



MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2011
and 2010**

The Management's Discussion and Analysis ("MD&A") of Gallic Energy Ltd. ("Gallic" or the "Company") should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes for the periods ended June 30, 2011 and 2010 (the "interim financial statements"). The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars unless otherwise stated. This document is dated August 26, 2011.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF"), can be found on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. The Company is listed on the TSX Venture Exchange under the symbol GLC-V.

FORWARD LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or Gallic's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "predict" and "potential" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. The forward-looking statements included in this MD&A and in certain documents referenced herein are expressly qualified by this cautionary statement. Gallic undertakes no obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities laws.

GALLIC ENERGY LTD.

Gallic was incorporated on August 10, 1983 under the laws of the Province of Alberta. Gallic is an oil and natural gas exploration company based in Calgary, Alberta, Canada. The Company has oil and natural gas concessions in France and Australia, and is pursuing additional concessions within onshore Europe.

Highlights

- On January 10, 2011, Gallic announced 531 BCF net unrisks conventional prospective gas resources resulting from an independent evaluation prepared by Chapman Petroleum Engineering Ltd. for the Ger Permit (as defined below) in France, one of the Company's two permits in France
- On February 14, 2011, Mr. Jeffrey Scott was appointed to Gallic's Board of Directors
- In March 2011, Mr. Mark Armanious was appointed as Vice President of Exploration and Mr. Eric Messier was appointed Manager of Operations
- On April 13, 2011, the Company completed a \$23 million bought deal financing
- In May 2011, Mr. John Kiss was appointed Manager of Business Development and Mr. Oleh Stupnyckyj was appointed Manager of Geosciences

French Assets

On April 3, 2008 the Company received approval from the French Ministry of Industry for exploration rights to 514 square km (127,012 acres) in the Aquitaine Basin of France (the “Ger Permit”).

On August 8, 2008 the Company received approval from the French Ministry of Industry for exploration rights for a second area of 781 square km (192,989 acres) in the Aquitaine Basin of France (the “Ledeuix Permit”). The Ledeuix Permit is situated approximately 10 km south of the 9 TCF Lacq Field and immediately west of the 2 TCF Meillon Field. The permit area is approximately 30 km west of the Company’s Ger Permit.

In Ger, Gallic had previously purchased, reprocessed and interpreted approximately 842 km of 2D seismic data to further evaluate the hydrocarbon potential for both shallow Tertiary and deeper Cretaceous/Jurassic targets on the permit. A feasibility study of a new 120-180 square km 3D seismic program was conducted in the second quarter. The permitting and timing of this program will be reviewed based on the results of the re-entry program. The design parameters and size of this 3D survey will be reviewed to better image the deeper prospective horizons. During the second quarter 2011 an additional 239 km of raw 2D seismic data was purchased and is currently being processed. Work permits or *Declarations D’Ouverture de Travaux (DOT)* for re-entries for Ger 1 and Ossun 2 wells were submitted to the local authorities during the second quarter. The DOT for Azereix 1 was subsequently submitted on July 1, 2011. Gallic is expecting to re-enter at least two of these wells in the fourth quarter of 2011.

In the Ledeuix block, Gallic had previously acquired 180 square km of raw 3D seismic data that has been reprocessed and is currently being interpreted. Approximately 2,100 km of 2D seismic data has been purchased. In the second quarter 2011, 391 km of the 2D seismic data was received and is being processed. The 3D seismic data covers an area encompassing the Saucedo #1 well which has produced 1.8 billion cubic feet (“Bcf”) of sweet gas from the Jurassic Meillon dolomites. The 3D data will enable Gallic to analyze the structure of the underlying thrusts sheets and map the extent of the Meillon reservoir as well as evaluate shallower Cretaceous targets.

Australian Assets

On January 15, 2009, the Department of Mines and Petroleum of the Government of Western Australia granted the Company exploration rights to EP 464 in the Canning Basin in Western Australia. EP 464 comprises an area of approximately 246,332 hectares (608,700 acres) and Gallic has identified exploration potential that would be the focus of its anticipated future oil exploration activities in the area.

Previous work included reprocessing of 270 km of 2D seismic data, digitizing of logs and petrophysical evaluation of available log data. In 2010 the Company interpreted approximately 3,400 km of 2D data covering the Lennard Shelf and the Fitzroy Trough areas. The seismic has been tied to well data to identify several prospects. An additional 1,600 km of raw 2D seismic data over the EP 464 block and offsetting productive areas were acquired reprocessed and incorporated in to the regional assessment. Subsequently, in the first quarter of 2011 Gallic selected a 3D seismic program to be acquired in order to delineate several drilling locations identified by the existing 2D geophysical data and geological data. Analysis of the original data identified several reef structures that will be better defined using 3D seismic. Additional targets on the permit include a regional resource play that has recently been identified by other operators in the area.

Bid tenders for permitting of the 3D seismic program have been awarded. It is anticipated that the awarding of the acquisition of the seismic program will be finalized in the third quarter of 2011. During the second quarter the flora, fauna and environmental impact assessment was initiated. Ground conditions in the area from extensive flooding earlier in the year may delay the seismic acquisition.

Although EP 464 is highly prospective the decision was made to farm-out the project in order to focus on opportunities in Europe. Discussions are continuing with interested parties and a farm-out agreement is anticipated to be reached by the end of the third quarter.

SELECTED FINANCIAL INFORMATION

The following is a summary of selected financial information

(CDN \$000's)	As at and for the 6 month period ended June 30, 2011	As at and for the 3 month period ended June 30, 2011	As at and for the 6 month period ended June 30, 2010	As at and for the 3 month period ended June 30, 2010	As at and for the period ended December 31, 2010
<i>Operations</i>					
Net loss and comprehensive loss	\$ (2,746)	\$ (1,579)	\$ (935)	\$ (403)	\$ (2,232)
Loss per share - basic and diluted	(0.02)	(0.01)	(0.03)	(0.01)	(0.04)
<i>Cash Flow</i>					
Cash used by operations	\$ (1,840)	\$ (1,047)	\$ (1,145)	\$ (352)	\$ (1,512)
Exploration expenditures:					
France	(644)	(314)	(58)	(10)	(421)
Australia	(120)	(44)	(48)	-	(162)
<i>Financial Position</i>					
Total assets	\$ 23,535		\$ 809		\$ 2,713
Current assets	21,552		227		1,544
Current liabilities	212		608		540
Working capital	21,340		(381)		1,004
Shareholders' equity	23,323		201		2,173

Overall Performance

The Company incurred a net loss of \$2,746,000 and \$935,000 for the six months ended June 2011 and 2010, respectively. For the three-month period ended June 30 2011 and 2010 the Company incurred a net loss of \$1,579,000 and \$403,000 respectively.

The loss incurred during the first two quarters of 2011 includes \$1,553,000 of general and administrative expenditures (Q2 2010 - \$596,000), which were higher as a result of the Company hiring additional employees and consultants during the year as well as increased professional fees as a result of the Company's growth on the commencement of the Company's exploration programmes.

Share based payment expense was \$1,216,000 (Q2 2010 - \$69,000; Q4 2010 - \$458,000) and increased due to additional share options and restricted share units issued during 2010 and the first two quarters of 2011. Share based payment expense increased from the fourth quarter of 2010 as a result of a full quarter expense relating to restricted share units issued in December 2010.

Exploration expenditures

The Company spent \$764,000 on its exploration assets during the first two quarters of 2011. Of these expenditures, \$644,000 was spent in France, (\$570,000 incurred on the Ger Permit and \$73,000 on the Ledoux Permit) \$120,000 was spent in Australia during the period. Spending was primarily incurred on seismic interpretation, site evaluation, and permitting for re-entry of existing wellbores in France.

Working capital

Working capital as at June 30, 2011 was \$21,340,000 (December 31, 2010 - \$1,004,000) consisted primarily of cash \$21,487,000 (December 31, 2010 - \$1,429,000), accounts receivable and other current assets of \$65,000 (December 31, 2010 - \$115,000), less \$212,000 of trade and other payables (December 31, 2010 - \$540,000).

Financing

For the period ended June 30, 2011, 8,249,750 warrants were exercised for cash proceeds of \$962,000.

On April 13, 2011, the Company issued 57,500,000 units at \$0.40 per unit for gross proceeds of \$23 million (\$21.6 million net) by way of a brokered bought deal financing. Each unit consists of one common share and half a share purchase warrant. Each warrant entitles the holder to acquire a common share for \$0.60 over a two year period. The cash will be used for the work program commitments in France and Australia and anticipated general and administrative expenses.

LIQUIDITY AND CAPITAL RESOURCES

As at the date of this MD&A, Gallic had approximately \$21.7 million of cash on hand, this will be used for the work program commitments in France and Australia and anticipated general and administrative expenses.

The Company currently has no material source of active business revenue, and as such will be dependent upon share issuances, farm-out arrangements, or other sources of financing in the long term.

ISSUED AND OUTSTANDING SHARE INFORMATION

As at the date of this MD&A, the Company had 162,144,354 shares issued and outstanding. The Company currently has 11,693,750 stock options and 72,758,800 warrants outstanding. Additionally, 2,500,000 restricted share units were granted to an officer of the Company in 2010 of which 1,875,000 are outstanding.

COMMITMENTS

FRANCE

The exploration rights to the Ger Permit are associated with a commitment to incur €1,349,000 of qualifying expenditures (no specific work program at this time) over a 5-year term beginning on April 3, 2008. At June 30, 2011, approximately \$1,125,000 had been incurred against the Ger commitment.

The exploration rights to the Ledeuix Permit are associated with a commitment to incur approximately €1,700,000 of qualifying expenditures over a 5 year term beginning on August 8, 2008. At June 30, 2011, approximately €329,000 had been spent against the Ledeuix commitment and the remaining commitment will be funded with cash on hand.

AUSTRALIA

In early 2009, the Company was awarded the exploration rights for Block EP 464 in the Canning Basin in Western Australia. The Company is committed to spend AUD \$6.9 million over a period of 6 years. As of June 30, 2011, the Company had spent approximately \$457,000 in qualifying expenditures in Australia.

RELATED PARTY AND OFF BALANCE SHEET TRANSACTIONS

Pursuant to a promissory note dated January 30, 2009, a director of Gallic provided an unsecured loan of \$120,000 that bore interest of 7% per annum with no specific date of repayment. The loan plus interest (\$8,400) was repaid in February 2010.

The Company has not entered into any off balance sheet transactions.

ACCOUNTING POLICIES AND 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 Company. Details outlining Gallic's accounting policies are contained in the notes to the unaudited condensed consolidated financial statements for the period ended June 30, 2011.

The IFRS interim financial statements includes, as comparative information, the annual consolidated financial statements for the year ended December 31, 2010 and period ended June 30, 2010 which, for comparative purposes, have been prepared in accordance with IFRS. Previously, Gallic prepared and published its annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("previous GAAP").

Application of IFRS on the 2010 financial statements resulted in the following adjustments, which are reconciled to previous GAAP in note 11 to the interim financial statements.

- (i) On adoption of IFRS, exploration and evaluation assets were reclassified from the full cost pool to intangible exploration assets. Gallic previously followed the full-cost method of accounting under which certain pre-license and acquisition costs were capitalized, which would not have been capitalized under Company's IFRS accounting policies.

The impact of this on the January 1, 2010 balance sheet was a \$102,000 decrease in exploration and evaluation assets and a corresponding reduction in opening deficit. In the period ended June 30, 2010, \$270,000 of expenditures previously capitalized under Canadian GAAP were expensed as exploration and evaluation expenditures as incurred in accordance with the Company's IFRS accounting policies.

- (ii) Under Canadian GAAP, the Company recognized an expense related to their share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate.

SUMMARY OF QUARTERLY RESULTS

Total Operations (CDN \$000's except per share data)	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2 restated ⁽¹⁾	2010 Q1 restated ⁽¹⁾	2009 Q4 ⁽²⁾	2009 Q3 ⁽²⁾
Net revenue	-	-	-	-	-	-	-	(3)
Expenses	1,614	1,169	927	274	410	532	38	206
Net loss for period	(1,579)	(1,166)	(927)	(274)	(403)	(532)	(38)	(209)
Loss per share - basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)
Total assets	23,535	2,756	2,713	2,415	809	1,215	606	322
Long term debt	-	-	-	-	-	-	-	-

(1) In the first quarter of 2010, share issue costs, including amounts relating to warrants issued in conjunction with unit offerings, were expensed. This was corrected in the third quarter of 2010. The table has been adjusted to reflect these changes.

(2) Expenses were overstated and capital was understated during the first three quarters of 2009 because of classification issues. During the fourth quarter of 2009, the misallocations were adjusted to provide more precise information for the December 31, 2009 reports. The table has been adjusted to reflect these changes.

DIRECTORS AND OFFICERS

William H. Smith, Director and Chief Executive Officer
Mark Woods, Director, President and Chief Operating Officer
Mark Armanious, Vice President Exploration
David Little, Chief Financial Officer
Jason Bednar, Director, Chairman and Audit Committee Chairman
Charle Gamba, Director
Jeffrey Scott, Director
Richard Grafton, Director
John Garden, Director
Gordon McIntosh, Director
Robert Cross, Special Advisor to the Board
Sam Charanek, Special Advisor to the Board
Trevor Wong-Chor, Corporate Secretary

Additional information relating to the Company can be found on SEDAR at www.sedar.com