2013	change	2014	2013	change
Total gross production (BOE)	5,738	13,355	-57%	12,283	26,421	-54%
Average sale price to the Company's revenue interests (\$/BOE)	59.26	76.02	-22%	72.11	79.80	-10%
Gross revenues	\$ 340,060	\$1,015,237	-67%	\$ 885,713	\$ 2,108,436	-58%
Production taxes	(15,622)	(47,368)	-67%	(40,735)	(97,268)	-58%
Total revenues	\$ 324,438	\$ 967,869	-66%	\$ 844,978	\$2,011,168	-58%

In the Company's financial statements, only revenues and production taxes to the Company's interests that it receives or pays are accounted for.

During the second quarter of the fiscal year, 99% of the Company's sales were from oil production and 1% of its sales were from natural gas production. For each barrel sold by the Company during the period, the average sales price was \$67.51. For each Mcf of natural gas sold during the period the average sales price was \$1.09. This calculates to an average sales price per BOE of \$59.45. After royalties and production taxes were paid, the Company received an average \$51.11 per barrel of oil and \$0.84 per Mcf of natural gas, for an average of \$45.02 per BOE.

The following tables show the Company's oil and natural gas netbacks:

OIL AND NATURAL GAS NETBACK						
Quarters ended December 31	2014	2013	change	2014	2013	change
	\$/bbl	\$/bbl		\$/Mcf	\$/Mcf	
Average sale price	67.51	89.58	-25%	1.09	4.29	-75%
Royalties and production taxes	16.40	22.03	-26%	.26	1.09	-76%
Production and operations expenses	52.25	34.16	53%	.40	1.46	-73%
Netback	(1.14)	33.39	-103%	.43	1.74	-75%

Oil netbacks declined in the current quarter of this fiscal year versus the comparable quarter last year. This decline is the result of 1) \$22.07 decrease in the average price of oil and 2) unusually high operating costs incurred on the Pine Mills property.

Compared to the comparable quarter of the prior fiscal year, the average price for natural gas declined 75% to \$1.09 per MCF. The prior comparable quarter included gas production from the more liquids rich South Texas property, which was sold effective August 1, 2014.

QUARTERLY OPERATING INFORMATION

The following tables summarize key financial and operating information by quarter:

QUARTERLY OPERATING INFORMATION

January 31, 2014 to December 31, 2014

Quarters ended	Mar. 31, 2014	Jun. 30, 2014	Sep. 30, 2014	Dec. 31, 2014
Production (BOE) ⁽¹⁾	14,492	12,060	6,545	5,738
Avg. price to Company's interests (\$/BOE)	74.12	75.77	83.37	59.26
Oil and natural gas revenues	\$ 1,125,956	\$ 913,764	\$ 545,653	\$ 340,060
Production taxes	(51,830)	(41,466)	(25,113)	(15,622)
Total revenues	1,074,126	872,298	520,540	324,438
Realized gain (loss) on hedges	(18,483)	(57,291)	(20,516)	94,139
Cash operating income (expenses)	(743,495)	(710,738)	(597,111)	(553,743)
Cash-Adjusted EBITDA	312,148	104,269	(97,087)	(135,166)
Non-cash operating income (expenses)	(209,133)	(131,547)	(203,150)	(213,737)
Other income (expenses)	(113,901)	(4,706,431)	110,849	(5,621,325)
Earnings (loss) before interest and taxes	(10,886)	(4,733,709)	(189,388)	(5,970,228)
Financial (expenses)	(112,913)	(105,730)	(54,165)	(25,561)
Net comprehensive income (loss)	\$ (123,799)	\$ (4,839,439)	\$ (243,553)	\$ (5,995,789)

January 1, 2013 to December 31, 2013

Quarters Ended	Mar. 31, 2013	Jun. 30, 2013	Sep. 30, 2013	Dec. 31, 2013
Production (BOE) ⁽¹⁾	12,417	12,449	13,065	13,355
Avg. price to Company's interests (\$/BOE)	69.15	80.49	83.67	76.02
Oil and natural gas revenues	\$ 861,096	\$ 1,002,057	\$ 1,093,199	\$ 1,015,237
Royalties and production taxes	(39,041)	(45,644)	(49,900)	(47,368)
Total revenues	822,055	956,413	1,043,299	967,869
Realized gain (loss) on hedges	61,876	64,019	(57,706)	30,124
Cash operating income (expenses)	(525,865)	(780,748)	(730,220)	(673,987)
Cash-Adjusted EBITDA	358,066	239,684	255,373	324,006
Non-cash operating income (expenses)	(230,145)	(290,019)	(195,817)	(195,159)
Other income (expenses)	654,117	(802,961)	227,937	370,171
Earnings (loss) before interest and taxes	782,038	(853,296)	287,493	499,018
Financial (expenses)	(112,048)	(102,134)	(75,507)	(74,267)
Net comprehensive income (loss)	\$ 669,990	\$ (955,430)	\$ 211,986	\$ 424,751

(1) Production (BOEs) are to the Company's net revenue interests.

The numbers contained in the above two tables differ slightly from those in the prior published management's discussions and analyses, as certain numbers have been reclassified into the same lines for consistency, while others were adjusted to reconcile with the consolidated annual audited financial statements under IFRS for the year ended June 30, 2013.

HEDGING

To hedge risks associated with a decline in oil prices, the Company has entered into “production swaps” and purchased “price floors”, which consist of series of put options. As of the date hereof, the Company has the following hedges:

Contract Month	Production Swaps	
	Avg. Price (\$)	Quantity (bbls/Month)
January 2015 through December 2015	87.32	1,150

LIQUIDITY AND CAPITAL RESOURCES

Working Capital and Source of Funds

As at December 31, 2014, the current ratio of the Company was 0.88, which is the result of \$2,057,421 of current assets divided by \$2,340,567 of current liabilities. However, the bank loan facility, which had a balance of \$1.75 million at December 31, 2014, is not included in the current ratio used by Green Bank. Excluding the loan facility, the current ratio is 3.48 resulting from \$2,057,421 of current assets and \$590,567 of non-bank current liabilities.

Given the current market price for the Company’s shares, the Company generally views issuing equity as highly dilutive and not likely to result in the accretion of value once any funds are invested. The Company has made overhead and payroll reductions effective on November 1, 2014, following which the Company will be roughly cash-flow neutral from operations. Any available cash will sparingly be used by the Company to invest in crucial development projects to enhance or protect asset values.

SHARES ISSUED & OUTSTANDING, OPTIONS & WARRANTS

The following table summarizes the equity structure of the Company as of December 31, 2014 and as of the date hereof:

Security	Quantity Dec 31, 2014	Quantity Feb 24, 2015	Aggregate Strike Value (CA\$)
Common shares	80,005,068	80,120,758	-
Preferred shares ⁽¹⁾	10,020,439	9,904,749	-
Total direct ownership	90,025,507	90,025,507	-
Options at \$0.15 expiring February 1, 2015	600,000	-	-
Options at \$0.06 expiring 2019 ⁽²⁾	7,300,000	7,300,000	438,000
Total fully diluted	97,925,507	97,325,507	\$ 438,000

(1) The preferred shares are convertible into common shares of the Company on a 1:1 basis.

(2) These options expire the later of 90 days following the termination of employment of the grantee, or 365 following the closing of a strategic transaction.

OUTLOOK

With a view towards a strategic alternative, the Company has invested in additional in-depth engineering and geological studies of key properties, as well as in development capital spending to improve production and profitability of key assets, and moved to sell such assets to free-up capital. The Company is seeking to conclude a strategic transaction in the near-term that will re-value the Company in the market or provide a liquidity event to shareholders at a premium to market.

As always, the Company's value is highly dependent on the strength of oil and natural prices. However, barring any significant decline in these resource prices, the Company's assets are highly-marketable in both the private and public markets. We therefore expect to garner significant interest in a strategic transaction from either prospective buyers or merger candidates, either of which should unlock significant value for shareholders.

ACCOUNTING AND DISCLOSURE/RISKS AND UNCERTAINTIES


The Company's accounting and disclosure controls and policies, as well as the significant risks and uncertainties which may have an impact on the Company's business, can be found in the Company's management discussion and analysis and consolidated annual audited financial statement as at and for the year ended June 30, 2014.

ADDITIONAL INFORMATION

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



Michael McLellan, CFA
Chief Executive Officer



Don DeMoss, CPA
Chief Financial Officer