



Consolidated Interim Financial Statements

As at March 31, 2010

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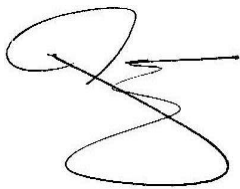
Management's report

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 Corporation'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 Corporation'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.

A handwritten signature in black ink, appearing to read 'Joseph F. Langston, Jr.', with a horizontal line extending to the right from the end of the signature.

Joseph F. Langston, Jr., CPA
President and Chief Executive Officer
June 3, 2010

**GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES**

**Comparative Consolidated Balance Sheets
As At**

| | March 31, 2010 | June 30, 2009 |
|---|----------------------------|----------------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 1,364,834 | \$ 21,998 |
| Receivables (Note 3) | <u>899,249</u> | <u>700,000</u> |
| Total current assets | <u>2,264,083</u> | <u>721,998</u> |
| Capital Assets (Note 4) | <u>4,338,094</u> | <u>960,829</u> |
| Net property and equipment | <u>4,338,094</u> | <u>960,829</u> |
| Total assets | <u><u>\$ 6,602,177</u></u> | <u><u>\$ 1,682,827</u></u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Payables (Note 5) | \$ 2,086,408 | \$ 2,813,156 |
| Line of credit (Note 6) | <u>927,358</u> | <u>2,197,434</u> |
| Total current liabilities | <u>3,013,766</u> | <u>5,010,590</u> |
| Asset retirement obligations (Note 8) | <u>325,761</u> | <u>46,295</u> |
| Total liabilities | <u><u>3,339,528</u></u> | <u><u>5,056,885</u></u> |
| Share capital - Common Shares (Note 10) | 16,570,110 | 10,789,747 |
| Share capital - Preferred Shares (Note 10) | 661,177 | - |
| Equity component of convertible debentures (Note 7) | - | 41,143 |
| Contributed surplus | 1,515,632 | 1,515,632 |
| Retained earnings (deficit) | (15,608,874) | (15,704,925) |
| Other comprehensive income | <u>124,604</u> | <u>(15,655)</u> |
| Total shareholders' equity | <u><u>3,262,649</u></u> | <u><u>(3,374,058)</u></u> |
| Total liabilities and shareholders' equity | <u><u>\$ 6,602,177</u></u> | <u><u>\$ 1,682,827</u></u> |

The accompanying notes form an integral part of these financial statements

Signed for the Board,



Director



Director

**GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES**

**Comparative Consolidated Income Statements
For the Periods Ended**

| | Three Months | | Nine Months | |
|--|---------------------|------------------------|------------------------|------------------------|
| | March 31, 2010 | March 31, 2009 | March 31, 2010 | March 31, 2009 |
| Revenues | | | | |
| Oil and gas | \$ 57,597 | \$ 88,086 | \$ 57,597 | \$ 573,933 |
| Royalties and Severance Taxes | (2,756) | (17,497) | (2,756) | (122,259) |
| Operator Income | 3,555 | 4,725 | 3,555 | 27,440 |
| Equipment Rental Income | - | - | - | - |
| Total revenue | <u>58,396</u> | <u>75,314</u> | <u>58,396</u> | <u>479,114</u> |
| Cost and expenses | | | | |
| Operating expenses | 8,403 | 20,439 | 8,403 | 291,843 |
| Depreciation, depletion, amortization, and accretion | 12,043 | 83,962 | 12,043 | 261,443 |
| General and administrative | 138,677 | (19,223) | 425,373 | 484,769 |
| Stock-based compensation expense (Note 10) | 10,286 | - | 10,286 | 15,823 |
| Operating Expenses | <u>\$ 169,410</u> | <u>\$ 85,178</u> | <u>\$ 456,106</u> | <u>\$ 1,053,878</u> |
| Income (loss) before financial expenses | <u>\$ (111,014)</u> | <u>\$ (9,864)</u> | <u>\$ (397,710)</u> | <u>\$ (574,764)</u> |
| Financial expenses (Note 13) | 6,700 | 350 | 7,881 | 449,325 |
| Other expenses (income) (Note 19) | (847,277) | 541,531 | (740,355) | 395,943 |
| Income taxes | - | - | - | - |
| Net income (loss) | <u>\$ 729,564</u> | <u>\$ (551,745)</u> | <u>\$ 334,765</u> | <u>\$ (1,420,032)</u> |
| Deficit, beginning of period | <u>-</u> | <u>(13,789,958)</u> | <u>(15,930,500)</u> | <u>(12,921,671)</u> |
| Profit (Deficit), end of period | <u>\$ 729,564</u> | <u>\$ (14,341,703)</u> | <u>\$ (15,595,735)</u> | <u>\$ (14,341,703)</u> |
| Income (Loss) per share (note 16) | | | | |
| Basic | \$ 0.120 | \$ (0.029) | \$ 0.083 | \$ (0.073) |
| Diluted | \$ 0.120 | \$ (0.029) | \$ 0.083 | \$ (0.073) |

The accompanying notes form an integral part of these financial statements

**GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES**

**Comparative Consolidated Statements of Comprehensive Income and
Accumulated Other Comprehensive Income
For the Periods Ended**

| | Three Months | | Nine Months | |
|---|-------------------|---------------------|-------------------|-----------------------|
| | March 31, 2010 | March 31, 2009 | March 31, 2010 | March 31, 2009 |
| Net Income (loss) (note 16) | \$ 729,564 | \$ (551,745) | \$ 334,765 | \$ (1,420,032) |
| Foreign currency translation adjustment | <u>140,998</u> | <u>53,851</u> | <u>251,428</u> | <u>53,851</u> |
| Comprehensive income (loss) | <u>\$ 870,562</u> | <u>\$ (497,894)</u> | <u>\$ 586,193</u> | <u>\$ (1,366,181)</u> |
| Accumulated other Comprehensive Income (loss) | <u>(140,998)</u> | <u>(53,851)</u> | <u>(251,428)</u> | <u>(53,851)</u> |
| Other comprehensive income (loss) | <u>\$ 729,564</u> | <u>\$ (551,745)</u> | <u>\$ 334,765</u> | <u>\$ (1,420,032)</u> |

The accompanying notes form an integral part of these financial statements

**GALE FORCE PETROLEUM INC.
AND SUBSIDIARIES**

**Comparative Consolidated Cash Flows Statements
For the Periods Ended**

| | Three Months | | Nine Months | |
|--|---------------------|-------------------|---------------------|--------------------|
| | March 31, 2010 | March 31, 2009 | March 31, 2010 | March 31, 2009 |
| OPERATING ACTIVITIES | | | | |
| Net income | \$ 729,564 | \$ (551,745) | \$ 334,765 | \$ (1,420,032) |
| Items not affecting cash-flows: | | | | |
| Depreciation, depletion and amortization | 12,043 | 83,962 | 12,043 | 261,443 |
| Impairment of long-lived assets | - | 361,289 | - | 381,502 |
| Stock-based compensation | 10,286 | - | 10,286 | 15,823 |
| Revision of capitalized assets retirement obligation | 3,493 | 3,860 | 3,493 | 3,860 |
| Comprehensive (income) loss | 140,998 | (45,496) | 251,428 | (45,496) |
| | <u>896,384</u> | <u>(148,130)</u> | <u>612,014</u> | <u>(802,900)</u> |
| Net change in non-cash working capital items (note 12) | (925,997) | 229,420 | (925,997) | 646,544 |
| Net cash provided by operating activities | <u>(29,613)</u> | <u>81,290</u> | <u>(313,982)</u> | <u>(156,356)</u> |
| INVESTING ACTIVITIES | | | | |
| Net purchases of property and equipment | (4,078,481) | (126,248) | (3,794,112) | (678,193) |
| Redemption on Convertible debentures | - | - | - | (290,000) |
| Capitalized Asset Retirement Obligations | 279,466 | 2,879 | 279,466 | (439,830) |
| Purchases of certificate of deposit | - | 16,205 | - | 92,074 |
| | <u>-</u> | <u>16,205</u> | <u>-</u> | <u>92,074</u> |
| Net cash used in investing Activities | <u>(3,799,015)</u> | <u>(107,164)</u> | <u>(3,514,646)</u> | <u>(1,315,949)</u> |
| FINANCING ACTIVITIES | | | | |
| Issuance of equity securities | 6,441,540 | - | 6,441,540 | 658,254 |
| Net withdrawals (repayment) of line of credit | (1,270,076) | - | (1,270,076) | (1,003,671) |
| | <u>5,171,464</u> | <u>-</u> | <u>5,171,464</u> | <u>(345,417)</u> |
| Net cash provided by financing activities | <u>5,171,464</u> | <u>-</u> | <u>5,171,464</u> | <u>(345,417)</u> |
| Net cash increase for period | 1,342,836 | (25,874) | 1,342,836 | (1,817,722) |
| Cash at beginning of period | 21,998 | 73,759 | 21,998 | 1,865,607 |
| Cash at end of period | <u>\$ 1,364,834</u> | <u>\$ 47,885</u> | <u>\$ 1,364,834</u> | <u>\$ 47,885</u> |

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

NOTE 1 – INCORPORATION AND NATURE OF BUSINESS

The Corporation was incorporated under the *Canada Business Corporations Act* in 2001. The Corporation owns and exploits oil and natural gas properties in Texas, Oklahoma, Tennessee and Kentucky, and has a focus on the development and exploitation of oil and gas resources in mature basins, building shareholder value by making accretive acquisitions and developing its properties.

NOTE 2 – ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Gale Force Petroleum USA, GFP Central USA, GFP Texas and Buccaneer Operating. Each of these subsidiaries is an entity controlled by the Corporation. Since the Corporation completed the acquisition of the Buccaneer Assets and the purchase of interests in Pine Mills and Wells Ranch properties with an effective date of March 1, 2010, the financial statements of the Corporation's new subsidiaries, GFP Central USA, GFP Texas and Buccaneer Operating, are consolidated from this date forward.

Investments in the Corporation's subsidiaries are carried at their cost of acquisition less any impairment in the Corporation's financial statements. Intra-group balances and any unrealized gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

Financial Instruments and Comprehensive Income

i) Comprehensive income, Section 1530

Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

ii) Financial instruments - Recognition and Measurement, Section 3855

All financial instruments are classified into one of the following five categories: held-to-trading, held-to-maturity investments, loans and receivables, available-for sale financial assets or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification.

Held on maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and transaction costs are amortized into net earnings (loss), using the effective interest method.

Available for sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income until the asset is realized, at which time they will be recorded in net earnings.

Held for trading financial instruments are measured at fair value. All gains and losses resulting from changes in their fair value are included in the statement of operations in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2010

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses resulting from changes in their fair value are included in the statement of operations in the period in which they arise.

The Corporation's financial instruments are classified as follows:

- Cash and cash equivalents are classified as held for trading.
- Accounts receivable is classified as loans and receivables.
- Term loan to a particular is classified as loans and receivables.
- Short-term debt is classified as other financial liability
- Long-term debt is classified as other financial liability
- Convertible debenture is classified as other financial liability

Transaction costs for financial instruments classified as other than held for trading and held to maturity are expensed in the period incurred.

Changes in Accounting Policy

Effective July 1, 2008, the Corporation 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".

i) Capital Disclosures:

Section 1535 - "Capital Disclosures", specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about with the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Corporation has included disclosures recommend by this section in Note 25 to these financial statements.

ii) Financial Instruments - Disclosures:

Section 3862 "Financial Instruments - Disclosures", describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extend of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The Corporation has included disclosures recommended by this section in Note 16 to these financial statements.

iii) Financial Instruments - Presentation:

Section 3863 - "Financial Instruments - Presentation", establishes standards for presentation of financial instruments and non-financial derivates. The adoption of the Section has had no significant impact on the Corporation's financial statements.

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

Future change in accounting policies

i) Goodwill and intangible assets (Section 3064)

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the adoption of this standard, EIC 27, "Revenue and Expenditures in the Pre-operating Period", will be withdrawn. The Corporation does not expect the adoption of this section to have a significant effect on its financial statements. This section will be adopted effective July 1, 2009.

ii) Business combinations (Section 1582)

In January 2009, the CICA issued Section 1582, "Business Combinations" to replace Section 1581. Prospective application of the standards is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards. The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interest at the time of a business combination. The Corporation does not expect the adoption of this section to have a significant effect on its financial statements.

iii) Interest (Section 1602)

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" which replace Section 1600, "Consolidated Financial Statements". Section 1601 provided revised guidance on the preparation of consolidated financial statement and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective January 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations" The Corporation does not expect the adoption of this section to have a significant effect on its financial statements.

iv) 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.

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

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.

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

The Corporation recognizes that the changeover to IFRS has complex implications on a combination of accounting, financial reporting, IT and business systems. The company 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;

iv) International Financial Reporting Standards (IFRS)(Continued)

- 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.

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.

Use of estimates (Continued)

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.

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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% 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, 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.

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, is 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 debt.

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.

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.

GALE FORCE PETROLEUM INC. (Consolidated)
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2010

NOTE 2 – ACCOUNTING POLICIES (CONTINUED)

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 exchanges 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

| | Mar 31 | June 30 |
|--|-------------------|-------------------|
| | 2010 | 2009 |
| Accounts receivable - Canadian dollars | \$ 504,707 | \$ - |
| Accounts receivable - US dollars (Expressed in Canadian dollars) | 394,542 | - |
| Other accruals (note 24) | - | 700,000 |
| | 899,249 | 700,000 |
| Allowance for doubtful accounts | - | - |
| | \$ 899,249 | \$ 700,000 |

GALE FORCE PETROLEUM INC. (Consolidated)
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2010

NOTE 4 – CAPITAL ASSETS

| | | | Mar 31 2010 |
|-----------------------------------|---------------------|-------------------------------------|---------------------------|
| | Cost | Accumulated depreciation | Net book value |
| <i>Oil and gas</i> | | | |
| Exploration and development costs | \$ 4,338,094 | \$ - | \$ 4,338,094 |
| | \$ 4,338,094 | \$ - | \$ 4,338,094 |

| | | | June 30 2009 |
|-----------------------------------|-------------------|-------------------------------------|---------------------------|
| | Cost | Accumulated depreciation | Net book value |
| <i>Oil and gas</i> | | | |
| Exploration and development costs | \$ 960,829 | \$ - | \$ 960,829 |
| | \$ 960,829 | \$ - | \$ 960,829 |

Effective March 1, 2010, the Corporation acquired the Buccaneer Assets, the Wells Ranch working interest and the Pine Mills working interests, which are oil and gas properties and assets located in Texas, Oklahoma and Tennessee.

NOTE 5 – CREDITORS

| | Mar 31 2010 | June 30 2009 |
|--|------------------------|-------------------------|
| Accounts payable - Canadian dollars | \$ 382,191 | \$ 1,347,755 |
| Accounts payable - US dollars (Expressed in Canadian dollars) | 559,724 | 252,606 |
| Balance of Sale - Purchase of Buccaneer Assets, payable in Common Shares | 300,000 | - |
| Accrued liabilities | 614,279 | 319,030 |
| Interim Loan from Secured Creditor | 283,475 | 197,333 |
| Taxes Payable | (53,260) | (15,256) |
| Interest on convertible debentures | - | 16,471 |
| Investor Tax Indemnity | - | 679,540 |
| Interest and Penalty | - | 15,677 |
| Creditors | \$ 2,086,408 | \$ 2,813,156 |

The Balance of Sale on the purchase of the Buccaneer Assets is payable through the issuance of up to 1,200,000 Common Shares of the Corporation, if a litigation pending on the Central Oklahoma properties be resolved. Any costs incurred by the Corporation shall be reduced from the Balance of Sale.

The Interim Loan from Secured Creditor was reimbursed out of cash proceeds from the private placement equity financing, which was completed subsequent to the end of the quarter, but was left accounted for herein with an effective date of March 1, 2010 since the actual repayment did not occur until subsequent to the end of quarter.

GALE FORCE PETROLEUM INC. (Consolidated)**NOTES TO THE FINANCIAL STATEMENTS****March 31, 2010****NOTE 6 – SHORT-TERM DEBT**

| | Mar 31 | June 30 |
|-----------------|-------------------|---------------------|
| | 2010 | 2009 |
| Line of Credit | \$ 927,358 | \$ 2,027,614 |
| Loan inducement | - | 169,820 |
| | \$ 927,358 | \$ 2,197,434 |

Effective March 1, 2010, as per an agreement with the Corporation's former secured lender, Primatlantis Capital, L.P. ("Primatlantis"), the holder of its CA\$1,830,281 secured loan, CA\$980,281 of the loan was forgiven, CA\$400,000 of the loan was converted into 1,600,000 common shares of the Corporation issued at a price of twenty-five cents (CA\$0.25) per share and the balance of CA\$450,000 was converted into Series I Preferred Shares, such preferred shares being convertible into up to 1,800,000 common shares of the Corporation provided that the number of common shares acquired by Primatlantis, upon any such conversion, when combined with the number of Common Shares owned or controlled, directly or indirectly, by Primatlantis prior to the conversion, does not exceed ten percent (10%) of the shares issued and outstanding of the Corporation.

The Line of Credit is a note with Park Cities Bank, renewed annually, assumed from Buccaneer as part of the purchase of the Buccaneer Assets, effective March 1, 2010.

NOTE 7 – CONVERTIBLE DEBENTURES

The Convertible Debentures were converted into equity on August 14, 2009, in accordance with the terms of the Proposal to Creditors filed by the Corporation under the terms of the *Bankruptcy and Insolvency Act (Canada)* on February 4, 2009.

NOTE 8 – ASSET RETIREMENT OBLIGATIONS

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

| | Mar 31 | June 30 |
|---|-------------------|----------------|
| | 2010 | 2009 |
| Asset retirement obligations, beginning of year | \$ 46,295 | \$ 704,385 |
| Liabilities incurred, net of liabilities disposed, year to date | 275,973 | (703,245) |
| Revisions to estimated liabilities | - | 41,295 |
| Accretion expense | 3,493 | 3,860 |
| Asset retirement obligations | \$ 325,761 | \$ 46,295 |

The new liabilities incurred were the estimated liabilities assumed by the Corporation when it purchased the Buccaneer Assets and the interests in the Wells Ranch property and Pine Mills property, effective March 1, 2010.

The key assumptions used by the Corporation on which the carrying amount of the asset retirement obligations is based include a 10% discount rate and an annual inflation rate of 3%.

GALE FORCE PETROLEUM INC. (Consolidated)

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2010

NOTE 9 – CAPITAL STOCK

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

| | Mar 31 | June 30 |
|---|----------------------|----------------------|
| | 2010 | 2009 |
| Common Shares Issued and Outstanding | | |
| 15,347,728 Common Shares issued and outstanding at March 31, 2010 | | |
| (1,243,187 Common Shares after consolidation as at June 30, 2009) | \$ 17,231,287 | \$ 10,789,747 |

There are also a total 2,644,706 Series I Preferred Shares, which are convertible into 2,644,706 common shares.

During the quarter, effective January 28, 2010, the shares of the Corporation were consolidated on a basis of one (1) new share for each fifty (50) old shares, reducing to 1,243,187 the number of common shares issued and outstanding.

Effective March 1, 2010, the Corporation issued 14,104,541 common shares, 2,644,706 new Series I Preferred Shares and 3,985,639 warrants to complete several transactions as follows: an equity private placement financing involving the issuance of 7,072,509 common shares and 3,536,254 warrants; a debt forgiveness and conversion transaction involving the issuance of 1 600 000 commons shares and 1 800 000 preferred shares; the purchase of the Buccaneer Assets for which consideration included 5,032,032 commons shares, 844,706 preferred shares and 449,385 warrants; the purchase of the interests in the Wells Ranch property, for which consideration included 400,000 common shares.

The following tables show 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 |
|------------------|-------------------|----------------|----------------------------------|------------------|-----------|-----------|----------------|--------------------------|
| October 26, 2007 | October 26, 2009 | \$ 40.000 | 7,500 | - | - | - | 7,500 | - |
| October 18, 2007 | October 18, 2009 | \$ 40.000 | 92,012 | - | - | - | 92,012 | - |
| December 29, | December 29, 2009 | \$ 40.000 | 7,143 | - | - | - | 7,143 | - |
| December 31, | January 1, 2010 | \$ 40.000 | 18,438 | - | - | - | 18,438 | - |
| June 30, 2008 | May 27, 2010 | \$ 29.100 | 1,417,437 | - | - | - | - | 1,417,437 |
| June 27, 2008 | June 27, 2010 | \$ 35.000 | 1,700,000 | - | - | - | - | 1,700,000 |
| June 27, 2008 | June 27, 2010 | \$ 25.000 | 285,920 | - | - | - | - | 285,920 |
| May 14, 2010 | May 14, 2011 | \$ 0.375 | - | 3,985,639 | - | - | - | 3,985,639 |
| | | | 3,528,449 | 3,985,639 | - | - | 125,092 | 7,388,996 |

GALE FORCE PETROLEUM INC. (Consolidated)
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2010

NOTE 9 – CAPITAL STOCK (CONTINUED)

Stock options

| Issue Date | Expiry Date | Exercise Price | Balance at beginning of the year | Issued | Exercised | Cancelled | Expired | Balance at end of period |
|-------------------|-------------------|----------------|----------------------------------|----------------|-----------|-----------|---------|--------------------------|
| February 11, 2010 | February 11, 2010 | \$ 0.250 | - | 124,000 | - | - | - | 124,000 |
| | | | - | 124,000 | - | - | - | 124,000 |

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

Convertible Debentures

| Issue Date | Expiry Date | Conversion Price | Balance at beginning of the year | Adjusted | Converted into Equity | Redeemed | Reached Maturity | Balance at end of period |
|-------------------|-------------------|------------------|----------------------------------|----------|-----------------------|----------|------------------|--------------------------|
| February 16, 2007 | February 16, 2012 | \$ 96.450 | \$ 244,707 | - | \$ 244,707 | - | - | \$ - |

NOTE 10 – STOCK-BASED COMPENSATION

As at the date hereof, under the Corporation's stock option plan, the Corporation may grant options in respect of a maximum of 1,500,000 common shares to directors, officers and employees of, and consultants to the Corporation. This is an increase from the maximum 124,000 options that the Corporation was permitted to issue at the end of the period.

During the period, the Corporation issued options to purchase an aggregate 124,000 shares of the Corporation at a price of \$0.25 (post-share-consolidation), which expire at latest on February 11, 2015;

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 current year. In total, options were issued during the period for a total expense of \$10,286.

GALE FORCE PETROLEUM INC. (Consolidated)
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2010

NOTE 11 – SUPPLEMENTAL CASH FLOW INFORMATION

| | Mar 2010 | Mar 2009 |
|---|---------------------|---------------------|
| Changes in non-cash working capital: | | |
| Accounts Receivable | \$ (199,249) | \$ 199,836 |
| Write-off R&D Receivable | - | 460,190 |
| Inventory | - | 71,116 |
| Prepaid expenses | - | 41,538 |
| Creditors | (726,748) | (126,139) |
| Changes in non-cash working capital items | \$ (925,997) | \$ 646,541 |

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

| | | |
|------------------|----------|------------|
| Interest expense | \$ 7,881 | \$ 150,118 |
|------------------|----------|------------|

NOTE 12 – RELATED PARTY TRANSACTION

Effective March 1, 2010, the Corporation concluded the Debt Forgiveness and Share Conversion transaction with a secured lender, Primatlantis Capital, L.P. as more fully described above in Note 6. A director of the Corporation, Guillaume Dumas, is a principal of Primatlantis Capital. These transactions were concluded in the normal course of business.

NOTE 13 – STATEMENT OF OPERATIONS

| The statement of operations includes the following | Mar 2010 | Mar 2009 |
|---|---------------------|---------------------|
| <i>Depletion, depreciation and amortization</i> | | |
| Tangible assets | \$ - | \$ 3,218 |
| Oil and gas | 12,043 | 258,225 |
| | \$ 12,043 | \$ 261,443 |
| <i>Financial expenses</i> | | |
| Interest on long term debt | \$ - | \$ 19,975 |
| Interest on short term debt | 7,881 | 150,118 |
| Other interest, financing expenses and bank charges | - | 279,232 |
| | \$ 7,881 | \$ 449,325 |

GALE FORCE PETROLEUM INC. (Consolidated)
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2010

NOTE 14 – FINANCIAL INSTRUMENTS

Interest Rate Risk

The Corporation has a working capital deficiency and significant outstanding short-term commitments, including a secured bank loan of CA\$927,358 as at the end of the quarter, which a variable interest rate currently at around 6% per annum.

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.

The Corporation has a working capital deficiency 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. The Corporation will have to raise funds from equity investors before to meet its obligations until then.

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.

Foreign Exchange Risk

The Corporation is subject to risks associated with fluctuations in foreign currencies with regard to the operations in the USA. 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 15 – INCOME (LOSS) PER SHARE

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

| | Mar 2010 | Mar 2009 |
|---|---------------------|---------------------|
| Net Income (loss) | \$ 334,765 | \$ (1,420,032) |
| Weighted average number of shares outstanding - basic | 4,044,158 | 18,621,181 |
| Weighted average number of shares outstanding - diluted (anti-dilutive) | 4,044,158 | 18,621,181 |

GALE FORCE PETROLEUM INC. (Consolidated)
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2010

NOTE 16 – INCOME TAXES AND DEFERRED LOSSES

For income taxes, the Corporation can carry forward losses totalling at minimum \$5,856,584 (as at June 30, 2008) at the Federal level in Canada until the years as follows:

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

NOTE 18 – COMPARATIVE FIGURES FOR THE PRIOR YEAR

Certain figures for 2009 have been reclassified to make their presentation identical to that adopted in 2010.

NOTE 19 – OTHER (INCOME) AND EXPENSES

| | Mar 2010 | Mar 2009 |
|---|---------------------|-------------------|
| Loss (Gain) on settlement of debt | \$ - | \$ 2,996 |
| Interest | - | (2,095) |
| Settlement of litigation (recovery) | - | 13,332 |
| Allowance for doubtful accounts | - | 1,090 |
| Exchange rate variation | 251,428 | (352,248) |
| Contingent Income tax liability | - | 117,858 |
| Other income | (991,783) | 21,451 |
| Loss (gain) on disposal of assets (R&D tax credit receivable) | - | 360,051 |
| | \$ (740,355) | \$ 162,435 |
| Management fees charged to USA Division | - | 233,508 |
| | (740,355) | 395,943 |

NOTE 20 – CAPITAL DISCLOSURES

The Corporation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue new shares, sell assets to settle liabilities or return capital to its shareholders. The Corporation is not exposed to externally imposed capital requirements. The Corporation considers the items included in shareholders' equity as capital.

The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Corporation's management to sustain future development of the business.

GALE FORCE PETROLEUM INC. (Consolidated)
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2010

NOTE 21 – SEGMENT INFORMATION

| | Canada | | USA | |
|--------------------------|------------------|-------------|---------------|-----------|
| | Mar | Mar | Mar | Mar |
| | 2010 | 2009 | 2010 | 2009 |
| Income | - | 450,124 | 58,396 | 28,990 |
| Operating expenses | 434,654 | 1,038,170 | 21,451 | 15,708 |
| Financial Expenses | 7,881 | 449,325 | - | - |
| Sale of Manitoba Assets | - | 21,451 | - | - |
| Other expenses | (740,355) | 140,984 | - | 233,508 |
| Net Income (loss) | 297,820 | (1,199,806) | 36,944 | (220,226) |

| | Canada | | USA | |
|--|------------------|-------------|--------------------|-------------|
| | Mar | June | Mar | June |
| | 2010 | 2009 | 2010 | 2009 |
| Balance Sheet | | | | |
| Assets | | | | |
| Current Assets | 1,780,729 | 721,886 | 483,354 | 112 |
| Capital Assets | - | - | 4,338,094 | 960,829 |
| Others | 4,874,726 | 1,839,294 | - | (1,839,294) |
| Total Assets | 6,655,454 | 2,561,180 | 4,821,448 | (878,353) |
| Liabilities | | | | |
| Current Liabilities | 2,154,042 | 4,757,984 | 859,724 | 252,606 |
| LTD and others | 5,000 | 5,000 | 5,195,487 | 41,295 |
| Total Liabilities | 2,159,042 | 4,762,984 | 6,055,211 | 293,901 |
| SHLD`S Equity (Deficiency) | 4,496,412 | (2,201,804) | (1,233,763) | (1,172,254) |
| Total Liabilities and SHLD`S Equity (Deficit) | 6,655,454 | 2,561,180 | 4,821,448 | (878,353) |

The Corporation has operating segments in Canada and the USA. In the USA, the Corporation owns a 50% working interest in its Kentucky Shale Gas Property, and effective March 1, 2010, the Corporation owns the Buccaneer Assets, the Wells Ranch working interest and the Pine Mills working interests, which are oil and gas properties and assets located in Texas, Oklahoma and Tennessee.

NOTE 22 – SUBSEQUENT EVENTS

Closes Transactions

On May 14, 2010 Gale Force Petroleum Inc announced that it has closed several transactions to conclude the restructuring of its debts, re-finance the Corporation and acquire significant new assets (the “Transactions”). These Transactions had an effective date of March 1, 2010, and therefore are recorded in these financial statements.

Full details of the Transactions were described in news released by the Corporation on March 29, 2010, April 12, 2010, and May 14, 2010, and are also described in a detailed Filing Statement disclosure document, which was published on SEDAR on May 5, 2010.

The table below sets forth the capital structure of the Corporation, following the completion of the Transactions:

| Shareholder Group | Securities | Quantity (Issued or Underlying) | Issue / Exercise / Conversion Price |
|------------------------------------|---------------------------|---------------------------------------|--|
| Previous Shareholders | Common Shares | 1,244,697 | - |
| Secured Lender | Common Shares | 1,600,000 | \$0.25 |
| Acquisitions | Common Shares | 5,423,031 | \$0.25 |
| Private Placement (\$1,741,500) | Common Shares | 6,966,000 | \$0.25 |
| Finder’s Fees | Common Shares | 114,000 | |
| TOTAL Common Shares I&O | | 15,347,728 | |
| Balance of Sale, Acquisition | Balance of Sale | 1,200,000 | \$0.25 |
| Warrants | Warrants | 3,985,639 | \$0.375 |
| Employee Options | Options | 124,000 | \$0.25 |
| Employee Options | Options | 1,376,000 | \$0.33 |
| Series I Preferred Shares | Series I Preferred Shares | 2,644,706 | \$0.25 |
| TOTAL Fully Diluted | | 24,678,073 | |

Hedging

To hedge the risks associated with a decline in oil prices, and to help ensure that the Corporation has adequate revenues to cover overhead and service its debts, the Corporation has purchased “floors”, consisting of a series of put options, costing a total US\$80,100, for 1000 barrels per month of crude oil at US\$70.00 per barrel, for 18 months, from June 2010 to November 2011.