



GALE FORCETM PETROLEUM

Management's Discussion and Analysis
For the Exercise Ended June 30, 2008



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For the year ended June 30, 2008

Prepared as at October 27, 2008

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BASIS OF PRESENTATION

Throughout this document, Gale Force Petroleum Inc. is referred to as “Gale Force Petroleum”, “we” or the “Corporation”. 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 in our Corporation that will help you understand our financial statements, the principal factors affecting the results of operations, and liquidity and capital resources. This discussion should be read in conjunction with the Corporation’s audited annual financial statements, including the notes, for the fiscal years 2008, 2007 and 2006. Gale Force Petroleum’s accounting policies are in accordance with Canadian generally accepted accounting principles (“GAAP”). All dollar amounts are in Canadian dollars unless otherwise indicated. Except as otherwise specified, references to the period or the exercise indicates the year ended June 30, 2008, and all comparisons are to the previous year.

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 Gale Force Petroleum’s intentions, plans, expectations and beliefs, and are subject to risks, uncertainties and other factors, of which many are beyond the control of the Corporation. 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. Gale Force Petroleum 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.

DISCLOSURE CONTROLS AND PROCEDURES

Management has designed such disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to us by others, particularly during the period covered by this annual report. We have designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management has evaluated the effectiveness of the Corporation’s disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the Corporation to disclose in this MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation. Management has concluded that the disclosure controls and procedures are effective.



INTERNAL CONTROL OVER FINANCIAL REPORTING

During the period, the Company updated its financial control policies as part of a process of continuous improvement. These changes continue to ensure the quality and integrity of records and accounting as well as improving the timeliness of financial information.

NON-GAAP MEASURES

This document contains the terms “Adjusted EBITDA” and “Oil Netback” which do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures by other companies. Adjusted EBITDA and Oil Netback are used by Gale Force Petroleum as key measures of performance. Adjusted EBITDA and Oil Netback are not intended to represent operating profits or loss nor should they be viewed as an alternative to cash flow provided by operating activities, net earnings or other measures of financial performance calculated in accordance with GAAP. “Adjusted EBITDA” is the Corporation’s earnings or losses after cash operating expenses, or conversely, before non-cash operating expenses, including financial expenses, taxes, write-off of deferred development costs, stock-based compensation expense, depletion, depreciation and amortization. Adjusted EBITDA is used as management believes that this measure provides better visibility of our cash requirements and/or our ability to generate cash, exclusive of capital investments, exclusive of the costs to finance our activities and exclusive of income taxes. A reconciliation of this item to its closest GAAP measure may be found below. “Oil Netback” is the average sales price of oil less royalties, production taxes, transportation expenses and production expenses. The Oil Netback is used by management as a measure to provide better visibility of the efficiency our operations and their ability to generate cash, exclusive of capital investments, exclusive of the costs to finance our activities and exclusive of income taxes. A reconciliation of this item to its closest GAAP measure may be found below. These non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. They should be considered as supplemental in nature and not a substitute for the related financial information prepared in accordance with GAAP.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Corporation. Capitalized costs relating to the exploration and development of oil and gas reserves, along with estimated future capital expenditures required in order to develop proved and probable reserves, are depleted and depreciated on a unit-of production basis using estimated proved reserves. The carrying value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Liability recognition for asset retirement obligations associated with oil and gas well sites and facilities are determined using estimated costs discounted based on the estimated life of the asset. These capitalized costs are amortized on a unit-of-production basis, consistent with depletion and depreciation. Over time, the liability is accreted up to the actual expected cash outlay to perform the abandonment and reclamation. In order to recognize stock-based compensation expense, the Corporation estimates the fair value of stock options granted using assumptions related to interest rates, expected life of the option, volatility of the underlying security and expected dividend yields. These assumptions may vary over time. The determination of the Corporation’s income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability (or asset) may differ significantly from that estimated and recorded on Gale Force Petroleum’s financial statements.



OVERVIEW OF THE CORPORATION

Gale Force Petroleum is a junior oil and gas corporation with a focus on the development and exploitation of conventional and unconventional gas resources in mature basins. It owns producing natural gas properties in Alberta, Canada and in Kentucky, USA.

The Corporation began oil and gas production in June 2005, and has invested significantly in improving its assets and increasing its reserves ever since. The Corporation now has a total of 11,600 net acres (24,400 gross acres), from which the Corporation has 214 MMcf proven and probably natural gas reserves and 158 MMcf probable natural gas reserves from its Alberta properties, and a contingent resource of 150 Bcf of natural gas (net to the Corporation) from its Kentucky Shale Gas Property.

STRATEGY, OBJECTIVES AND PLANS

We will first talk about our strategy, objectives and plans for the future. We will also take the opportunity to review the progress the Corporation has made towards its Restructuring Plan, adopted in September, 2007, which is nearing completion.

The Corporation will pursue two key drivers of shareholder wealth creation:

1. Converting Contingent Resources to Proven and Probable Reserves: Gale Force Petroleum will continue its efforts to prove that the Kentucky Shale Gas Property's contingent resource of 150 Bcf natural gas can be extracted economically, which will increase the Corporation's independently determined *net asset value* by adding to its proven and probable reserves. The Corporation has already put 4 of 9 existing wells on production. The Corporation is presently engaged in various completion techniques on the remaining 5 wells, and will have these wells tied in by end of the calendar year 2008. Finally, the Corporation will drill additional wells. Overall, this should increase production and increase revenues while creating a "Development Template" to economically extract gas from the consistent 250 ft thick Devonian shale. The Development Template will be used to design a multi-year, multi-well development program.
2. Mergers and Acquisitions: Gale Force Petroleum will try to grow via merger or acquisition, the goal being to create economies of scale. We had begun exploring this strategy during the summer of 2008. Now, organic growth via raising equity and investing in our properties has become more difficult due to market conditions. Therefore, we believe this to be an even more appropriate and attainable method of creating shareholder value should the right opportunity present itself.

To briefly review progress made on the Restructuring Plan adopted in September, 2007, we will first reiterate the three objectives of the Restructuring Plan: (1) to recapitalize and pay down debt, (2) maximize net cash generated from existing assets, and (3) increase the size and quality of the Corporation's asset base via exploration, development and acquisitions.

The Corporation has made significant progress towards meeting the objectives of its restructuring plan. In only one year, we have raised nearly \$5 million in equity, repaid \$2 million in debts, invested in high-quality assets with large potential



upside, sold off our low-growth-potential oil properties, and hired talented management and operators, building our capability as an operator of unconventional gas properties. The Corporation is a much different entity from one year ago, when the Corporation's assets were not as great as its liabilities, and it was facing difficulty meeting its short-term liabilities. The Corporation still faces numerous challenges, but is much better positioned to create wealth for its shareholders.

RESULTS OF OPERATIONS

For the year ended June 30, 2008 revenues were generated from the Corporation's assets located in Alberta and Manitoba.

Financial Information and Analysis

Revenues

Years ended June 30	2008	2007
	\$	\$
Oil and gas division sales	1,278,675	1,396,126
Information technology division sales	-	427,156
Total Revenues	1,278,675	1,823,282

Oil and natural gas revenues decreased by 8% to \$1,278,675 compared with last year reflecting the decline in production from the Corporation's Manitoba property.

There were no information technology division sales because the division was sold on June 29, 2007.

Selected Balance Sheet Information

Years ended June 30	2008	2007
	\$	\$
Assets	5,582,179	4,867,084
Current liabilities	5,592,922	4,876,952
Long-term liabilities	468,171	509,230
Asset-Retirement Obligations	704,385	592,636
Shareholder's equity	(1,183,299)	(1,111,734)

Total assets have increased by 15% when compared with last year, despite the Corporation taking a significant write down of its Manitoban assets due to a ceiling test performed at year end. The increase in total assets as at June 30, 2008 is therefore due to funds raised from equity during the year, which were used in part to increase capital assets in Alberta and the remaining was held as \$1.8 million in cash at year end.



Adjusted EBITDA

Years ended June 30	2008	2007
	\$	\$
Gross Margin	1,081,538	1,623,006
Oil and gas division selling and transportation expenses	19,594	35,452
Oil and gas division production expenses	875,293	484,574
Administrative, professional and consulting fees	1,154,097	1,523,808
Information technology division expenses	-	102,455
Adjusted EBITDA	(967,446)	(523,283)

Despite reduced general and administrative expenses, the Adjusted EBITDA decreased from negative \$523,283 to negative \$967,446, reflecting decreased gross margin and increased production expenses, which means that there was an increased net outflow of cash from operations during the period.

EBITDA is a measure of performance used by analysts to evaluate a Corporation's cash operating activities, while separating out the cost and impact of capital investments and of the Corporation's capital structure. In a similar vein, we use "Adjusted EBITDA", which is defined as earnings before financial expenses, taxes, write-off capital assets, stock-based compensation expense, depletion, depreciation and amortization, because we believe that this measure provides better visibility of our cash requirements and/or our ability to generate cash, exclusive of non-cash operating expenses, exclusive of the costs to finance our activities and exclusive of income taxes.

Operating loss before financial expenses

Years ended June 30	2008	2007
	\$	\$
Adjusted EBITDA	(967,446)	(523,283)
Write-down of exploration and development costs	869,056	2,177,971
Depletion, depreciation and amortization – Oil and gas division	769,770	765,353
Stock-based compensation expense	15,124	248,947
Operating profit (loss) before financial expenses	(2,621,396)	(3,715,554)

By deducting non-cash operating expenses from Adjusted EBITDA we arrive at the operating loss before financial expenses and income taxes (EBIT).



Stock-based Compensation Expense

Years ended June 30	2008	2007
	\$	\$
Stock-based compensation expense	15,124	248,947
Weighted average assumptions for stock options granted:		
Risk-free interest rate	3.43%	4.28%
Expected life in years	1.0	1.0
Expected volatility	58%	118.5%
Expected dividend yield	n/a	n/a

There were options to purchase 859,310 issued during the year. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with a weighted average of the assumptions used shown in the table above.

Profit and Loss Information

Years ended June 30	2008	2007
	\$	\$
Revenues	1,278,675	1,396,126
Royalties, production taxes	(197,137)	(175,816)
Gross margin	1,081,538	1,220,310
Production Expenses	3,702,934	4,719,977
EBIT	(2,621,396)	(3,499,667)
Financial expenses	1,091,132	103,687
Other expenses (income)	750,195	(972,937)
Write-down of future income taxes	-	933,287
Net profit (loss)	(4,462,723)	(4,496,889)

The Corporation lost \$4,462,723, which was similar to the \$4,496,889 loss the previous year. The Corporation expects a much smaller loss or for the year ended June 30, 2009.

Financial expenses were lower due to lower debt levels and the Corporation did not account for a future income tax asset. Other expenses include \$158,000 in expenses and settlement of lawsuits and a contingent tax liability of \$561,682.



Operations Performance Overview

Revenues generated during the year came largely from the Corporation's assets in Manitoba, but also from its properties in Alberta. Oil and gas production from for the year decreased by 32% compared with the same period last year to total 14,589 barrels of oil equivalent ("boe"). This was an average of 40 boe per day throughout the year, compared with 21,472 barrels total or 59 bbls per day during the previous year. The reason for the decrease was that production from the Manitoban properties had decreased to 20 boe per day in September 2007 prior to the Corporation's reinvesting in maintenance and repairs on the property. Production was increased one repairs were undertaken and the Manitoban properties were sold.

Production Summary

Years ended June 30	2008	2007
Total oil production (boe)	14,589	21,472
Average Sale Price (\$/boe)	87.65	65.02
Total Revenues	1,278,675	1,396,109

Production for the year ended June 30, 2008 was 14,589 boe compared with 21,472 boe in the previous year, due to decreased production levels from the Corporation's Manitoban properties, which were sold subsequent to year end. The price of oil was much higher compared with the previous year, at an average \$87.65 per boe compared with \$65.02 per boe the previous year.

Oil Netback

Years ended June 30	2008	2007
	\$ / bbl	\$ / bbl
Sales price	93.07	65.02
Royalties and production taxes	13.18	8.19
Transportation and selling expense	1.34	1.65
Production and operations expense	53.62	22.57
Oil netback	24.93	32.61

For the year ended June 30, 2008, production and operations expenses were \$53.62 per bbl, compared is 138% greater than the \$22.57 from last year, because the Corporation spent heavily to deal with a backlog of maintenance and repair dilapidated operations on its Manitoban properties. This helped maintain production and increased the value of the properties prior to their sale in September, 2008.

Royalties and production taxes were \$13.18 per bbl compared with \$8.19 per bbl in the previous year, due to the higher per barrel price of oil.

The Corporation is not providing a Natural Gas Netback because natural gas sales began shortly before year, and represented only 7% of sales for the year.



Quarterly Operating Information

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

Quarters Ended	Sep-07	Dec-07	Mar-08	Jun-08
	\$	\$	\$	\$
Production (boe)	3,250	1,920	4,147	5,273
Realized oil sales price (\$/boe)	77.03	80.78	93.33	92.22
Oil and gas division revenues	250,350	155,068	387,025	486,233
Royalties and production taxes	30,490	22,152	57,318	87,177
Gross margin	219,860	132,916	329,706	399,056
Cash operating expenses	314,655	363,126	370,621	1,095,987
Adjusted EBITDA	(94,795)	(230,210)	(40,915)	(696,931)
Non-cash operating expenses	62,901	38,605	103,032	464,559
Gain (Loss) before financial expenses and income taxes	(157,696)	(268,815)	(143,947)	(1,161,490)
Financial expenses	215,943	257,685	215,817	398,425
Other Income (Expenses)	(11,623)	228,543	(12,446)	876,749
Future income taxes	-	-	-	561,682
(Net profit (loss))	(362,016)	(755,043)	(347,318)	(2,998,346)

Quarters Ended	Sep-06	Dec-06	Mar-07	Jun-07
	\$	\$	\$	\$
Production (boe)	7,176	6,304	3,854	3,505
Realized oil sales price (\$/boe)	72.43	61.87	62.33	69.37
Oil and gas division revenues	519,734	390,022	243,226	243,144
Royalties and production taxes	70,468	48,964	27,830	28,554
Gross margin	449,266	341,058	215,396	214,590
Cash operating expenses	433,392	576,908	553,279	624,675
Adjusted EBITDA	15,874	(235,850)	(337,883)	(410,085)
Non-cash operating expenses	325,023	231,399	237,262	232,920
Loss before financial expenses and income taxes	(309,149)	(467,249)	(575,145)	(643,005)
Financial expenses	257,731	266,169	305,988	237,294
Others products	(165,284)	15,676	1,123	1,330,787
Future income taxes	(63,251)	(219,807)	(264,646)	1,480,991
Net loss	(338,345)	(529,287)	(617,610)	(3,692,077)



Liquidity and Capital Resources

Source of Funds

Since adopting the Restructuring Plan in September 2007, the Corporation raised a total \$4,929,746 in private placements of shares and warrants. Additionally, subsequent to year-end the Corporation sold its Manitoban oil properties for total gross proceeds of \$1.45 million. The funds raised in private placements and from the sale of properties provided the Corporation with the liquidity to ensure its viability in the short-term and provide it with financial resources for some capital investments.

Despite the success of its fund raising activities and sale of properties, the Corporation has a working capital deficit and significant outstanding short-term commitments. During the last several quarters, the Corporation's operations did not generate sufficient cash inflows to cover cash outflows. Additionally, the Corporation has expended liquidity by reimbursing \$1 million of short-term "bridge" debt since year end. As a result, the Corporation has significant short-term debts with its suppliers in addition to its remaining short-term "bridge" debt of \$2,000,000 as at October 27, 2008 (was \$3,000,000 as at June 30, 2008). Also, as a result of flow-through share financings completed during the calendar year 2007, the Corporation is committed to spending \$1.89 million during the calendar year 2008 on expenditures that will qualify as Canadian Exploration Expense ("CEE") or Canadian Development Expense ("CDE"). As at October 27, 2008, the Corporation had incurred \$650,403 of CEE and CDE during the calendar year 2008. If the Corporation does not meet its CEE and CDE spending obligations during 2008 it will be required to withdraw its renunciation of tax deductions towards some investors, and assume those investor's increased tax liabilities, which is estimated to cost up to an aggregate \$561,682. The Corporation has several potential opportunities to incur CEE and CDE, but does not currently have sufficient funds to incur the expenses. The Corporation is engaged in fund-raising efforts, but due to market conditions, it is unlikely to raise sufficient funding in time to incur the CEE and CDE prior to year end.

The Corporation has agreed to renew \$2,000,000 of short-term "bridge" debt on October 31, 2008 for a period of six months. Interest of 12% per annum is payable on the loan, with additional renewal fees and management fees increasing the cost of the loan by up to approximately \$120,000 over six months. The loan agreement provides for full or partial early reimbursement at the Corporation's discretion without penalty, and it is the intention of the Corporation to fully reimburse the loan if possible by raising \$1 million in equity and finding a cheaper, longer-term replacement for the remaining \$1million.

Capital expenditures planned for the near-term, in Kentucky, USA and Alberta, Canada, will be funded using cash on hand and cash from incoming revenues. Additional planned capital expenditures will be incurred using the proceeds of private placement financings. The financial resources necessary for additional capital expenditures and for the repayment of short-term debts will necessarily come from new fund raising.

As at the end of the period, the Corporation had \$1,865,607 in cash, which was used largely to purchase and commence development of the Kentucky Shale Gas Property.

Convertible debentures with aggregate face values of \$270,000 that were issued on February 16th, 2007, have a 12% coupon, and reach maturity on February 16th, 2012, with interest payments payable in arrears semi annually on each July 31 and January 31 until the maturity date.



Working Capital

The Corporation's current ratio as at June 30, 2008 was 0.40, which is composed of \$2,228,551 of current assets divided by \$5,592,922 of current liabilities. If you remove the Corporation's short-term debt from the calculation, current liabilities were \$2,592,922 and the current ratio improves to 0.86. These ratios increased from 0.32 and 0.56 respectively since last year, as expected, due to the successful implementation of the restructuring plan, which saw the Corporation raise funds from equity to reimburse debt and increase assets.

The Corporation does not have sufficient working capital to cover net cash outflows from operations until the Corporation becomes cash-flow neutral from operations, now expected for February 2009 when the Corporation is expected to receive increased revenues from its Kentucky Shale Gas Property in addition to revenues from its Radway, Alberta properties. The Corporation plans to raise the minimum required funds from equity to ensure it is able to cover its net cash outflows.

The Corporation has no issues with respect to collection. In Canada, the oil and gas industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of oil and natural gas, which occurs 25 days following the end of the month of sale. In Kentucky, USA, the Corporation received payment for delivered production 60 days following the end of the month of sale. As a result, the Corporation's production revenues are collected in an orderly fashion.

Ceiling Test

The Corporation performs a ceiling test calculation at June 30 each year in accordance with the CICA full-cost accounting guidelines.

Contractual Obligations

Gale Force Petroleum has a short-term "bridge" loan agreement with a lender, which the Corporation has agreed to renew on October 31, 2008 for a period of six months. The total borrowed amount under this facility as at June 30, 2008 was \$3 million, which has been reduced to \$2 million as at October 27, 2008. The interest rate of the loan is 12%, with additional renewal fees and management fees increasing the cost of the loan by up to approximately \$125,000 over six months. The loan agreement provides for full or partial early reimbursement at the Corporation's discretion without penalty, and it is the intention of the Corporation to fully reimburse the loan if possible by raising \$1 million in equity and finding a cheaper, longer-term replacement for the remaining \$1million.

The Corporation has outstanding convertible debentures with total face value of \$270,000 and a 12% coupon payable in arrears bi-annually.

As a normal course of business, the Corporation leases office space and has contracts with its employees, consultants and board members.



Outlook

For this section in particular, please read the advisory regarding forward-looking statements above.

Due to the Corporation's high-quality asset base – comprised of its high-potential Kentucky Shale Gas Property and its cash-generating Albertan assets - the Corporation is well positioned to create wealth for its shareholders.

Positive results from the development of the Kentucky Shale Gas Property will increase the Corporation's net asset value and its proven and probable reserves. The characteristics of the property are such that we can be confident to be able raise some funding or possibly farmout interests to third-parties to ensure its continued development.

Gale Force Petroleum faces some difficult challenges ahead, notably raising the funds to fully develop of its properties and to repay debts to complete the Restructuring Plan.

In the Outlook section of our Management's Discussion last year, we discussed two avenues for growth: (1) Exploration and development and (2) Acquisitions. We have largely succeeded in these strategies, by raising funds from equity to purchase and develop the Kentucky Shale Gas Property, in developing the Alberta Properties and in developing the Manitoba properties, increasing the latter's value prior to their sale. We will continue, as best we can, the development of our properties, and will continue to explore for new property acquisitions. Additionally, the Corporation will pursue a third option, which is to grow via merger or acquisition. Given the small size of the Corporation and also given current market conditions under which it is difficult to raise funds at attractive values, we believe this to be an attainable and appropriate method to achieve greater economies of scale to create value for shareholders.

Oil and natural gas prices have been highly volatile during the last year, recently declining substantially off historic highs during the summer of 2008, but nonetheless remain strong, especially in Canadian dollar terms. Gale Force Petroleum is now strictly a gas producer, and we believe our Kentucky Shale Gas Property will be economic to develop even if prices fall as low as \$5 per MCF. However, it is also our belief that the price of gas should rise in the long-term because it is a relatively clean source of energy, there are large unexploited resources of gas in North America including our Kentucky Shale Gas Property, and therefore gas should become a more prominent, important source of energy to both the USA and Canada. These things should lead to an increase in demand commensurate with any increases in supply, assuring the long-term viability of the gas producing industry.



CHANGES IN ACCOUNTING POLICIES AND PRACTICES

There were no changes to accounting policies since the annual financial statements for the exercise ended June 30, 2007.

BUSINESS RISKS

The Corporation's exploration and production activities are concentrated in the Appalachian and Williston Basins, where activity is highly competitive and includes a variety of different sized companies ranging from smaller junior producers, intermediate and senior producers and royalty trust organizations, to the much larger integrated petroleum companies. The Corporation is subject to a number of risks that are also common to other organizations involved in the oil and gas industry. Such risks include finding and developing oil and gas reserves at economic costs, estimating amounts of recoverable reserves, production of oil and gas in commercial quantities, marketability of oil and gas produced, fluctuations in commodity prices, financial and liquidity risks and environmental and safety risks.

Ability to hire, integrate or retain key personnel

The Corporation's future success depends on our ability to hire new qualified employees and retain our current key personnel. The Corporation must be able to retain its employees and attract other valuable candidates to achieve its objectives of growth and profitability.

Acquisitions

Possible acquisitions by the Corporation involve many risks. Such acquisitions could affect its development by disrupting its ongoing business and diverting management's attention. They may also cause a number of problems when it comes to the integration of new activities and personnel, assumption of new liabilities and familiarization with new laws and rules. Each of these factors could have a negative impact of the Corporation's profitability. Moreover, financing such acquisitions could affect the capital resources of the Corporation or lead to a dilution of ownership through equity financing. Finally, the objectives that motivate an acquisition could prove to be unattainable afterwards due to unexpected developments.

Fluctuation of the common share price

Many factors can affect the market price of our shares, such as actual or anticipated fluctuations in our results of operations, important changes in the estimation of our future results, introduction of technological innovations by the Corporation or its competitors. Overall, important and unfavourable changes in the industry and our target markets can also cause the price of our common share to decrease significantly.

New accounting rules (GAAP)

Any change in the Canadian accounting principles could require the Corporation to present its results in a different manner. The Canadian GAAP (Generally Accepted Accounting Principles) and other bodies that have jurisdiction over the form and



content of our accounts are constantly discussing new rules to improve the relevance and transparency of companies' financial statements.

Reserves estimates

The Corporation has retained an independent engineering consulting firm that assists the Corporation in evaluating recoverable amounts of oil and gas reserves. Values of recoverable reserves are based on a number of variable factors and assumptions such as commodity prices, projected production, future production costs and government regulation. Such estimates may vary from actual results.

Price and currency risks

The Corporation is exposed to market risk to the extent that the demand for oil and gas produced by the Corporation exists within Canada and the United States. External factors beyond the Corporation's control may affect the marketability of oil and gas produced. These factors include commodity prices and variations in the Canada-United States currency exchange rate, which in turn respond to economic and political circumstances throughout the world. Oil prices are affected by worldwide supply and demand fundamentals while natural gas prices are affected by North American supply and demand fundamentals.

Financial and liquidity risks

Exploration and production for oil and gas are very capital intensive. As a result, the Corporation relies on equity markets as a source of new capital. In addition, the Corporation utilizes short-term bridge financing to support ongoing capital investment. Equity and debt capital are subject to market conditions and availability may increase or decrease from time to time. Funds from operations also fluctuate with changing commodity prices.

Environmental and safety risks

Oil and gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. The Corporation conducts its operations with high standards in order to protect the environment and the general public. The Corporation maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations.



SHARES ISSUED & OUTSTANDING, OPTIONS & WARRANTS

The Corporation consolidated its common shares on June 4, 2008 on an 8 for 1 basis. As at June 30, 2008 there were 17,798,355 common shares issued and outstanding. There were also 10,212,317 warrants outstanding and the total number of shares reserved for the exercise of options at the end of the period was 865,560.

ADDITIONAL INFORMATION

The Corporation 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 Corporation or by visiting www.sedar.com.



Michael P. McLellan

President & CEO and signing in the capacity of CFO