



**Gale Force Petroleum Inc.**  
**(Formerly Rolland Energy Inc.)**

**Interim Financial statements**

*As at December 31st, 2008*

**SUMMARY**

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## Management's report

Management is responsible for the preparation of the financial statements. Management believes that these financial statements fairly reflect the form and substance of transactions, and that they reasonably present the Company's financial position and the results of its operations.

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Management has included in the Company's financial statements amounts based on best estimates and careful judgements that it believes are reasonable under the circumstances, and designed to ensure that the financial statements are presented fairly, in all material respects

To fulfil its responsibility, management developed and continues to maintain systems of internal accounting controls and establishes policies and procedures to ensure the reliability of financial information and to safeguard assets. The internal control systems and financial records are subject to reviews by external auditors during the examination of the yearly financial statements.

The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performances of its financial reporting responsibilities.



Michael Mclellan

President and CEO

February 9, 2009

# GALE FORCE PETROLEUM INC. (Consolidated)

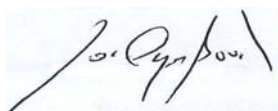
## BALANCE SHEET

As of December 31, 2008

	December 31 2008 (Unaudited)	June 30 2008 (Audited)
<b>ASSETS</b>		
<i>Current assets</i>		
Cash	\$ 73,759	\$ 1,865,607
Receivables (note 3)	61,888	199,839
Inventory	-	71,115
Prepaid expenses	33,114	91,990
	<b>168,761</b>	<b>2,228,551</b>
Deposits	16,205	92,074
Capital assets (note 4)	2,909,001	2,520,087
Research and development tax credits receivable (note 2)	460,190	460,190
Deferred corporate transaction costs (note 19)	-	281,278
	<b>\$ 3,554,157</b>	<b>\$ 5,582,180</b>
<b>LIABILITIES</b>		
<i>Current liabilities</i>		
Creditors (note 5)	\$ 2,733,126	\$ 2,583,945
Short term debt (note 6)	2,000,000	3,000,000
Current portion of long-term debt (note 7)	9,221	8,977
	<b>4,742,347</b>	<b>5,592,922</b>
Long term debt (note 7)	14,122	18,037
Convertible debentures (note 8)	160,135	450,135
Asset retirement obligations (note 9)	261,676	704,385
	<b>5,178,280</b>	<b>6,765,479</b>
<b>SHAREHOLDER'S EQUITY (DEFICIT)</b>		
Share capital (note 10)	10,789,747	10,131,493
Equity component of convertible debentures (note 8)	151,305	151,305
Contributed surplus (note 11)	1,471,412	1,455,589
Deficit	(14,081,653)	(12,921,686)
Other comprehensive income (loss)	45,066	-
	<b>(1,624,123)</b>	<b>(1,183,299)</b>
	<b>\$ 3,554,157</b>	<b>\$ 5,582,180</b>

The accompanying notes form an integral part of these financial statements.

Signed for the Board,



Director



Director

# GALE FORCE PETROLEUM INC. (Consolidated)

## STATEMENT OF OPERATIONS

For the periods ended December 31st, 2008

(Unaudited)	2008		2007	
	Three months		Six months	
<b>Income</b>				
Oil and natural gas revenues	\$	30,087	\$	155,067
Overhead Income		22,715		-
Royalties and production taxes		(5,352)		(22,151)
	\$	47,450	\$	132,916
			\$	485,847
				405,417
<b>Operating expenses</b>				
Transportation and selling expenses	\$	-	\$	4,059
Production expenses		22,700		136,380
Administrative expenses		159,122		138,925
Professional and consulting fees		113,176		80,499
Depletion, depreciation and amortization		21,517		32,733
Stock-based compensation expense (note 11)		-		11,743
	\$	316,515		404,340
			\$	3,888
				8,662
<b>Income (loss) before financial expenses</b>		<b>(269,065)</b>		<b>(271,424)</b>
Financial expenses (note 16)		278,244		260,946
<b>Loss from operations</b>		<b>(547,309)</b>		<b>(532,370)</b>
Sale of Manitoba Assets (note 21)		146,518		-
Other (income) and expenses (note 22)		(180,847)		228,543
<b>Loss before income taxes</b>		<b>(512,981)</b>		<b>(760,914)</b>
Income taxes (note 18)		-		-
<b>Net loss (note 15)</b>	\$	<b>(512,981)</b>	\$	<b>(760,914)</b>
			\$	<b>(868,286)</b>
				(1,122,930)
<b>Deficit, beginning of period</b>		<b>(13,276,996)</b>		<b>(8,820,979)</b>
<b>Deficit, end of period</b>	\$	<b>(13,789,977)</b>	\$	<b>(9,581,893)</b>
			\$	<b>(1,013,873)</b>
				(906,471)
<b>Earnings per share (note 17)</b>				
Basic	\$	(0.027)	\$	(0.072)
Diluted	\$	(0.027)	\$	(0.072)
			\$	(0.047)
				(0.130)

The accompanying notes form an integral part of these financial statements.

# GALE FORCE PETROLEUM INC. (Consolidated)

## CASH FLOW STATEMENT

For the periods ended December 31st, 2008

(unaudited)	Three months		Six months	
	2008	2007	2008	2007
<b>OPERATING ACTIVITIES</b>				
Net loss	\$ (512,981)	\$ (760,914)	\$ (868,286)	\$ (1,122,930)
Items not affecting cash flows	-	-	-	-
Depreciation, amortization and depletion	21,517	32,733	177,481	91,075
Write-down exploration and development costs	146,518	-	2,434	-
Stock-based compensation	-	11,743	15,823	11,743
Loss on disposal of capital assets	-	-	-	-
Revision of capitalized assets retirement obligation	2,574	4,752	2,574	30,389
Comprehensive (income) loss	(45,066)	-	(45,066)	-
Future income taxes	-	-	-	-
	<b>(387,437)</b>	<b>(711,686)</b>	<b>(715,040)</b>	<b>(989,723)</b>
Net change in non-cash working capital items (note 12)	<b>1,015,994</b>	<b>(318,415)</b>	<b>417,124</b>	<b>(478,949)</b>
<b>Cash generated in operating activities</b>	<b>628,557</b>	<b>(711,686)</b>	<b>(297,916)</b>	<b>(989,723)</b>
<b>FINANCING ACTIVITIES</b>				
Issuance of common shares and warrants	53,232	2,316,860	658,254	2,305,265
Issuance of convertibles debentures	-	-	-	466,320
Interest on convertibles debentures	-	20,224	-	20,224
Advances to shareholders	-	(162,860)	-	(67,353)
Redemption of convertible debentures	-	-	-	-
Short-term loan	-	(200,000)	(1,000,000)	(200,000)
Long-term borrowing	(1,481)	(2,088)	(3,671)	(4,142)
<b>Cash generated by financing activities</b>	<b>51,751</b>	<b>1,972,137</b>	<b>(345,417)</b>	<b>2,520,314</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of capital assets	(762,165)	(94,672)	(491,674)	(728,785)
Disposition of capital assets	-	-	-	-
Redemption on Convertible debentures	-	-	(290,000)	-
Capitalized Asset Retirement Obligations	47,341	-	(442,709)	-
Deposits	4,457	(60,804)	75,868	(81,388)
<b>Cash used in investing activities</b>	<b>(710,367)</b>	<b>(155,476)</b>	<b>(1,148,515)</b>	<b>(810,173)</b>
Increase (decrease) in cash and cash equivalents	(30,059)	786,560	(1,791,848)	241,469
Opening cash and cash equivalents	103,818	37,596	1,865,607	582,687
<b>Ending cash and cash equivalents</b>	<b>\$ 73,759</b>	<b>\$ 824,156</b>	<b>\$ 73,759</b>	<b>\$ 824,156</b>

# GALE FORCE PETROLEUM INC. (Consolidated)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31st, 2008

(unaudited)

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### NOTE 1 INCORPORATION AND NATURE OF BUSINESS

The Corporation was incorporated under the Canada Business Corporations Act. As at May 27th, 2008, the Corporation changed its name from Rolland Energy Inc to Gale Force Petroleum Inc. The Corporation exploits oil and gas properties in North America.

### NOTE 2 ACCOUNTING POLICIES

#### *Future change in accounting policies*

In the upcoming year, the company will apply the new recommendation of the Canadian Institute of Chartered Accountants regarding the recognition, measurement and presentation of financial instruments following the release of Sections 1530, 'Comprehensive income', 1535, 'Capital disclosures', 3031, 'Inventories', 3855, 'Financial instruments - recognition and measurement', 3862, 'Financial Instruments - disclosure', 3863, 'Financial Instruments - presentation' and 3865, 'Hedges'. Management is unable to assess the impact these new standards will have on its financial statements.

#### *Going Concern*

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business. The Corporation has sustained substantial losses in the past, and is presently unable to continue as a going concern. Therefore, on February 4, 2009, the Corporation has filed a Proposal to Creditors under the Bankruptcy and Insolvency Act of Canada. The Proposal to Creditors will address all classes of creditors and observe standard practice, regulatory and financial requirements. If the Proposal to Creditors is Approved, the ability of the Corporation to continue as a going concern thereafter is dependent on its ability to obtain additional financing in the near-term, to generate future profitable operations and to begin to generate sufficient cash flows to meet its obligations on a timely basis. The outcome of these matters cannot be predicted at this time.

These financial statements do not give effect to any adjustments that would be necessary should the Corporation be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

#### *Use of estimates*

The preparation of financial statements in accordance with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

Examples of significant estimates include the key economic assumptions used in determining the allowance for doubtful accounts; the recovery of research and development tax credits, the recovery of future income tax assets, the useful lives of capital assets, the assumptions used for capital assets and impairment tests, asset retirement obligations, the assumptions used for the calculation of stock-based compensation costs and the fair value of financial instruments.

#### *Revenue recognition*

The sale of oil is recorded when the title passes from the Corporation to external parties.

# GALE FORCE PETROLEUM INC. (Consolidated)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31st, 2008

(unaudited)

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### NOTE 2 ACCOUNTING POLICIES (CONTINUED)

#### *Inventories*

Inventories are valued at the lower of cost and replacement cost, the cost being determined using the first in, first out method.

#### *Capital assets*

Depreciation of non oil & gas capital assets is calculated using the diminishing balance method at a rate of 30% for vehicles and 20% rate for office equipment and tools.

#### *Oil and gas assets*

##### i) Capitalized costs

The Corporation follows the full cost method of accounting for its petroleum and natural gas operations as determined by the Canadian Institute of Chartered Accountants ("CICA"), Accounting Guideline 16 ("AcG-16"). Under this method all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, costs of drilling both producing and non-producing wells, production facilities, asset retirement costs and certain general and administrative expenses directly related to exploration and development activities.

Proceeds from the sale of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would significantly alter the rate of depletion and depreciation.

Expenditures related to renewals or betterments that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

##### ii) Depletion and depreciation

Depletion and depreciation of property and equipment is provided using the unit-of-production method based upon estimated proved petroleum and natural gas reserves. The costs of undeveloped properties are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred. Estimated future costs to be incurred in developing proved reserves are included in costs subject to depletion. For depletion and depreciation purposes, relative volumes of natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

##### iii) Impairment test

Each year end the Corporation performs an impairment test to determine the recoverability of capitalized costs associated with reserves. An impairment loss is recognized when the carrying amount of a cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves plus the costs of unproved properties. If the sum of the cash flows is less than the carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of the fair value of proved and probable reserves and the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

# GALE FORCE PETROLEUM INC. (Consolidated)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31th, 2008

(unaudited)

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### NOTE 2 ACCOUNTING POLICIES (CONTINUED)

#### iv) Asset retirement obligations

The Corporation recognizes the fair value of estimated asset retirement obligations on the balance sheet when a reasonable estimate of fair value can be made. Asset retirement obligations include those legal obligations where the Corporation will be required to retire tangible long lived assets such as well sites, pipelines and facilities. The asset retirement cost, equal to the initially estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long lived asset. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows are recognized as a change in the asset retirement obligation and the related asset retirement cost.

Asset retirement costs are amortized using the unit-of-production method and are included in depletion and depreciation in the statement of operations. Increases in the asset retirement obligations resulting from the passage of time are recorded as accretion of asset retirement obligations in the consolidated statement of operations.

#### *Convertible debentures*

Convertible Debentures are accounted for based on their estimated components. The debt component, representing the obligation to make interest payments, is accounted for as long-term debt, and the equity component, representing the option of conversion of the holder, are accounted for as shareholders equity under the heading "Equity component of convertible debentures".

The value of the debt component of the convertible debentures is determined by updating the future payments of interest and principal at a discount rate representing the rate of borrowing of the Corporation for similar debentures without the right of conversion. Management estimated that this rate corresponds to 15 %. The accounting value of the equity component is determined by reducing the accounting value of the debt component from the value of the amounts received for the convertible debentures.

The interest expense for the equity component is accounted for and results in the difference between this expense and the disbursement, representing the increase of the value of the debt component due to the passage of time.

#### *Capital stock*

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Under the liability method of accounting of income taxes, the future income taxes related to temporary differences arising at the renunciation are recorded at that time together with a corresponding charge to results from operation.

#### *Research and development tax credits*

Research and development tax credits are recognized when the qualifying expenditures are incurred. The amounts recognized are applied to reduce research and development expenses. Research and development tax credits are subject to the acceptance of the tax authorities.

# GALE FORCE PETROLEUM INC. (Consolidated)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31th, 2008

(unaudited)

### NOTE 2 ACCOUNTING POLICIES (CONTINUED)

#### *Income taxes*

The Corporation follows the liability method of accounting for income taxes. According to this method, future income taxes are determined using the difference between the accounting and tax basis of assets and liabilities using the substantively enacted tax rates and fiscal laws expected to apply in the periods in which those differences are expected to be recovered. Future income tax assets are recognized when it is more likely than not that the assets will be realized. The Corporation has adopted a policy whereby this determination is made when the Corporation demonstrates profitability.

#### *Earnings per share*

Earnings per share are reported on the basis of the treasury stock method. This method recognizes the use of proceeds that could be obtained upon exercise of options and warrants in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common shares at the average market price during the period. The exercise of options and warrants that would result an increase in earnings per share amounts or a decrease in loss per share amounts are excluded from the calculations as they become anti-dilutive.

#### *Stock-based compensation*

The Corporation has established a stock-based compensation plan which includes stock options. The Corporation records compensation expense in the statement of operations for stock options granted to Directors, Officers, employees and consultants using the fair-value method. Compensation costs are recognized over the vesting period. Fair value is determined using the Black-Scholes option pricing model.

#### *Foreign exchange translation*

The accounts of foreign subsidiaries, which are financially or operationally dependent on the parent company, are accounted for using the temporal method. Under this method the monetary assets and liabilities of the Corporation that are denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Non-monetary assets and liabilities denominated in foreign currencies are translated at their historical exchange rates. Revenue and expenses are translated at rates of exchange prevailing on the transaction dates. All of the exchange gains or losses resulting from these transactions are included in the statement of operations.

### NOTE 3 RECEIVABLES

	December 31 2008	June 30 2008
Accounts receivable - Canadian dollars	\$ 8,206	\$ 95,543
Accounts receivable - USA	3,672	-
Other accruals	36,469	97,051
Advances to employees	13,541	7,245
Term loan to a particular, 5 % interest rate, secured by personal collateral	300,545	300,545
	362,433	500,384
Allowance for doubtful accounts	(300,545)	(300,545)
	\$ 61,888	\$ 199,839

# GALE FORCE PETROLEUM INC. (Consolidated)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31th, 2008

(unaudited)

### NOTE 4 CAPITAL ASSETS

	December 31 2008		
	Cost	Accumulated depreciation	Net book value
<i>Oil and gas</i>			
Exploration and development costs	\$ 2,965,467	\$ 56,466	\$ 2,909,001
	<b>\$ 2,965,467</b>	<b>\$ 56,466</b>	<b>\$ 2,909,001</b>

	June 30 2008		
	Cost	Accumulated depreciation	Net book value
<i>Oil and gas</i>			
Exploration and development costs	\$ 4,661,559	\$ 2,177,502	\$ 2,484,057
Equipment and tools	18,000	3,600	14,400
Vehicle	50,441	28,811	21,630
	<b>\$ 4,730,000</b>	<b>\$ 2,209,913</b>	<b>\$ 2,520,087</b>

### NOTE 5 CREDITORS

	December 31 2008	June 30 2008
Accounts payable - Canadian dollars	\$ 1,622,933	\$ 1,497,642
Accrued liabilities	298,671	457,503
Interest payable - Flow-Through Shares	86,591	39,317
Interest on convertible debentures	13,581	-
Investor Tax Indemnity	679,540	561,682
other accounts payable	31,783	-
Accrued interest - Debentures	27	27,801
	<b>\$ 2,733,126</b>	<b>\$ 2,583,945</b>

The Investor Tax Indemnity (was called a Contingent Tax Liability in the last quarterly financial statements) is indemnity owing to 2007 flow-through investors because the Corporation did not meet its Canadian Exploration Expense and Canadian Development expense obligations for the calendar year 2008. Therefore, the Corporation is required to withdraw its renunciation of part of the deduction made toward these investors in flow-through shares of the Corporation and assume the equivalent tax liability of these investors.

## GALE FORCE PETROLEUM INC. (Consolidated)

### NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31th, 2008

(unaudited)

#### NOTE 6 SHORT-TERM DEBT

	December 31 2008	June 30 2008
Facility A term loan at 12%	\$ 2,000,000	\$ 2,200,000
Facility B term loan at 15%	-	800,000
	<b>\$ 2,000,000</b>	<b>\$ 3,000,000</b>

The bridge loan is guaranteed by a lien on the general assets of the Corporation. The Facility A term loan agreement will be amended conditional upon the Proposal to Creditors filed by the Corporation on February 2, 2009 being Approved by the necessary majorities of creditors and the Court. The amendments include an extension of the maturity date to December 31, 2010; the loan will not earn any interest or fees until after December 31, 2009; after December 31, 2009, the loan will earn interest of 12 % and will be convertible at the election of the lender into common shares of the Corporation, and; the loan can be repaid at any time by the Corporation without penalty. If the Proposal to Creditors is not Approved, it shall be considered an Event of Default under the loan agreement, and all amounts payable under the Facility A term loan shall become immediately due and payable.

In the past, due to the short term nature of the bridge loans, renewal and management fees associated with the loans have increased the cost of the loans by approximately 8% per year. This will no longer be the case if the Proposal is Approved as there will be no additional fees owing on the loan until the maturity date of December 31, 2010. On September 11, 2008, the Corporation reimbursed \$1,000,000 of the loan.

#### NOTE 7 LONG-TERM DEBT

	December 31 2008	June 30 2008
Loan, repayable in monthly instalments of \$ 871, including interest calculated at a rate of 6.45%, maturing January 14th, 2011, secured by a movable hypothec on a vehicle.		
	\$ 23,343	\$ 27,014
Current portion	9,221	8,977
	<b>\$ 14,122</b>	<b>\$ 18,037</b>

The portion of long term debt payable in each of the next three (3) years is as follows:

	2009	\$ 8,977
	2010	\$ 9,574
	2011	\$ 8,463

# GALE FORCE PETROLEUM INC. (Consolidated)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31th, 2008

(unaudited)

### NOTE 8 CONVERTIBLE DEBENTURES

There are convertible debentures outstanding with a total face value of \$270,000. The convertible debentures have a 12% coupon and are convertible at the election of the holder or the corporation, in full or in part, into common shares of the corporation according to the the terms of conversion as follows:

Conversion terms for the debenture holder: at a conversion price of \$1.9290 for a conversion taking place on or before February 16, 2009, and an additional 10% premium to the amount set out in each subsequent year after February 16, 2009.

Conversion terms for the Corporation: provided that the volume-weighted-average-trading-price of the common shares is at or above \$4.80 per common share for not less than 20 consecutive trading days on the TSX Venture Exchange until February 16, 2008; \$6.40 per common share for the period between February 17, 2008 to February 16, 2009 and \$8.00 per common share for the period between February 17, 2008 to February 16, 2012.

### NOTE 9 ASSET RETIREMENT OBLIGATION

The following table provides a reconciliation of the carrying amount of the obligation associated with the retirement of oil and gas properties:

	December 31 2008	June 30 2008
Asset retirement obligations, beginning of year	\$ 704,385	\$ 592,636
Liabilities incurred, net of liabilities disposed, year to date	(490,051)	64,334
Revisions to estimated liabilities	44,769	-
Accretion expense	2,573	47,415
Asset retirement obligations Canada	\$ 261,676	\$ 704,385

The key assumptions on which the carrying amount of the asset retirement obligations are based include an 8.0 % discount rate and an annual inflation rate of 3%. The total undiscounted amount of the estimated cash flows required to settle the obligations was \$252,091 (\$1,346,830 June 30, 2008). The expected timing of payment of the cash flows required to settle the obligations ranges from 1 year to 6 years for Canada and 1 year to 15 years for Kentucky. As for the revision of estimated liabilities, new information led us to re-evaluate our estimations and assumptions.

### NOTE 10 CAPITAL STOCK

The Corporation is authorized to issue an unlimited number of common shares without par value.

	December 31 2008	June 30 2008
Common Shares Issued and Outstanding		
19 468 355 common shares (17,798,355 common shares after consolidation as at June 30, 2007)	\$ 10,789,747	\$ 10,131,493

During the quarter the Company issued 400,000 shares as part of shares for debt agreements signed on November 10th, 2008, with its lender, to settle debts from accumulated interest and fees.

# GALE FORCE PETROLEUM INC. (Consolidated)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31th, 2008

(unaudited)

### NOTE 10 CAPITAL STOCK (CONTINUED)

The following tables shows the variation in outstanding convertible instruments:

#### Warrants

Issue Date	Expiry Date	Exercise Price	Balance at beginning of the year	Issued	Exercised	Cancelled	Expired	Balance at end of period
February 16, 2007	February 16, 2009	\$ 1.754	319,343	-	-	-	-	319,343
June 6, 2007	June 6, 2009	\$ 2.000	235,000	-	-	-	-	235,000
October 26, 2007	October 26, 2009	\$ 0.800	375,000	-	-	-	-	375,000
October 18, 2007	October 18, 2009	\$ 0.800	4,600,588	-	-	-	-	4,600,588
December 29, 2007	December 29, 2009	\$ 0.800	357,143	-	-	-	-	357,143
December 31, 2007	January 1, 2010	\$ 0.800	921,886	-	-	-	-	921,886
June 30, 2008	May 27, 2008	\$ 0.582	1,417,437	-	-	-	-	1,417,437
June 27, 2008	June 27, 2010	\$ 0.700	1,700,000	-	-	-	-	1,700,000
June 27, 2008	June 27, 2010	\$ 0.500	285,920	-	-	-	-	285,920
			10,212,317	-	-	-	-	10,212,317

Each purchase warrant gives the right to purchase one common share of the Company at its exercise price on or before its expiry date.

#### Stock options

Issue Date	Expiry Date	Exercise Price	Balance at beginning of the year	Issued	Exercised	Cancelled	Expired	Balance at end of period
December 14, 2004	December 14, 2009	\$ 4.400	6,250	-	-	-	-	6,250
May 31, 2007	May 31, 2012	\$ 1.200	112,500	-	-	112,500	-	-
October 23, 2007	October 23, 2012	\$ 4.000	667,223	-	-	614,392	-	52,831
January 28, 2008	January 28, 2013	\$ 4.000	192,087	-	-	179,978	-	12,109
July 11, 2008	July 11, 2013	\$ 4.000	-	632,565	-	584,461	-	48,104
July 24, 2008	July 24, 2013	\$ 4.000	-	100,000	-	-	-	100,000
			978,060	732,565	-	1,491,331	-	219,294

Each stock option gives the right to purchase one common share of the Company's capital stock at its exercise price on or before its expiry date.

#### Convertible Debentures

Issue Date	Expiry Date	Conversion Price (During period)	Balance at beginning of the year	Issued	Converted	Redeemed	Reached Maturity	Balance at end of period
February 16, 2007	February 16, 2012	\$ 1.929	\$ 450,135	\$ -	\$ -	\$ 290,000	\$ -	\$ 160,135

The convertible debentures have a conversion price of \$1.9290 until February 16, 2009 and then increases by 10% for each subsequent year.

# GALE FORCE PETROLEUM INC. (Consolidated)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31th, 2008

(unaudited)

### NOTE 11 STOCK-BASED COMPENSATION

Under the amended 2004 stock option plan, the Corporation may grant options in respect of a maximum of 1,770,000 common shares after the consolidation to directors, officers and employees of, and consultants to the Corporation.

The Corporation uses the fair-value method to record stock-based compensation expense with respect to stock options granted. The fair value of each option granted is estimated on the date of grant using the Black-Sholes options pricing model, using the following average assumptions for 2008-2009:

Risk free interest rate (average):	2.63%
Expected life:	1 year
Expected volatility (average):	58.0%
Expected dividend yield:	Nil

The Table in Note 10 lists each options issuance that occurred during the year. In total, options shares were issued during the period for a total expense of \$15,823

### NOTE 12 SUPPLEMENTAL CASH FLOW INFORMATION

	Three months		Six months	
	2008	2007	2008	2007
Changes in non-cash working capital:				
Deposits for exploration and development	-	144,276	\$ -	-
R&D tax credit Receivable	-	118,950	-	118,950
Sale of Equipment	-	6,604	-	6,604
Accounts Receivable	373,106	(30,426)	137,951	(189,595)
Inventory	-	-	71,116	-
Prepaid expenses	28,760	58,373	58,876	59,396
Creditors	614,128	(616,192)	149,181	(474,304)
Changes in non-cash working capital items	\$ 1,015,994	\$ (318,415)	\$ 417,124	\$ (478,949)

During the year, the Corporation made the following cash outlays for interest expenses:

Interest expense	60,495	\$	130,065	\$	150,118	\$	231,467
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### NOTE 13 RELATED PARTY TRANSACTION

In the course of the period \$361,359 (\$226,919 in 2008) was paid in interest expense and fees associated to the loans from Primatlantis Capital, where a former director of the Corporation is a principal. These transactions were concluded in the normal course of business.

### NOTE 14 COMMITMENTS

Due to the flow-through financing that closed during the calendar year that ended December 31, 2008, the Corporation had the obligation to spend \$1,899,044 on Canadian Exploration and Development Expenses (CEE and CDE) before December 31st, 2008. An amount of \$846,141 was spent on CEE and CDE during 2008 as at December 31, 2008.

## GALE FORCE PETROLEUM INC. (Consolidated)

### NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31th, 2008

(unaudited)

#### NOTE 15 STATEMENT OF OPERATIONS

	Three months		Six months	
	2008	2007	2008	2007
The statement of operations includes the following charges :				
<i>Depletion, depreciation and amortization</i>				
Tangible assets	\$ -	\$ 3,217	\$ 3,218	\$ 6,435
Oil and gas	21,517	29,516	174,263	84,640
	\$ 21,517	\$ 32,733	\$ 177,481	\$ 91,075
<i>Financial expenses</i>				
Interest on long term debt	\$ 19,552	\$ 33,990	\$ 19,975	\$ 33,990
Interest on short term debt	60,495	98,516	150,118	202,867
Other interest, financing expenses and bank charges	198,197	128,440	278,882	240,033
	\$ 278,244	\$ 260,946	\$ 448,975	\$ 476,890

#### NOTE 16 FINANCIAL INSTRUMENTS

##### *Interest Rate Risk*

The Corporation manages its cash according to its operational needs and to optimise revenues from interest. The Corporation's long term debts have a fixed interest rate. 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.

##### *Fair value*

Fair value is estimated on a specific date through the use of the information available about the financial instrument in question. Estimates of fair value are of a subjective nature and cannot, in many cases, be established with any degree of precision.

The Corporation has determined that the book value of its short-term assets and liabilities is close to their fair value because of their immediate and short-term expiry.

The fair value of long-term debt is close to its book value because of its short-term maturity.

##### *Liquidity Risk*

The Corporation has a working capital deficit and significant outstanding short-term commitments. The Corporation is reliant on funds raised from shareholders to cover cash shortfalls from operations, until it becomes cash-flow positive.

##### *Credit Risk*

Credit risk is the potential exposure of the Corporation to losses that would be recognized if counterparties failed to perform or failed to pay amounts due. 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.

# GALE FORCE PETROLEUM INC. (Consolidated)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31th, 2008

(unaudited)

### NOTE 16 FINANCIAL INSTRUMENTS (CONTINUED)

#### Foreign Exchange Risk

The corporation is subject to risks associated with fluctuations in foreign currencies with regard to the operations. This includes foreign currency-denominated receivables, payables, debt, and other balance sheet positions as well as future cash flows resulting from anticipated transactions including intercompany transactions.

### NOTE 17 EARNINGS PER SHARE

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

		2008		2007
Net loss	\$	(868,286)	\$	(1,122,930)
Weighted average number of shares outstanding - basic		18,621,181		8,644,865
Weighted average number of shares outstanding - diluted (anti-dilutive)		18,621,181		8,644,865

### NOTE 18 INCOME TAXES AND DEFERRED LOSSES

		2008		2007
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For income tax purposes, the Corporation can carry forward losses totalling \$5,856,584 at the Federal level and Manitoba and \$5,907,945 at the Provincial level. The expiration dates for using these losses to reduce income taxes are as follows:

		Federal		Manitoba		Quebec
2009	\$	-	\$	-	\$	150,260
2014		220,621		220,621		214,964
2015		1,876,873		1,876,873		1,780,874
2026		911,289		911,289		974,942
2027		811,966		811,966		751,070
2028		2,035,835		2,035,835		2,035,835
	\$	5,856,584	\$	5,856,584	\$	5,907,945

## GALE FORCE PETROLEUM INC. (Consolidated)

### NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31th, 2008

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#### NOTE 19 DEFERRED CORPORATE TRANSACTIONS COSTS

On July 27, 2008, the Corporation purchased 50% of the Kentucky Shale Gas Property consisting of 22,000 acres with 9 wells at a cost of \$1,250,000 for the Corporation's shares of the property.

#### NOTE 20 COMPARATIVE FIGURES FOR THE PRIOR YEAR

Certain figures for 2007 have been reclassified to make their presentation identical to that adopted in 2008.

#### NOTE 21 SALE OF MANITOBA ASSETS

	Three months		Six months	
	2008	2007	2008	2007
Write-down of exploration and development cost, depreciation and amortization	\$ 170,547	\$ -	\$ 300,218	\$ -
Other gain on sale of Manitoba properties	-	-	(297,180)	-
Other selling expenses	(24,029)	-	(604)	-
Property Improvement expenses	-	-	-	-
	\$ 146,518	\$ -	\$ 2,434	\$ -

#### NOTE 22 OTHER (INCOME) AND EXPENSES

	2008	2007	2008	2007
Gain on settlement of debt	\$ 504	\$ (19,018)	\$ 2,996	\$ (31,871)
Interest	(322)	(2,897)	(2,086)	(3,224)
Settlement of litigation	(16,668)	-	13,332	-
Recovery cost - Jamil	-	119,346	-	119,346
Allowance for doubtful accounts	-	-	1,090	(462)
Contingent Income Tax Liability	117,858	-	117,858	-
Exchange rate variation	(299,998)	-	(298,990)	2,307
Sales tax expenses	-	59,712	-	58,963
Gain (loss) on disposition of assets	17,779	71,400	17,779	71,400
	\$ (180,847)	\$ 228,543	\$ (148,021)	\$ 216,459

## GALE FORCE PETROLEUM INC. (Consolidated)

### NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31th, 2008

(unaudited)

NOTE 23 ⓘ SEGMENT INFORMATION	Canada		USA	
	2008	2007	2008	2007
<b>Income</b>	<b>379,463</b>	352,776	<b>24,339</b>	-
Operating expenses	<b>955,322</b>	782,357	13,378	
Financial Expenses	<b>448,975</b>	476,890	-	
Sale of Manitoba Assets	<b>2,434</b>	-	-	
Other (income) and expenses	<b>(148,021)</b>	216,459	-	
<b>Net loss</b>	<b>(879,247)</b>	<b>(1,122,930)</b>	<b>10,961</b>	

Gale Force Petroleum Inc has operating segments in Canada and the USA. In Canada there are 4 wells near Radway, Alberta, in which it holds an average 23.75% working interest before payout. In the USA, the Corporation owns a 50% working interest in its Kentucky Shale Gas Property, consisting of 22,000 acres of oil and gas leases, 9 gas wells and 5 miles of gathering lines, including compressors.

# GALE FORCE PETROLEUM INC. (Consolidated)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

December 31th, 2008

(unaudited)

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### NOTE 24 SUBSEQUENT EVENTS

#### *Farmout of Kentucky Property*

Subsequent to the end of the quarter, on January 13, 2009, the Corporation has signed a farm-out agreement. According to the terms of the agreement, the farmee, which will remain confidential, may earn up to a 50-per-cent interest in the Kentucky shale gas property, currently consisting of 22,000 acres, nine existing wells, gathering lines and two compressors in eastern Kentucky, by paying for a series of staged development programs. The Farmee will be the operator of the Kentucky Property and will pay an initial fee of US\$250,000 to Gale Force Petroleum USA, Inc., the Corporation's wholly owned USA subsidiary for the transfer of operatorship.

#### *Filing of Proposal to Creditors*

Subsequent to the end of the quarter, on February 4, 2009, the Corporation filed a Proposal to Creditors under the Bankruptcy and Insolvency Act (Canada). The Proposal will address all classes of creditors and observe standard practice, regulatory and financial requirements. The Proposal must receive approval in each class of creditor by at least 66.67% in dollars and 50.00% plus one in the number of eligible creditors who vote, and be accepted by the Court in order for the Proposal to be Approved. The Proposal offers payment of all debts owing to the Corporation's unsecured creditors totalling approximately \$2.5 million by the issuance of common shares of the Corporation. Category I unsecured creditors will be offered twenty (20) common shares of the Corporation per each dollar of debt. Category II unsecured creditors will be offered fifteen (15) common shares of the Corporation per each dollar of debt.

#### *Conditional Amendment to Loan Agreement with Secured Creditor*

Subsequent to the end of the quarter, the Corporation reached an agreement with its lender and sole secured creditor, Primatlantis Capital, which is subject to the Approval of the Proposal to Creditors. According to the terms of this agreement, \$132,613 in interest and fees owing to Primatlantis will be paid by the issuance of twenty (20) common share of the Corporation per each dollar of debt as part of the Proposal to Creditors. Additionally, the loan agreement will be amended such that the Maturity Date is extended until December 31, 2010; the loan will not earn any interest nor will there be any fees owing on the loan until after December 31, 2009; after December 31, 2009 the loan will earn interest at 12% per annum and will be convertible at the election of the lender into shares of the Corporation, and; the loan is repayable in full or in part at the election of the Corporation at any time without penalty. Because there will be no scheduled interest payments or capital repayments on the loan until after December 31, 2009, the lender would not put the Corporation until at least after December 31, 2009, which will provide the Corporation the needed time to attempt to obtain funding to reimburse the loan and/or pursue other growth strategies.

#### *Change in Directors' and Officers' compensation*

As part of the restructuring, the directors of the Corporation had decided against drawing any salary or board fees since July 1, 2008, and will not draw any fees until at least after the restructuring of the Corporation is complete and new financing is obtained. Also, all current directors and officers of the Corporation have forfeited their stock options.

# Gale Force Petroleum Inc.

## BOARD OF DIRECTORS

Jocelyn Boucher<sup>1,2,3</sup>

*Directeur général adjoint, CHUM*

Ron Bourgeois

*Oil and Gas Industry Consultant*

Mazen Haddad<sup>2,3</sup>

*Consultant, Township Capital Inc.*

Antoinette Lizzi

*Vice-President of Finance, Gale Force Petroleum*

Michael McLellan

*CEO and President, Gale Force Petroleum*

## OFFICERS

Michael McLellan

*CEO and President*

Antoinette Lizzi

*Vice-President of Finance*

Traian Cabba

*Executive Vice-President, International Division*

1. Chairman

2. Member of Audit Committee

3. Member of the Reserves Committee

## REGISTRAR AND TRANSFER AGENTS

Computershare Investor Services Inc.  
1500 University, bureau 700  
Montreal, Québec  
Canada, H3A 3S8

## BANKERS

National Bank of Canada  
600, de la Gauchetière Ouest  
Montréal, Québec  
H3B 4L2

## AUDITORS

Bélanger Dalcourt CA  
Suite 1600 - 2000 McGill College  
Montreal, Quebec  
H3A 3H3

## EVALUATION ENGINEERS

Sroule Associates Limited  
140 Fourth Avenue S.W.  
Suite 900  
Calgary, Alberta T2P 3N3

## STOCK EXCHANGE LISTINGS

TSX Venture Exchange  
Ticker Symbol "GFP"  
(Formerly "ROE")

## ABBREVIATIONS

bbls	<i>barrels</i>
mbbls	<i>thousand barrels</i>
bbls/d	<i>barrels per day</i>
CICA	<i>Canadian Institute of Chartered Accountants</i>

## CONVERSION OF UNITS

<i>Imperial</i>	<i>Metric</i>
1 acre	<i>0.4 hectares</i>
2.5 acres	<i>1 hectare</i>
1 bbl	<i>0.159 cubic metre</i>
6.29 bbls	<i>1 cubic metre</i>
1 foot	<i>0.3048 metres</i>
3.281 feet	<i>1 metre</i>
1 mcf	<i>28.2 cubic metres</i>
1 mile	<i>1.61 kilometres</i>
0.62 miles	<i>1 kilometre</i>

## HEAD OFFICE

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