GALE FORCE™ PETROLEUM

Management's Discussion and Analysis
For the Interim Period Ended December 31, 2009

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For the interim period ended December 31, 2009

Prepared as at January 13, 2010

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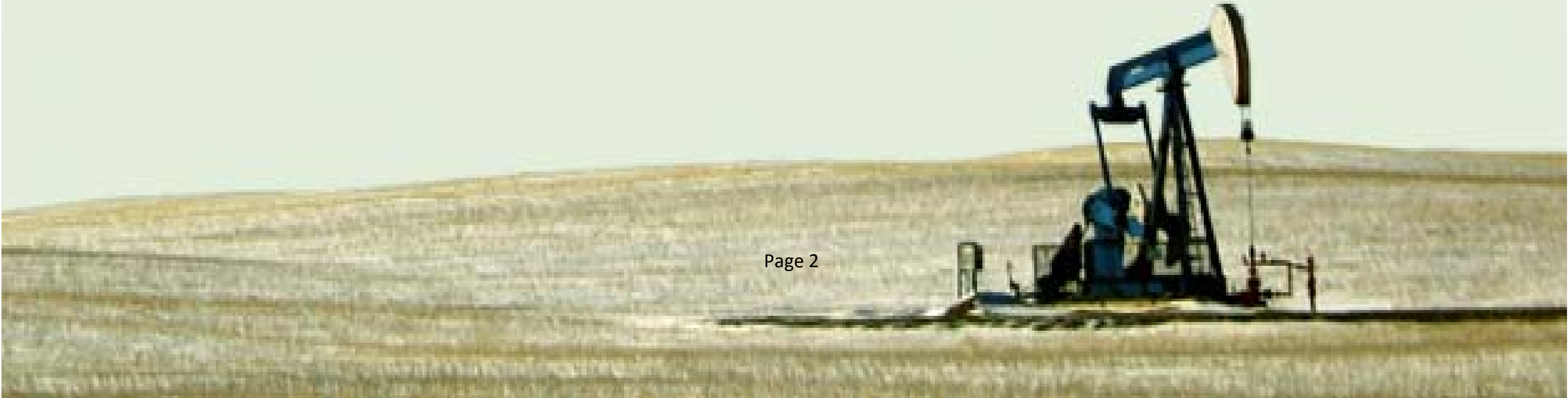


BASIS OF PRESENTATION

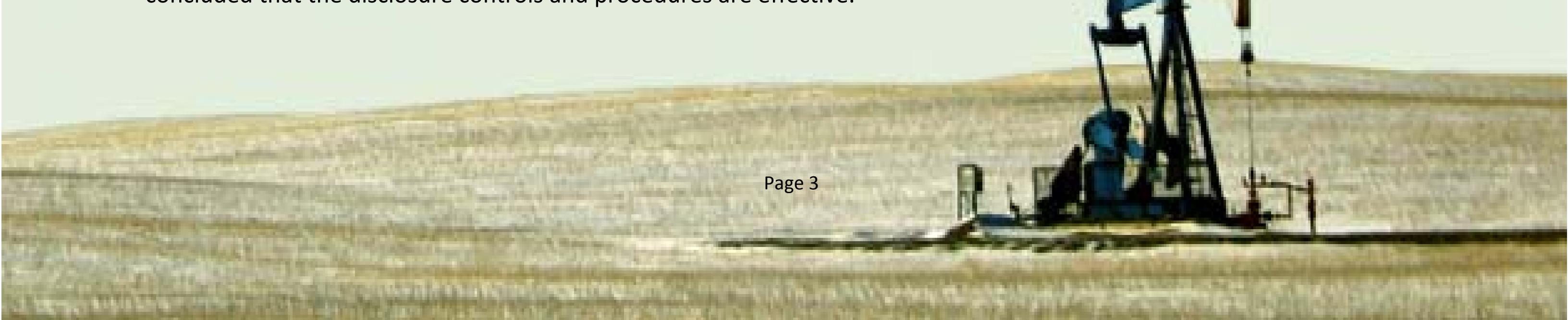
Throughout this document, Gale Force Petroleum Inc. is referred to as “Gale Force Petroleum”, “we” or the “Corporation”. This management’s discussion and analysis of the financial condition and results of operations (“**MD&A**”) describes our business, the business environment, our vision and strategy 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 ending June 30, 2009, June 30, 2008 and June 30, 2007. 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 interim period or quarter indicate the quarter ended December 31, 2009, and all comparisons are to quarter ended December 31, 2008.

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 Corporation is made known to us by others, particularly during the interim period covered by this yearly 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 interim 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 interim 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

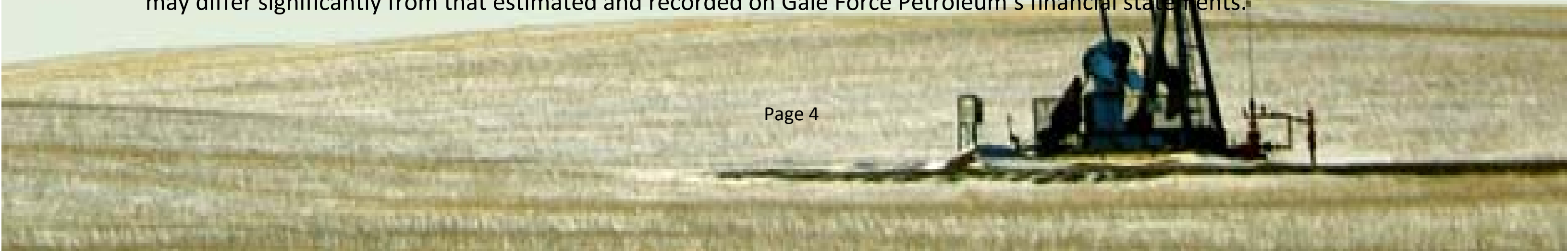
During the interim period, the Corporation updated its financial control policies as part of a process of continuous improvement. These changes continue to ensure the quality and integrity of records and accounting as well as improving the timeliness of financial information.

NON-GAAP MEASURES

This document contains the terms “Adjusted EBITDA”, “Gas Netback” and “Oil Netback”, which do not have a standardized meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures by other companies. Adjusted EBITDA, Gas Netback 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. “Gas Netback” or “Oil Netback” is the average sales price of gas or oil less royalties, production taxes, transportation and selling expenses and production expenses. The Gas Netback or 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 herein. 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 exploration, development and production of conventional and unconventional gas resources in mature basins. It owns producing natural gas properties in Kentucky (USA).

STRATEGY, OBJECTIVES AND PLANS

The Corporation is currently attempting to stave off insolvency and begin rebuilding the Corporation by completing a restructuring of its debts, an equity re-financing and simultaneous purchase of additional oil and gas properties.

The first step was to file a Proposal to Creditors under the *Bankruptcy and Insolvency Act* (Canada) (the "**Proposal to Creditors**"). The Proposal to Creditors has now been approved by the necessary majorities of creditors and has received the sanction of the Superior Court of Quebec. The Trustee has recently issued a Certificate of Full Performance of the Proposal to Creditors.

The next step for the Corporation is to restructure its remaining secured debt, obtain new equity financing and acquire new properties.

Growth Strategies and Objectives

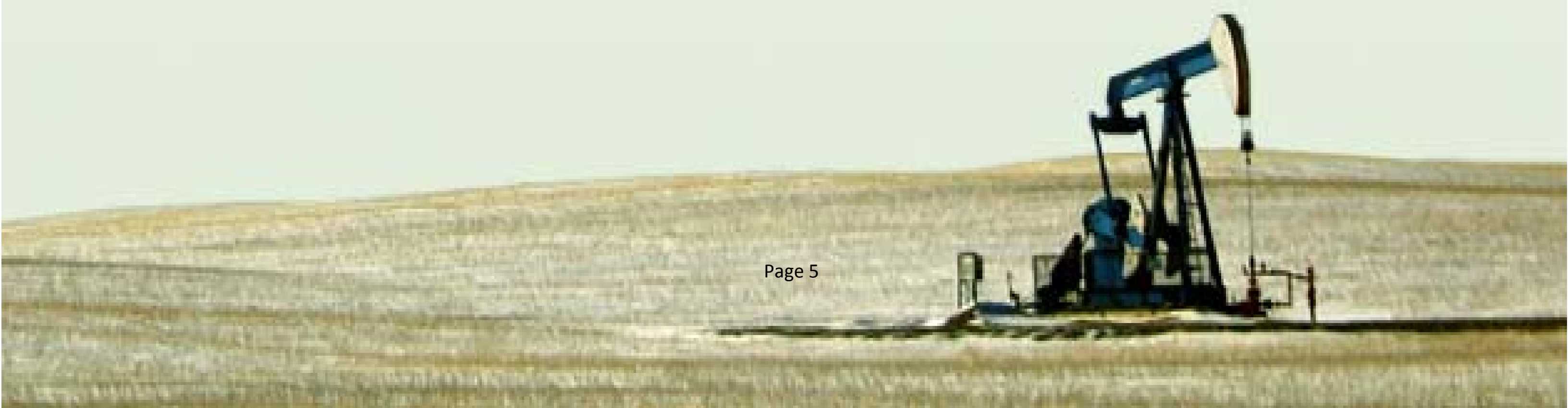
If the Corporation is successful in restructuring its secured debt and obtaining new equity financing, the Corporation will pursue two key drivers of shareholder wealth creation:

1. <u>Mergers and Acquisitions</u>: Gale Force Petroleum will try to grow via acquisitions in the USA, and try to take advantage of niche opportunities that have arisen due to higher energy resource prices and general financial distress. The Corporation had begun exploring this strategy during the summer of 2008 with the purchase of the Kentucky Shale Gas Property, and has now entered agreements to purchase three new oil and gas property assets located in Texas, Oklahoma and Tennessee (USA).

2. <u>Converting Contingent Resources to Proven and Probable Reserves</u>: Gale Force Petroleum will continue to develop its shale gas property located in Morgan County, Kentucky (the "**Kentucky Shale Gas Property**"). Development of the property will seek to increase gas production and revenues, and seek to prove that the Kentucky Shale Gas Property's contingent resource can be extracted economically, which would provide the Corporation with reserves estimates from an independent qualified evaluator.

Immediate Plans

The Corporation intends to enter into several agreements (the "**Proposed Transactions**") to complete the restructuring of its debts and acquire new properties, which could permit the Corporation to stave off insolvency and provide a viable future for the Corporation.



Immediate Plans - Continued

The Proposed Transactions are summarized in point form as follows:

- A new conditional agreement has been reached with the holder of the Corporation's CA$1,830,000 secured loan to:
    - Write-down CA$980,000;
    - Convert CA$400,000 into 50 million common shares of the Corporation at a price of twenty-five cents (CA$0.25) per share (post share consolidation); and
    - Convert the balance of CA$450,000 into convertible preferred shares of the Corporation;

- Three property asset purchase agreements have been signed to purchase oil and gas properties and assets in Texas, Oklahoma and Tennessee;

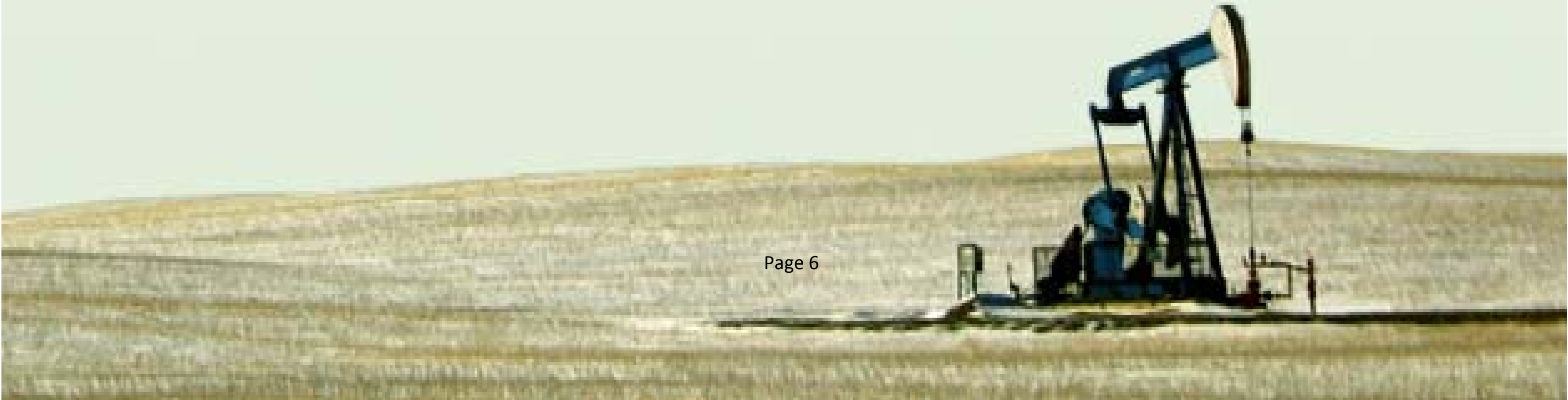
- A private placement equity financing of between CA$1,000,000 and CA$3,500,000.

The Proposed Transactions – if concluded – will result in the elimination of the Corporation's secured loan, will improve the size and potential of the Corporation's oil and gas reserves, and will provide sufficient equity capital and operational cash flow to continue as a going concern.

The Proposed Transactions are subject to various approvals, including, but not necessary limited to:

- The approval of the TSX Venture Exchange;
- The approvals of the shareholders of the Corporation to amend the articles of the Corporation to consolidate the shares of the Corporation on a 50:1 basis and to create a new class of preferred shares securities of the Corporation; and
- Any other required approvals which may be required;

The Corporation has called an Annual and Special Meeting of its shareholders to be held on January 15, 2010, where the shareholders will be asked to provide some or all of the necessary shareholders' approvals required to conclude the Proposed Transactions.



RESULTS OF OPERATIONS

The Corporation's wells in its Kentucky Shale Gas Property were shut-in during most of this year. For the previous year's interim period ended December 31, 2008, revenues were generated from assets the Corporation's assets located in Kentucky but mainly from assets previously owned by the Corporation in Manitoba and Alberta.

Financial Information and Analysis

Revenues

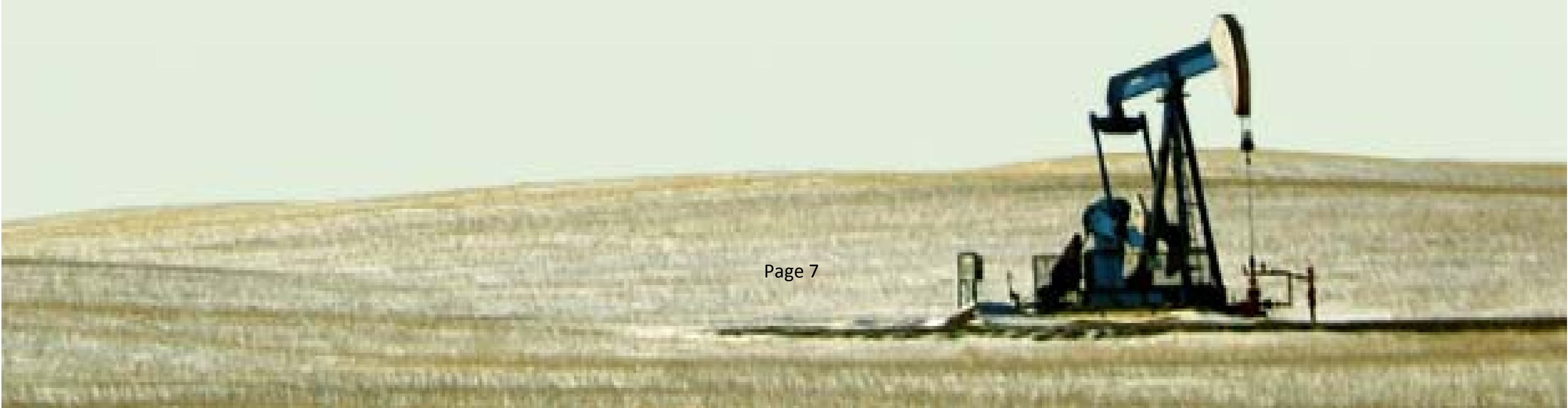
Interim periods ended December 31	**2009**	2008
	$	$
Sales – Oil and gas division	**-**	52,802
Royalties	**-**	(5,352)
Total Revenues	**-**	47,450

Oil and natural gas revenues decreased to zero, reflecting that the Corporation sold its unprofitable Manitoba oil properties and disposed of its unprofitable Alberta conventional gas properties as part of its restructuring, and its Kentucky property was only on test production during the quarter.

Selected Balance Sheet Information

As at	**30-Sep-09**	30-June-09
	$	$
Assets	**1,879,231**	1,682,827
Current liabilities	**3,170,043**	4,765,883
Long-term liabilities	**-**	-
Asset-retirement obligations	**43,630**	46,295
Shareholders' equity	**(1,334,442)**	(3,374,058)

Total assets have not changed materially since the beginning of the year. Current liabilities include $1.83 million in short-term secured debt, and $910,000 in funds held in trust by the Corporation for a proposed equity private placement financing, which has not yet closed. If the financing does not close, the funds will be returned to the investors.



Adjusted EBITDA

Interim periods ended December 31	**2009**	2008
	$	$
Gross margin	**-**	47,450
Production expenses	**-**	22,770
Administrative, Professional and Consulting expenses	**182,444**	272,298
Adjusted EBITDA	**(182,444)**	(247,618)

The Adjusted EBITDA increased from negative $247,618 to negative $182,844, reflecting decreased revenues but also decreased operating expenses.

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, the Corporation uses "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.

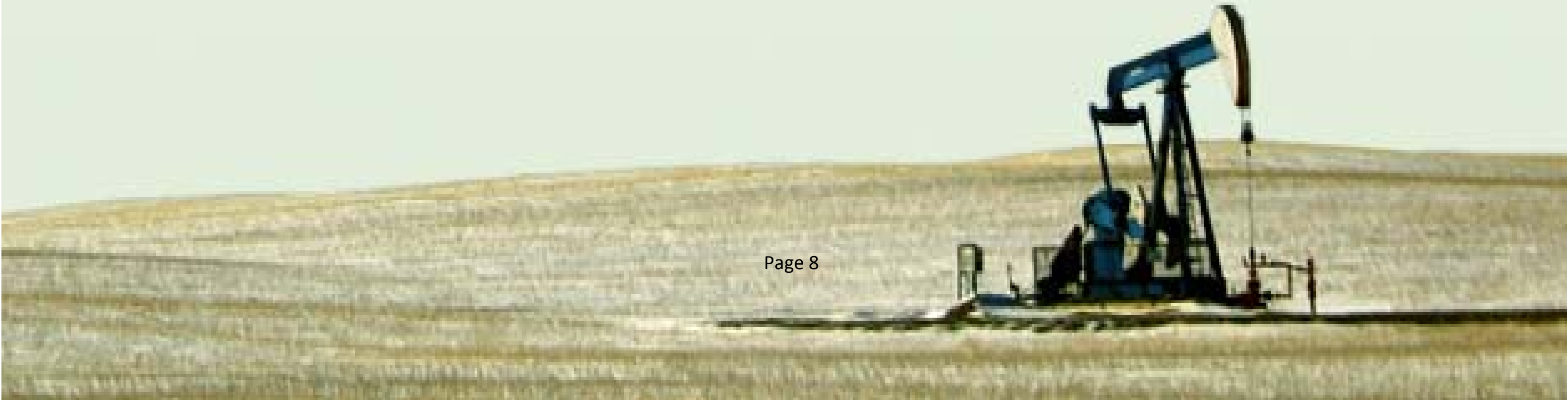
Operating loss before financial expenses

Interim periods ended December 31	**2009**	2008
	$	$
Adjusted EBITDA	**(182,444)**	(247,618)
Other (income) and expenses	**40,106**	(180,847)
Depletion, depreciation and amortization – Oil and gas division	**-**	21,517
Stock-based compensation expenses	**-**	-
Operating profit (loss) before financial expenses	**(222,550)**	(88,288)

The operating loss before financial expenses and income taxes (EBIT) is calculated by deducting non-cash operating expenses from Adjusted EBITDA.

Stock-based Compensation Expense

Interim periods ended December 31	**2009**	2008
	$	$
Stock-based compensation expenses	**-**	15,823
Weight average assumptions for stock options granted:		
Risk-free interest rate	**n/a**	2.63%
Expected life in years	**n/a**	1.0
Expected volatility	**n/a**	58.0%
Expected dividend yield	**n/a**	n/a



Profit and Loss Information

Interim periods ended December 31	2009	2008
	$	$
Revenues	-	52,802
Royalties and production taxes	-	(5,352)
Gross margin	-	47,450
Operating expenses	**182,444**	316,515
EBIT	**(182,444)**	(269,065)
Financial expenses	**937**	278,244
Sale of Manitoba Assets	-	146,519
Other expenses (income)	**40,106**	(180,847)
Net profit (loss)	**(223,487)**	(512,981)

The Corporation lost $223,487 during the quarter, compared with a loss of $512,981 the previous year. The losses this quarter reflect the carrying cost of the Corporation without operating activities during the quarter. The losses last year were due to structural loss-taking operations and write-downs.

Operations Performance Overview

There were no revenues generated during the quarter. Oil and gas production last year was 4,084 barrel-of-oil equivalent ("**BOE**").

Production Summary

Interim periods ended December 31	2009	2008
Total oil production (BOE)	-	4,084
Average sale price ($/BOE)	-	111.59
Total Revenues	-	455,759

Production for the quarter ended December 31, 2008 was 4,084 BOE, compared with no production in this quarter due to operations on the Kentucky property being temporarily shut-down and as a result of the disposition of the Manitoba and Alberta properties.

Oil Netback

Interim periods ended December 31	2009	2008
	$/bbl	$/bbl
Sale price	-	128.89
Royalties and production taxes	-	18.17
Transportation and selling expenses	-	1.15
Production and operations expenses	-	80.49
Oil netback	-	29.08

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

Gas Netback

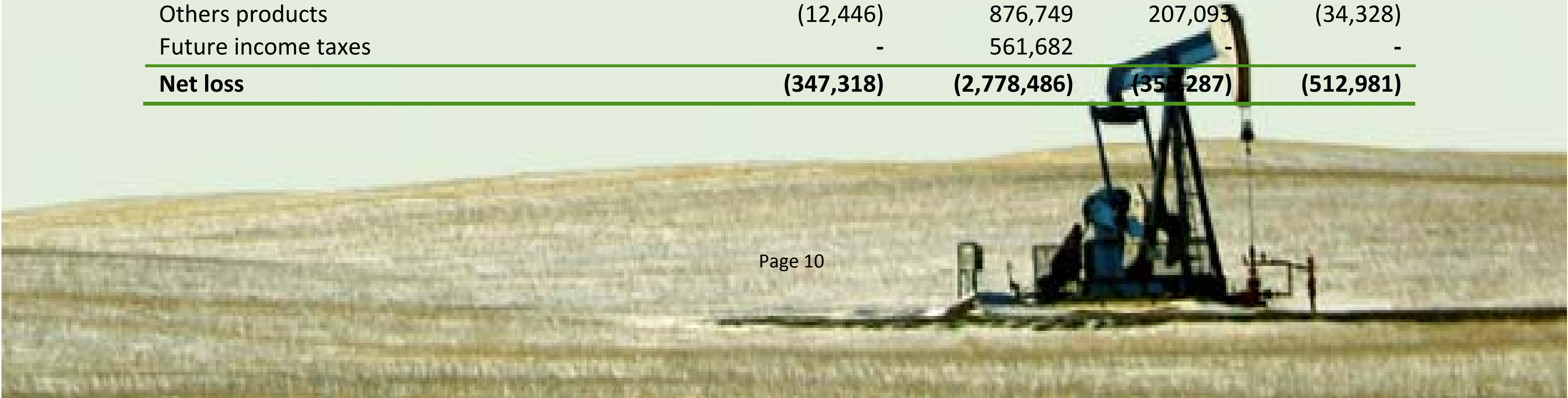
Interim periods ended December 31	**2009**	2008
	$/Mcf	$/Mcf
Sale price	-	8.37
Royalties and production taxes	-	2.54
Production and operations expenses	-	1.08
Gas netback	**-**	4.75

Yearly Operating Information

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

Quarters Ended	Dec. 2008	Mar. 2009	Jun. 2009	Sep. 2009
	$	$	$	$
Production (BOE)	2,273	1,452	-	-
Realized oil and gas sales price ($/BOE)	38.75	33.71	-	-
Oil and gas division revenues	598,070	48,942	-	-
Royalties and production taxes	17,497	13,958	-	-
Gross margin	**580,573**	**10,604**	**-**	**-**
Cash operating expenses	1,216	604,653	103,856	182,844
Adjusted EBITDA	**579,357**	**(569,669)**	**(103,856)**	**(182,844)**
Non-cash operating expenses	83,962	118,372	-	-
Gain (loss) before financial expenses and income taxes	**495,395**	**(688,041)**	**(103,856)**	**(182,844)**
Financial expenses	(117,568)	288,101	244	937
Other income (expenses)	659,449	560,415	67,242	40,106
Future income taxes	-	-	-	-
Net profit (loss)	**(46,486)**	**(1,536,557)**	**(171,342)**	**(223,487)**

Quarters Ended	Dec. 2007	Mar. 2008	Jun. 2008	Sep. 2008
	$	$	$	$
Production (BOE)	4,147	5,273	4,083	959
Realized oil sales price ($/BOE)	93.33	92.22	111.63	55.06
Oil and gas division revenues	387,025	486,233	455,759	52,802
Royalties and production taxes	57,318	87,177	85,444	5,352
Gross margin	**329,706**	**618,916**	**370,315**	**47,450**
Cash operating expenses	370,621	1,095,987	294,363	294,998
Adjusted EBITDA	**(40,915)**	**(477,071)**	**75,952**	**(247,548)**
Non-cash operating expenses	103,032	464,559	53,415	21,517
Loss before financial expenses and income taxes	**(143,947)**	**(941,630)**	**22,537**	**(269,065)**
Financial expenses	215,817	398,425	170,731	278,244
Others products	(12,446)	876,749	207,093	(34,328)
Future income taxes	-	561,682	-	-
Net loss	**(347,318)**	**(2,778,486)**	**(355,287)**	**(512,981)**



Liquidity and Capital Resources

Source of Funds

The Corporation is currently insolvent, but has been provided sufficient resources by management and its secured creditor to continue operations for a limited period of time to attempt to complete its restructuring and the Proposed Transactions. Additionally, during the quarter an agreement to settle a litigation brought by the Corporation was reached by the Corporation and the defendant on November 16, 2009, and the Corporation was paid gross $700,000 or $500,000 net of trial costs on December 16, 2009, under the terms of the agreement. Of the $500,000 in net proceeds, the Corporation disbursed $200,000 to repay advances that had been made to it by its secured creditor over and above the secured loan amount, and a further $200,000 was used to pay-down the $2,030,000 secured loan, reducing the balance of the loan to $1,830,000. The remainder of the funds were dispersed immediately to discharge some of the Corporation's accumulated short-term liabilities, to pay for the administrative costs of bringing the Corporation into compliance with its reporting obligations, and to pay some of the costs of obtaining the necessary regulatory and shareholder approvals of the Proposed Transactions (described below).

The Corporation is currently attempting to stave off insolvency and begin rebuilding the Corporation by completing a restructuring of its debts, an equity re-financing and simultaneous purchase of additional oil and gas properties.

The first step was to file a Proposal to Creditors under the *Bankruptcy and Insolvency Act* (Canada) (the "**Proposal to Creditors**"). The Proposal to Creditors was approved by the necessary majorities of creditors and received the sanction of the Superior Court of Quebec. The Trustee has recently issued a Certificate of Full Performance of the Proposal to Creditors.

The next step for the Corporation is to restructure its remaining secured debt, obtain new equity financing and acquire new properties.

The Corporation intends to enter into several agreements (the "**Proposed Transactions**") to complete the restructuring of its debts and acquire new properties, which could permit the Corporation to stave off insolvency and provide a viable future for the Corporation.

The Proposed Transactions are summarized in point form as follows:

- A new conditional agreement has been reached with the holder of the Corporation's CA$2,030,000 secured loan to:
  - Write-down CA$980,000;
  - Convert CA$400,000 into 50 million common shares of the Corporation at a price of twenty-five cents (CA$0.25) per share (post share consolidation); and
  - Convert the balance of CA$450,000 into convertible preferred shares of the Corporation;
- Three property asset purchase agreements have been signed to purchase oil and gas properties and assets in Texas, Oklahoma and Tennessee;
- A private placement equity financing of between CA$1,000,000 and CA$3,500,000.

The Proposed Transactions – if concluded – will result in the elimination of the Corporation's secured loan, will improve the size and potential of the Corporation's oil and gas reserves, and will provide sufficient equity capital and operational cash flow to continue as a going concern.

The Proposed Transactions are subject to various approvals, including, but not necessary limited to:

- The approvals of the TSX Venture Exchange;

- The approvals of the shareholders of the Corporation to amend the articles of the Corporation to consolidate the shares of the Corporation on a 50:1 basis and to create a new class of preferred shares securities of the Corporation; and
- Any other required approvals which may be required;

The Corporation has called an Annual and Special Meeting of its shareholders to be held on January 15, 2010, where the shareholders will be asked to provide their approval of the Proposed Transactions.

If the Corporation cannot gain TSX Venture Exchange approval for the Proposed Transactions, there is a significant chance that the Corporation will not have sufficient liquidity to continue as a going concern, and will be required to file for bankruptcy.

Working Capital

As at December 31, 2009, the Corporation's current ratio was 0.29, which is composed of $911,361 of current assets divided by $3,170,043 of current liabilities. If you remove the cash held in trust for the proposed private placement and removed the Corporation's short-term secured debt, the ratio is even lower at 0.03.

The Corporation has negative working capital of $2,248,682 (=$3,170,043 less $921,361).

The Corporation has no working capital, and is reliant on the goodwill of management and on its secured creditor for funds to sustain the business in the hope that its restructuring and the Proposed Transactions will be successful.

Ceiling Test

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

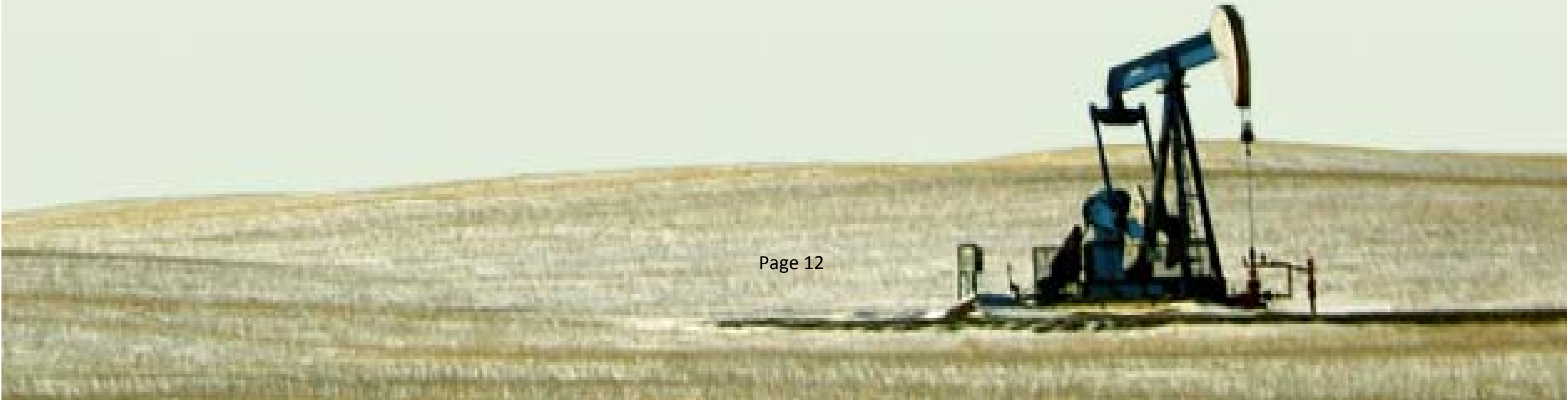
Outlook

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

Due to the series of transactions described above, the Corporation is positioned to create wealth for its shareholders if it can gain regulatory approvals and conclude the Proposed Transactions.

If the Corporation cannot gain TSX Venture Exchange approval for the Proposed Transactions, there is a significant chance that the Corporation will not have sufficient liquidity to continue as a going concern, and will be required to file for bankruptcy.

The Corporation intends to continue the development of its properties, and will continue to explore for new property acquisitions.



CHANGES IN ACCOUNTING POLICIES AND PRACTICES

Effective July 1, 2008, the Company adopted new accounting standards set out by the Canadian Institute of Chartered Accountants (CICA) Handbook section 1530 “Comprehensive income”, 1535 "Capital Disclosures", section 3863 "Financial Instruments - Presentation" and section 3862 "Financial Instruments - Disclosures".
Later this year, the Corporation 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 3855 'Inventories', 3862 ‘Financial instruments - recognition and measurement', 3863 'Financial Instruments - disclosure', and 3865 'Financial Instruments - presentation'. Management is unable to assess the impact these new standards will have on its financial statements.

International Financial Reporting Standards (“IFRS”)

On February 13, 2008 the CICA Accounting Standards Board (AcSB) announced that accounting standards in Canada are to converge with IFRS for Canadian public companies. The AcSB has indicated that Canadian entities will need to begin reporting under IFRS for fiscal years beginning on or after January 1, 2011 with appropriate comparative data from the prior year. The transition date of July 1, 2011 will require restatement for comparative purpose of amounts reported by the Corporation for the year ended June 30, 2011. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed.

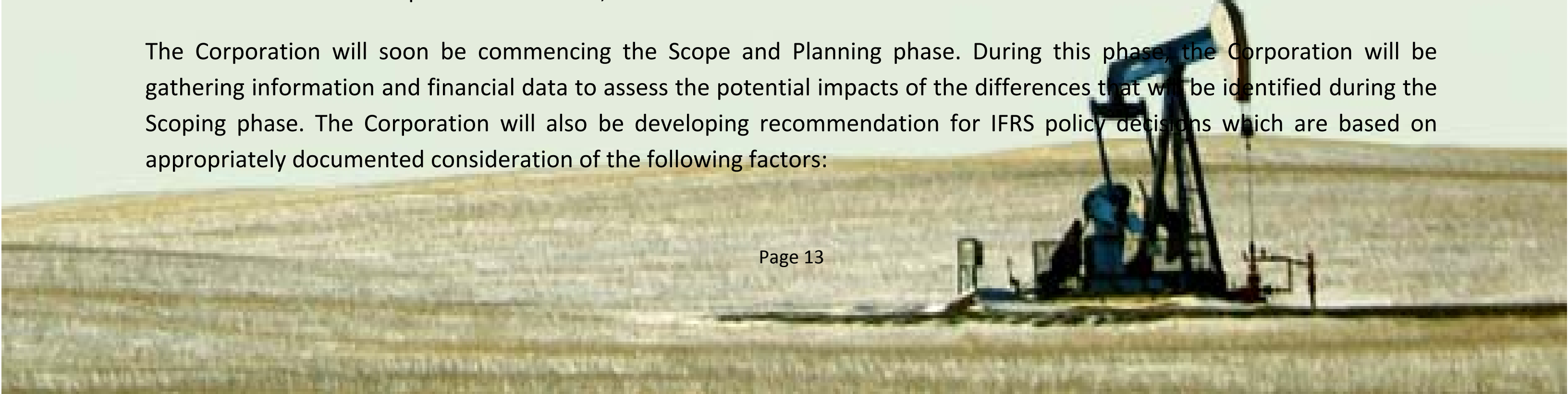
In February 2008, the Accounting Standards Board confirmed that all Canadian publicly accountable enterprises will be required to adopt IFRS for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Gale Force Petroleum is continually assessing the impact of the convergence of Canadian GAAP with IFRS on the Corporation’s results of operations, financial position and disclosures. Under the direction and oversight of the Board of Directors and audit Committee, the Corporation has assembled a project team to manage the transition and to ensure successful implementation within the required time frame.

The Corporation recognizes that the changeover to IFRS has complex implications on a combination of accounting, financial reporting, IT and business systems. The Corporation has not engaged any external consultants at this point to conduct a Business Impact Study, or to assist in the development of a project plan, or to provide assistance in considering various accounting policy decisions which will be required throughout the transition period. Not all of the company personnel involved with the transition project have received all the appropriate training and education.

The overall IFRS transition project will consist of 5 phases: (i) Scope; (ii) Plan; (iii) Design and Build; (iv) Implement; (v) Review. The Scope phase consists of identifying the significant differences between Canadian GAAP and IFRS. The Corporation will conclude that the following key issues are expected to have the most significant impact on Gale Force Petroleum results of operations, financial position and disclosures:

- IFRS 1 - First-time adoption of International Financial Reporting Standards;
- IFRS 6 - Exploration and evaluation of mineral recourses;
- IFRS 16 – Property, Plant and Equipment;
- IAS 36 – Impairment of assets;

The Corporation will soon be commencing the Scope and Planning phase. During this phase, the Corporation will be gathering information and financial data to assess the potential impacts of the differences that will be identified during the Scoping phase. The Corporation will also be developing recommendation for IFRS policy decisions which are based on appropriately documented consideration of the following factors:



- Impact of financial and key performance indicators;
- Impact on information technology systems;
- Impact on the internal control and disclosure control frameworks;
- Transition and maintenance costs;
- Impact on communications with key stakeholders;
- Other general business impacts.

The Corporation anticipated completion of the Planning phase by mid-2010 and will provide additional disclosures of the key elements of its plan and progress of the project as the information becomes available.

RISKS AND UNCERTAINTIES

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 the possibility of not being able to find and/or to develop oil and gas reserves economically, mis-estimating amounts of recoverable reserves, being unable to produce oil and gas in commercial quantities, being unable to market oil and gas produced, being subject to fluctuations in commodity prices, not being able to secure adequate financing and/or obtain the liquidities to discharge near-term liabilities, incurring environmental or health and safety liabilities.

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 Accounting Standards Board (AcSB) 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

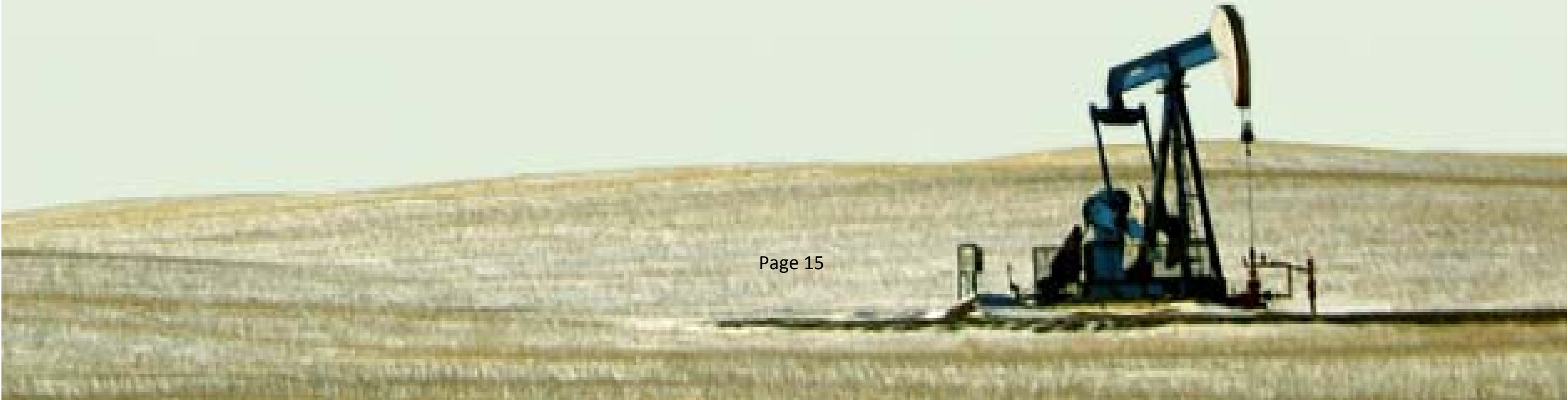
The Corporation is exposed to market risk to the extent that the demand for oil and gas produced by the Corporation exists within Canada and the United States. External factors beyond the Corporation's control may affect the marketability of oil and gas produced. These factors include commodity prices 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 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, development 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, its personnel and that of its subcontractors, 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

As at December 31, 2009 there were 62,677,178 common shares issued and outstanding. There were also 4,325,243 warrants outstanding but no stock options.

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

Antoinette Lizzi
Vice-President of Finance & CFO