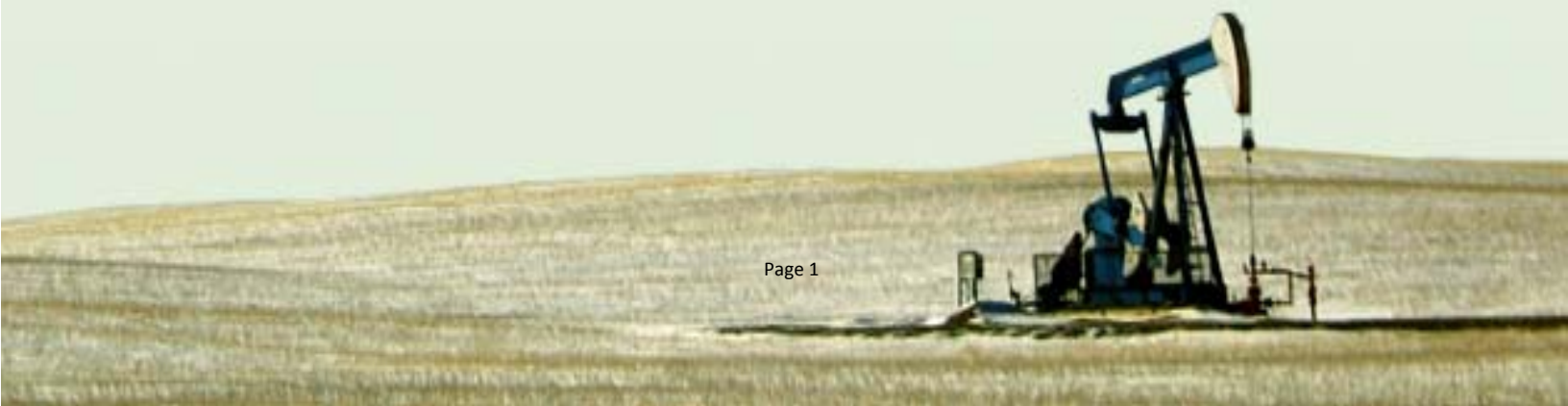




GALE FORCE™ PETROLEUM

Management's Discussion and Analysis
For the Period Ended December 31, 2008



Management's Discussion and Analysis

For the quarter ended December 31, 2008

Prepared as at February 9, 2009

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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 indicate the year ended December 31, 2008, and all comparisons are to the same quarter in 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 quarterly 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 public 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 attempting to improve its assets and increase its reserves ever since. The Corporation now has an aggregate 11,600 net acres (24,400 gross acres). This breaks down as 214 MMcf proven and probable natural gas reserves from its Alberta properties and a contingent resource of approximately 50 Bcf of natural gas (net to the Corporation) from its Kentucky Shale Gas Property.

RECENT EVENTS

During and since the quarter ended December 31, 2008, there were several important material changes in the business of the Corporation:

- During the quarter, the Corporation announced that it had completed 5 of the 9 wells on the Kentucky Property that had never previously been completed, focusing on stimulating the organically rich hydrocarbon-bearing intervals within the Devonian Shale source rock using fracture stimulation. This workover and completion program proved that there is consistent natural gas potential across the Kentucky Property and confirmed that there is low-risk drilling for the Devonian Shale target. There are more than 200 potential drilling locations adjacent to the existing infrastructure, which means that the Kentucky Property is an excellent candidate for a low-cost, multi-well drilling program designed to generate cash early in the project development and increase the net present value of the reserves on the property.
- Subsequent to the end of the quarter, on January 13, 2009, the Corporation concluded a farm-out agreement of its Kentucky Shale Gas Property. According to the terms of the agreement, the farmee, who 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.
- 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.
- The Corporation reached an agreement with its lender and sole secured creditor, Primatlantic Capital, 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 as a Category I unsecured creditor under 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; after December 31, 2009, the loan will be convertible in full or in part into securities of the Corporation, at the election of the lender, upon terms and conditions similar to those offered to purchasers of securities of the Corporation participating in any private placement of the Corporation following the Proposal, 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 will not put the Corporation in default 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.

- As part of the restructuring, the directors of the Corporation had decided against drawing any salary or board fees, 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.

STRATEGY, OBJECTIVES AND PLANS

The Corporation has very recently, on February 4, 2009, filed a Proposal to Creditors under the Bankruptcy and Insolvency Act (Canada) (the "Proposal"). We will first describe the situation and take the opportunity to review the progress the Corporation has made towards its restructuring plan, which has been in place since September 2007, and why we decided it was necessary and desirable to file the Proposal. We will then talk about our strategy and objectives for the future, which will depend on the Proposal to Creditors being "Approved" by the necessary majorities of creditors and the Court.

Restructuring Rationale and Plans

When the board of directors initially adopted the restructuring plan in September 2007, there was a belief that management could obtain sufficient new funding and create enough value to overcome an unhealthy balance sheet, ultimately growing to create value for shareholders.

We began the restructuring plan with liabilities that exceeded \$6 million, assets worth less than \$1 million and minimal revenues. We needed to raise sufficient equity to build new assets while simultaneously paying down our debts. We have faithfully executed this strategy, raising equity financing totalling approximately \$4.9 million, reducing the total debts of the Corporation by over \$2.3 million and investing shareholder's money in new higher-quality natural gas properties in Alberta and Kentucky.

In the last several months, oil and natural gas prices have diminished, credit has become unavailable and general economic conditions have deteriorated such that the Corporation can no longer rely on raising financing in equity markets that would be needed to complete the restructuring.

It is apparent that unless there is a major reduction and restructuring of the Corporation's debts, the Corporation will not be able to meet its short-term obligations, nor will it be possible for the Corporation to continue as a going concern.



The Corporation is convinced that it possesses valuable assets. Notably, it believes that its Kentucky Shale Gas Property has the potential to provide extended growth in both revenues and net asset value, if financing could be made available to continue the development of the property and gas prices recover.

The results of the Corporation's recent workover and completion program have proven that there is consistent gas potential across the Kentucky Property. It has also confirmed that there is low-risk, low-cost drilling for the Devonian Shale target, with the potential for excellent economic returns to investment. The recent Farmout Agreement signed by the Corporation will ensure that the development of the Kentucky Property continues in the near term.

However, in the event of a bankruptcy today, even if there is an orderly sale of the Corporation's assets, in current market conditions there would no value remaining for the Corporation's shareholders or for its unsecured creditors.

As a result, the Corporation has determined that the best option to realize a possible future for the Corporation, its shareholders and its creditors, is to file 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.

For the Proposal to be Approved, it 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. It also must be accepted by the Court.

The Proposal offers payment of all debts owing to the Corporation's unsecured creditors and potential claimants totalling approximately \$2.5 million by the issuance of common shares of the Corporation. Category I unsecured creditors will be offered full payment of their claims at \$0.05 per share, or, twenty (20) common shares of the Corporation per each dollar of debt. Category II unsecured creditors will be offered full payment of their claims at \$0.067 per share, or, fifteen (15) common shares of the Corporation per each dollar of debt. If the Proposal is Approved, the Corporation will issue approximately 47,000,000 common shares to settle all claims. There are currently 19,468,284 common shares of the Corporation issued and outstanding.

The Corporation has also reached an agreement with its lender and sole secured creditor, Primatlantis Capital, 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 as a Category I unsecured creditor under 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; after December 31, 2009, the loan will be convertible in full or in part into securities of the Corporation, at the election of the lender, upon terms and conditions similar to those offered to purchasers of securities of the Corporation participating in any private placement of the Corporation following the Proposal, 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 will not put the Corporation in default 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.

The Proposal to Creditors was designed by the Corporation to be fair and equitable to all creditors and stakeholders, with the goal of providing the best chance at realizing value for the creditors, claimants and shareholders under the circumstances. For the filing of the Proposal, the Corporation has contracted Raymond Chabot Inc. to act as Trustee.



The shares issued as payment of debts under the Proposal as well as the amended convertible loan agreement are subject to prior applicable regulatory approval.

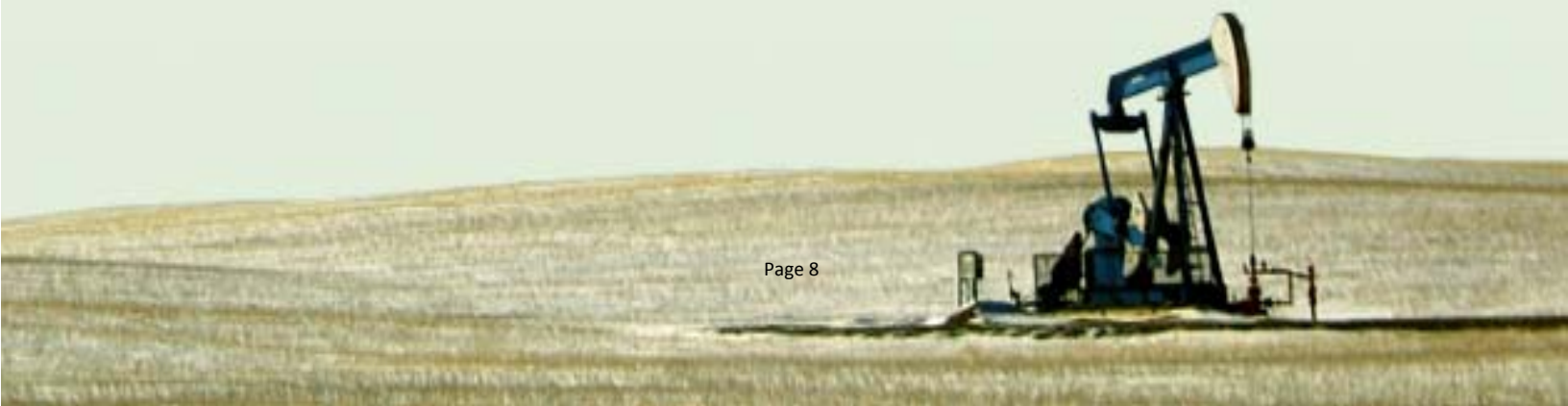
As part of the restructuring, the Board of Directors of the Corporation had decided against drawing any salary or board fees and will not draw any fees until at least after the restructuring of the Corporation is complete and new financing is obtained. Also, all current directors and officers of the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

If the Proposal to Creditors is “Approved” by the necessary majorities of creditors and the Court, the Corporation will require a minimum of approximately \$300,000 of equity financing for the restructuring to be successful and for the Corporation to continue as a going concern. The Corporation is therefore examining financing opportunities.

Growth Strategies and Objectives

If the Proposal is Approved and the Corporation is successful in obtaining additional financing, the Corporation will pursue two key drivers of shareholder wealth creation:

1. Converting Contingent Resources to Proven and Probable Reserves: Gale Force Petroleum will reap the benefits of the Farmout Agreement it concluded on January 13, 2009, which will ensure the continued development of the Kentucky Shale Gas Property. This development may help prove that the Kentucky Shale Gas Property’s contingent resource can be extracted economically, which will increase the Corporation’s independently determined *net asset value* by adding to its proven and probable reserves.
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.



RESULTS OF OPERATIONS

For the period ended December 31, 2008 revenues were generated from the Corporation's assets located in Alberta and Kentucky.

Financial Information and Analysis

Revenues

Quarters ended December 31	2008	2007
	\$	\$
Oil and gas division sales	30,087	155,067
General Revenues	22,715	-
Total Revenues	52,802	155,067

Oil and natural gas revenues decreased by 81% to \$30,087 compared with last year, reflecting that the Corporation sold its unprofitable Manitoba oil properties.

Selected Balance Sheet Information

	31-Dec-08	30-Jun-08
	\$	\$
Assets	3,554,157	5,582,180
Current liabilities	4,742,347	5,592,922
Long-term liabilities	174,257	468,172
Asset-Retirement Obligations	261,676	704,385
Shareholder's equity	(1,624,123)	(1,183,299)

Total assets have decreased by 36% when compared with June 30, 2008, mainly because the Corporation sold the Manitoban oil properties. Current liabilities includes \$2 million in short-term, secured, bridge debt, payables, accruals and liability for indemnity owing to 2007 flow-through investors due to unmet spending obligations during the 2008 calendar year. As a result of this latter category, current liabilities have increased by 13%.

Adjusted EBITDA

Quarters ended December 31	2008	2007
	\$	\$
Gross Margin	47,450	132,916
Oil and gas division selling and transportation expenses	-	4,059
Oil and gas division production expenses	22,700	136,380
Administrative, Professional and Consulting expenses	272,298	219,424
Adjusted EBITDA	(247,548)	(226,947)

The Adjusted EBITDA decreased slightly from negative \$226,947 to a negative \$247,548 cash loss during the quarter, reflecting decreased revenues and decreased operating expenses but increased administrative expenses, which means that there was a 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

Quarters ended December 31	2008	2007
	\$	\$
Adjusted EBITDA	(247,548)	(226,947)
Depletion, depreciation and amortization – Oil and gas division	21,517	32,733
Stock-based compensation expense	-	11,743
Operating profit (loss) before financial expenses	(269,065)	(271,423)

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

Quarters ended December 31	2008	2007
	\$	\$
Stock-based compensation expense	-	11,743
Weight average assumptions for stock options granted:		
Risk-free interest rate	-	3.20%
Expected life in years	-	1.0
Expected volatility	-	55.0%
Expected dividend yield	n/a	n/a



Profit and Loss Information

Quarters ended December 31	2008	2007
	\$	\$
Revenues	52,802	155,067
Royalties, production taxes	(5,352)	(22,151)
Gross margin	33,486	132,916
Production Expenses	22,700	136,380
Administrative and Professional Fees	272,298	219,424
Depletion, depreciation and amortization	21,517	32,733
Stock-based compensation expense	-	11,743
Other expenses (income)	(180,847)	228,543
Sale of Manitoba Assets	146,518	-
EBIT	(234,736)	(499,966)
Financial expenses	278,244	260,946
Net profit (loss)	(512,980)	(760,912)

The Corporation lost \$512,981 during the quarter, which was less than the \$760,914 loss the previous year. Financial expenses were higher due to renewal fees despite lower debt levels. Other expenses include \$212,730 in write-downs and costs associated with the sale of the Manitoban assets and \$30,312 in expenses and settlement of lawsuits.

Operations Performance Overview

Revenues generated during the quarter came from both the Corporation's properties in Alberta and in Kentucky. Oil and gas production for the quarter decreased by 50% compared with the same period last year to total 959 barrels of oil equivalent ("boe").

Production Summary

Quarters ended December 31	2008	2007
Total oil production (boe)	959	1,916
Average Sale Price (\$/boe)	31.37	80.93
Total Revenues	30,087	155,067

Production for the quarter ended December 31, 2008 was 959 boe compared with 1,916 boe in the previous year, due to the sale of the Manitoba properties, as expected. The price of oil and gas was lower compared with the previous year, at an average \$31.37 per boe compared with \$77.03 per boe the previous year, reflecting both lower commodity prices and the switch made by the Corporation from principally oil production to only gas production, which has sold at a lower price per boe.



Oil Netback

Quarters ended December 31	2008	2007
	\$ / bbl	\$ / bbl
Sales price	n/a	80.91
Royalties and production taxes	n/a	11.56
Transportation and selling expense	n/a	2.12
Production and operations expense	n/a	71.16
Oil netback	n/a	(3.93)

The Corporation no longer sells oil since the sale of its Manitoba properties in September 2008.

Gas Netback

Quarters ended December 31	2008	2007
	\$ / Mcf	\$ / Mcf
Sales price	5.23	n/a
Royalties and production taxes	0.93	n/a
Transportation and selling expense	-	n/a
Production and operations expense	1.57	n/a
Gas netback	2.73	n/a

Gas sales for the quarter ended September 30, 2008 were the first quarter of materially significant production of natural gas for the Corporation.



Quarterly Operating Information

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

Quarters Ended	Mar-08	Jun-08	Sep-08	Dec-08
	\$	\$	\$	\$
Production (boe)	4,147	5,273	4,083	959
Realized oil sales price (\$/boe)	93.33	92.22	111.63	31.37
Oil and gas division revenues	387,025	486,233	455,759	30,087
Royalties and production taxes	57,318	87,177	85,444	5,352
Gross margin	329,706	618,916	370,315	10,771
Cash operating expenses	370,621	1,095,987	294,363	176,735
Adjusted EBITDA	(40,915)	(477,071)	75,952	(152,000)
Non-cash operating expenses	103,032	464,559	53,415	21,517
Gain (Loss) before financial expenses and income taxes	(143,947)	(941,630)	22,537	(173,517)
Financial expenses	215,817	398,425	170,731	278,244
Other Income (Expenses)	(12,446)	876,749	207,093	(56,638)
Future income taxes	0	561,682	0	117,858
(Net profit (loss))	(347,318)	(2,778,486)	(355,287)	(512,981)

Quarters Ended	Mar-07	Jun-07	Sep-07	Dec-07
	\$	\$	\$	\$
Production (boe)	3,854	3,505	3,250	1,920
Realized oil sales price (\$/boe)	62.33	69.37	77.03	80.78
Oil and gas division revenues	243,226	243,144	250,350	155,068
Royalties and production taxes	27,830	28,554	30,490	22,152
Gross margin	215,396	214,590	219,860	132,916
Cash operating expenses	553,279	624,675	314,655	363,126
Adjusted EBITDA	(337,883)	(410,085)	(94,795)	(230,210)
Non-cash operating expenses	237,262	232,920	62,901	38,605
Loss before financial expenses and income taxes	(575,145)	(643,005)	(157,696)	(268,815)
Financial expenses	305,988	237,294	215,943	257,685
Others products	1,123	1,330,787	(11,623)	228,543
Future income taxes	(264,646)	1,480,991	0	0
Net loss	(617,610)	(3,692,077)	(362,016)	(755,043)



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 cash 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 over the past 14 months, reduce its debt levels, and provided the Corporation with financial resources for its capital investments into its Alberta and Kentucky properties as well as its previously owned Manitoba property.

Despite the success of its fund raising activities and sale of properties, as of today the Corporation has a working capital deficit, significant outstanding short-term commitments and limited financial resources.

Therefore, the Corporation has filed a Proposal to Creditors under the Bankruptcy and Insolvency Act (Canada) on February 3, 2009 (the "Proposal"). If the Proposal is "Approved" by the necessary majorities of creditors and the court, the unsecured debts of the Corporation will be fully paid in shares of the Corporation. The only remaining short-term liability is the Corporation's secured loan, with Primatlantis, in the amount of \$2 million. Under an agreement with Primatlantis, the loan will not bear any interest or fees until after December 31, 2009, therefore, the Corporation will have 10 months to find liquidity to either reimburse the loan or begin paying interest on January 31, 2010 until the maturity date of the loan, which will be December 31, 2010.

During the last several quarters, the Corporation's operations did not generate sufficient cash inflows to cover cash outflows. And there is currently no expectation of net cash inflows from operations from either of the Corporation's Alberta or Kentucky properties for several months. Therefore, even once the Proposal the Corporation will be required to raise a minimum financing of approximately \$300,000 to cover projected cash-short-falls over the next six to eight months. The Corporation may be able to raise this funding (or more) as part of a business plan to grow the Corporation by acquiring new properties and possibly simultaneously reimbursing some or all of its remaining secured debt.

The Corporation has limited planned capital expenditures that will require it to disburse funds. For the Kentucky Property, the Corporation concluded a Farmout Agreement on January 13, 2009, which will see the property be developed by the farmee in the near-term. If the development performed by the Farmee is successful, the Corporation will see the value of the Kentucky property and its revenues increasing over time without having to commit to any capital disbursements. However, under the terms of the Farmout Agreement, the Corporation is required to maintain a minimum land base of 20,000 acres in Kentucky, paid for by the Corporation and the other Farmers. Also, the Corporation has some financial commitments with respect to capital expenditures on its Alberta properties.

As part of the Proposal, the payment in shares at \$0.05 per share is offered to the holders of 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. If the Proposal is Approved, the convertible debentures will be paid in full in shares of the Corporation. If the Proposal is not Approved, the Corporation will have defaulted on the interest payment due January 31, 2009, and the principal portion of the debentures also will become due and payable.



Working Capital

The Corporation's current ratio as at December 31, 2008 was 0.035, which is composed of \$168,761 of current assets divided by \$4,742,347 of current liabilities. If you remove the Corporation's short-term debt from the calculation, current liabilities were \$2,742,347 and the current ratio improves to only 0.062. Needless to say, on a scale from barely insolvent to extremely insolvent, the Corporation has reached a point of extreme insolvency.

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 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 was reduced to \$2 million on September 11, 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 the next 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 asset base – comprised of its promising Kentucky Shale Gas Property and its producing Albertan assets - the Corporation is positioned to potentially create wealth for its shareholders.

The Farmout Agreement concluded on January 13, 2009 will see the continued development of the Kentucky Shale Gas Property. Positive results from this development will increase the Corporation's net asset value and its proven and probable reserves.

Gale Force Petroleum faces some difficult challenges ahead, notably soliciting and convincing the necessary majorities of creditors to vote in favour of the Proposal to Creditors and raising the funds necessary to not only cover projected cash shortfalls over the next 12 months, but to also continue growing the business through acquisitions and new development.

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.

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, 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, recently declining substantially off historic highs during the summer of 2008. Gale Force Petroleum is now strictly a gas producer, and we believe our Kentucky Shale Gas Property will be economic to develop even with prices at \$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, 2008.

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.

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. A more detailed explanation of the primary risks that could potentially have a material impact on the financial results and operations of the Corporation are presented in the annual Management's discussion for the year ended June 30, 2008, available on SEDAR. We have determined that market, financial and counterparty risks remain substantially unchanged since then.

SHARES ISSUED & OUTSTANDING, OPTIONS & WARRANTS

As at December 31, 2008 there were 19,468,355 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 219,294.

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

