



GALLIC ENERGY LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

JUNE 30, 2011

GALLIC ENERGY LTD.

Condensed Consolidated Balance Sheets

(unaudited)

(CDN \$000's)

	Note	June 30, 2011	December 31, 2010
Assets			
Cash		\$ 21,487	\$ 1,429
Accounts receivable and other current assets		65	115
		<u>21,552</u>	<u>1,544</u>
Property and equipment		72	22
Exploration and evaluation assets	4	1,911	1,147
Total non-current assets		<u>1,983</u>	<u>1,169</u>
Total assets		<u>\$ 23,535</u>	<u>\$ 2,713</u>
Liabilities			
Trade and other payables		\$ 212	\$ 540
		<u>212</u>	<u>540</u>
Shareholders' Equity	5	23,323	2,173
Total liabilities and Shareholders' equity		<u>\$ 23,535</u>	<u>\$ 2,713</u>

Commitments (note 4)

The notes are an integral part of these condensed consolidated financial statements

GALLIC ENERGY LTD.

Condensed Consolidated Statement of Changes in Shareholders' Equity (unaudited) (CDN \$000's)

	Note	Number of Class A common	Number of warrants	Number of broker warrants	Share capital	Warrants	Contributed surplus	Deficit	Shareholders' equity (net asset deficiency)
Balance as at January 1, 2010		19,716,154	-	-	\$ 4,145	-	\$ 1,663	\$ (6,176)	\$ (368)
Issuance of units (net of \$99 share issue costs)	5(i)	18,750,000	18,750,000	-	1,026	375	-	-	1,401
Issuance of agents' shares and warrants	5(i)	473,000	494,000	-	24	10	-	-	34
Share-based payments	7	-	-	-	-	-	69	-	69
Loss for the period		-	-	-	-	-	-	(935)	(935)
Balance at June 30, 2010		38,939,154	19,244,000	-	5,195	385	1,732	(7,111)	201
Issuance of units	5(ii)	6,000,000	6,000,000	-	240	60	-	-	300
Issuance of units (net of \$773 share issue costs)	5(iii)	38,000,000	38,000,000	-	747	380	-	-	1,127
Issuance of agents' warrants	5(iv)	-	-	1,520,000	-	576	-	-	576
Broker warrants issued	5	-	61,200	(61,200)	3	-	-	-	3
Exercise of warrants	6	5,052,700	(5,052,700)	-	717	(123)	-	-	594
Share-based payments	7	-	-	-	-	-	569	-	569
Loss for the period		-	-	-	-	-	-	(1,197)	(1,197)
Balance at December 31, 2010		87,991,854	58,252,500	1,458,800	6,902	1,278	2,301	(8,308)	2,173
Exercise of warrants	6	8,249,750	(8,249,750)	-	1,162	(200)	-	-	962
Issuance of units (net of \$1,367 share issue costs)	5(v)	57,500,000	28,750,000	-	18,841	2,792	-	-	21,633
Exercise of options	7	425,000	-	-	135	-	(50)	-	85
Share-based payments	7	-	-	-	-	-	1,216	-	1,216
Loss for the period		-	-	-	-	-	-	(2,746)	(2,746)
Balance at June 30, 2011		154,166,604	78,752,750	1,458,800	27,040	3,870	3,467	(11,054)	23,323

The notes are an integral part of these condensed consolidated financial statements

GALLIC ENERGY LTD.

Condensed Consolidated Statement of Operations and Comprehensive Loss

(unaudited)

(CDN \$000's)

		Three months ended		Six months ended	
		June 30		June 30	
	Note	2011	2010	2011	2010
General and administrative expenses		942	263	1,553	596
Exploration and evaluation expenditures		6	133	14	270
Share-based payments	7	666	14	1,216	69
Results from operating activities		1,614	410	2,783	935
Finance income		(35)	(7)	(37)	-
Net loss and comprehensive loss for the period		1,579	403	2,746	935
Basic and diluted loss per share	8	(0.01)	(0.01)	(0.02)	(0.03)

The notes are an integral part of these condensed consolidated financial statements

GALLIC ENERGY LTD.

Condensed Consolidated Statement of Cash Flows

(unaudited)

(CDN \$000's)

		Three months ended		Six months ended	
		June 30		June 30	
	Note	2011	2010	2011	2010
Cash used in operating activities:					
Loss for the period		(1,579)	(403)	(2,746)	(935)
Adjustments for:					
Share-based payments	7	666	14	1,216	69
Finance income		(35)	(7)	(37)	-
Depreciation and amortization		3	1	5	2
Change in non-cash working capital	9	(102)	43	(278)	(281)
Net cash used in operating activities		(1,047)	(352)	(1,840)	(1,145)
Cash used in investing activities:					
Interest received		37	-	37	-
Property and equipment expenditures		(30)	(12)	(55)	(12)
Additions to exploration and evaluation assets	4	(358)	(10)	(764)	(106)
		(350)	(22)	(781)	(118)
Cash from (used in) financing activities:					
Proceeds from issue of share capital (net of share issue costs)		21,791	-	22,680	1,435
Repayment of loan to director	10	-	-	-	(120)
		21,791	-	22,680	1,315
Change in cash		20,393	(374)	20,059	52
Cash beginning of period		1,093	432	1,429	6
Cash end of period		21,487	58	21,487	58

The notes are an integral part of these condensed consolidated financial statements

1. Reporting entity:

Gallic Energy Ltd. ("Gallic" or the "Company") is an international exploration company with a portfolio of properties in France and Australia.

The condensed consolidated financial statements of the Company as at and for the periods ended June 30, 2011 and 2010 comprise the Company and its wholly owned subsidiaries.

2. Basis of preparation:

(a) Statement of compliance:

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34.

The condensed consolidated financial statements were authorized for issue by the Board of Directors on August 26, 2011.

(b) Adoption of International Financial Reporting Standards:

In conjunction with the Corporation's first annual audited financial statements to be issued under International Financial Reporting Standards ("IFRS") for the year ended December 31, 2011, these condensed financial statements present Gallic's financial results of operations and financial position under IFRS as at and for the three and six months ended June 30, 2011, including 2010 comparative periods. Previously, Gallic prepared and published its annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("previous GAAP").

Gallic has elected to exceed certain minimum disclosure requirements under IAS 34 in order to present its accounting policies in accordance with IFRS and provide additional disclosures which highlight the changes from Gallic's 2010 annual consolidated financial statements prepared in accordance with previous GAAP. In 2012, and beyond, Gallic may not provide the same level of detail in the interim financial statements.

Application of IFRS on the 2010 financial statements resulted in the adjustments as described in note 11.

(c) Basis of measurement:

The condensed consolidated financial statements have been prepared on the historical cost basis except for held for trading financial assets that are measured at fair value with changes in fair value recorded in the statement of operations and comprehensive loss.

(d) Functional and presentation currency:

These condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency for the Company and its subsidiaries.

(e) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated financial statements is included in notes 5 and 6 with respect to the determination of fair value of warrants and share based payments.

Petroleum resource estimates impact financial statement estimates, in particular, the valuation of exploration and evaluation assets.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

Basis of consolidation

(i) Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Jointly controlled operations and jointly controlled assets:

The consolidated financial statements include only the Company's share of any jointly controlled assets, and a proportionate share of the relevant revenue and related costs. The Company currently has 100% interest in its assets.

(iii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency translation and transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the

exchange rate at the date of the translation. Foreign currency differences arising on translation are recognized in profit or loss.

Financial instruments

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash, accounts receivable, other current assets and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company has designated cash and cash equivalents at fair value. Cash and cash equivalents comprise cash on hand, term deposits held with banks, other short-term highly liquid investments with original maturities of three months or less.

Other

The other non-derivative financial instruments, except for cash and cash equivalents, are measured at amortized cost using the effective interest method, less any impairment losses if applicable.

(ii) Derivative financial instruments:

Derivative financial instruments are classified as fair value through profit or loss and are recorded on the balance sheet at fair value. Transaction costs are recognized in profit or loss when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Property and equipment and exploration and evaluation assets

(i) Recognition and measurement

Exploration and evaluation expenditures ("E&E"):

Pre-license costs are recognized in the statement of operations and comprehensive loss as incurred.

Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability. Interest is not capitalized on exploration and evaluation assets.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units.

Upon determination of technical feasibility and commercial viability, intangible exploration and evaluation assets are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within tangible assets referred to as development and production assets.

Development and production costs

Items of property and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. When significant parts of an item of property and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate components of the asset.

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within "other income" or "other expenses" in profit or loss.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

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(ii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proven component of proven and probable reserves are 90 percent and 10 percent, respectively.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven and probable if producibility is supported by either actual production or conclusive formation test. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proven and probable classification when successful testing by a pilot project, the operation of an installed program in the reservoir, or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

For furniture, fixtures, and other assets, depreciation is recognized in the statement of operations on a straight-line basis over the estimated useful lives of each item. The estimated useful lives for furniture, fixtures and other assets are between 3 and 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Impairment

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is recognized in profit or loss and is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and any deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. The Company has identified three cash generating units, being each of the Ger Permit, the Ledoux Permit, and Block EP 464 (note 4).

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior years for financial and non-financial assets are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

Share-based payments

The grant date fair value of options granted to employees is recognized as compensation expense with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

The fair value of restricted share units ("RSU's") is expensed into loss evenly over the same period that the units vest at each balance sheet date between grant date and settlement date with a corresponding addition to contributed surplus. On settlement date, share capital is adjusted to recognize previously expensed amounts.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Foreign currency gains and losses, reported under finance income and expenses, are reported on a net basis.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed

at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

New standards and interpretations not yet adopted

IFRS 9 – Financial Instruments

IFRS 9 Financial Instruments is expected to be published in three parts. The first part, Phase 1—classification and measurement of financial instruments (“IFRS 9, Phase 1”), was published in October 2010. IFRS 9, Phase 1, sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9, Phase 1 simplifies measurement of financial asset by classifying all financial assets as those being recorded at amortized cost or being recorded at fair value. For financial assets recorded at fair value, any change in the fair value would be recognized in profit or loss.

IFRS 10 - Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

IFRS 11- Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

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These new IFRS standards are required to be adopted for years beginning on or after January 1, 2013 although earlier adoption is allowed.

Gallic does not expect any significant change to the recognized amounts of financial assets or financial liabilities as a result of the future adoption of IFRS standards, nor has Gallic made any decision as to early adoption.

4. Exploration and evaluation assets:

(CDN \$000's)

	Jan 1, 2011	Additions	June 30, 2011
France (i)	\$ 810	\$ 644	\$ 1,454
Australia (ii)	337	120	457
Exploration and evaluation assets	\$ 1,147	\$ 764	\$ 1,911

	Jan 1, 2010	Additions	June 30, 2010
France (i)	\$ 331	\$ 58	\$389
Australia (ii)	127	48	175
Exploration and evaluation assets	\$ 458	\$ 106	\$ 564

(i) *France*

On April 8, 2008, the Company received approval for exploration rights to 514 square kilometres in the Aquitaine Basin of France (the 'Ger Permit'). The exploration rights to the Ger Permit are associated with a commitment to incur €1,349,000 of qualifying expenditures 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.

On August 8, 2008, the Company received approval for exploration rights to 781 square kilometers, also in the Aquitaine Basin of France (the 'Ledeux Permit'). The exploration rights to the Ledeux Permit have a commitment to incur an estimated €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 Ledeux commitment.

(ii) *Australia*

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

5. Share capital:

Authorized

Unlimited number of Class A, B and C common shares.

Unlimited number of non-voting preferred shares, issuable in series, without nominal or par value.

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Issued

- (i) On January 28, 2010, the Company issued 18.75 million units at \$0.08 per unit, each consisting of 1 common share and 1 common share purchase warrant. Each warrant entitles the holder to acquire a common share for \$0.12 per share until July 28, 2011. The \$1,500,000 gross proceeds of the offering was allocated between common shares, \$1,125,000, and share purchase warrants \$375,000. \$9,880 has been included in share issue costs relating to an additional 494,000 warrants issued to Agents involved in the financing as commission. The fair value of the warrants was estimated using the Black-Scholes option pricing model assuming a volatility of 80%, expected life of 1.5 years and no dividends. \$24,380 has been included in share issue costs relating to an additional 473,000 shares issued as commission to Agents involved in the financing
- (ii) On August 6, 2010, the Company issued 6 million units at \$0.05 per unit, each consisting of 1 common share and 1 common share purchase warrant. Each warrant entitles the holder to acquire a common share for \$0.10 per share until August 6, 2012. The \$300,000 proceeds of the offering was allocated between common shares (\$240,000) and share purchase warrants (\$60,000). The fair value of the warrants was estimated using the Black-Scholes option pricing model assuming a volatility of 80%, expected life of 2 years and no dividends.
- (iii) On September 20, 2010, the Company issued 38 million units at \$0.05 per unit, each consisting of 1 common share and 1 common share purchase warrant, by way of a brokered private placement. Each warrant entitles the holder to acquire a common share for \$0.10 per share until September 20, 2012. The \$1,900,000 proceeds of the offering were allocated between common shares (\$1,520,000) and share purchase warrants (\$380,000). The fair value of the warrants was estimated using the Black-Scholes option pricing model assuming a volatility of 80%, expected life of 2 years and no dividends
- (iv) The Company issued 1,520,000 warrants to the brokers involved in the September 20, 2010 unit issuance as commission for services rendered. Each broker's warrant is exercisable into one unit until September 20, 2012 at an exercise price of \$0.05 per unit. Each unit is comprised of one common share and one warrant exercisable into one common share at an exercise price of \$0.10 until September 20, 2012. The fair value of the warrants was estimated on closing of the financing using the Black-Scholes option pricing model assuming a volatility of 80%, expected life of 2 years and no dividends. The fair value was determined to be \$0.379 per warrant issued. \$576,000 has been deducted as share issue costs from the September 20, 2010 share issuance as consideration for this grant of warrants
- (v) On April 13, 2011, the Company issued 57,500,000 units at \$0.40 per unit for gross proceeds of \$23 million by way of a brokered bough deal financing. Each unit consists of one common share and half a share purchase warrant. Each whole warrant entitles the holder to acquire a common share for \$0.60 until April 13, 2013. The \$23,000,000 proceeds of the offering were allocated between common shares (\$20,208,000) and share purchase warrants (\$2,792,000). The fair value of the warrants was estimated on closing of the financing using the Black-Scholes option pricing model assuming a volatility of 65%, expected life of 2 years and no dividends.

6. Warrants

The following table summarizes the warrants outstanding as at June 30, 2011:

Expiration Date	Number of Warrants Outstanding	Exercise Price	Book Value (\$000's)
July 28, 2011	7,352,750	\$0.12	\$ 99
August 6, 2012	5,800,000	\$0.10	\$ 58
September 20, 2012	36,850,000	\$0.10	\$ 368
April 13, 2013	28,750,000	\$0.60	\$ 2,792
Total	78,752,750	\$0.28	\$ 3,317

In addition there are broker warrants convertible into 1,458,800 common shares, expiring in September 2012 with a book value of \$553.

Subsequent to period-end 7,352,750 common shares were issued on exercise of warrants.

7. Share-based payments:

The Company has a stock option plan available to employees, consultants, directors and officers. Under the Plan, the Company is authorized to issue options to purchase in aggregate up to 10% of the outstanding common shares.

The compensation expense relating to stock options that has been recognized in net loss for the three and six month periods is \$436 and \$713 respectively (2010 - \$14 and \$69 respectively). The corresponding amount has been recognized in contributed surplus. The fair value of the stock options was estimated on the date of each grant using the Black-Scholes option pricing model assuming a volatility of between 65%- 70% (2010 – 80%), an expected life of 5 years (2009 – 5 years), a risk free interest rate of 2% (2010 – 2%), and expected forfeitures of 10%.

The number and weighted average exercise prices of share options are as follows:

	Options	Weighted Average Exercise Price
Balance as at January 1, 2010	2,131,250	\$ 0.09
Granted	5,425,000	0.26
Forfeited	(1,537,500)	(0.09)
Balance as at December 31, 2010	6,018,750	\$ 0.25
Exercised	(425,000)	0.20
Granted	6,100,000	0.39
Balance as at June 30, 2011	11,693,750	\$ 0.33

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As at and for the six months ended June 30, 2011 and 2010
(unaudited)

The following table summarizes information about stock options outstanding at June 30, 2011:

Grant date	Options Outstanding	Weighted Average Exercise Price	Options Exercisable	Weighted Average Remaining Life (years)
August 2009	718,750	\$0.15	718,750	3.0
January 2010	1,400,000	\$0.11 - \$0.15	1,400,000	3.5
September 2010	775,000	\$0.23	775,000	4.2
December 2010	2,700,000	\$0.35- \$0.43	899,999	4.4
March 2011	1,480,000	\$0.49	493,333	4.6
May 2011	4,620,000	\$0.36	1,540,000	4.8
Balance as at June 30, 2011	11,693,750	\$0.33	5,827,084	4.1

Restricted share units

On December 1, 2010, the Company issued 2,500,000 restricted share units ("RSU's") to the Company's Chief Executive Officer. Under the terms of the plan, the RSU's awarded will vest in four equal portions every six-months following the grant date and will be settled in shares. The fair value of the RSU's on grant date, determined as the grant date market value of the underlying shares, is expensed into income evenly over the same period that the units vest. For the three and six month periods ended June 30, 2011, \$230,000 and \$503,000 was expensed relating to RSU's as share-based payments.

8. Loss per share:

The three and six month weighted average shares of 145,847,950 and 119,070,895 respectively (2010 – 35,965,430 and 38,939,154) were outstanding during the period and used to calculate loss per share. The effect of 11,693,750 options (2010 – 2,775,250 options) and warrants convertible into 80,211,550 shares (2010 – 19,244,000) were anti-dilutive during the periods.

9. Supplemented cash flow information:

Changes in non-cash working capital is comprised of:

	Six months ended	
	2011	2010
Source/(use) of cash:		
Accounts receivable and other current assets	\$ 50	(135)
Trade and other payables	(328)	(146)
	\$ (278)	\$ (281)

No interest or taxes were paid during the period.

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10. Related party transaction

On January 30, 2009, a director of Gallic provided a \$120,000 unsecured loan that bore interest at 7% per annum. The loan plus \$8,000 interest was repaid in February 2010.

11. Reconciliation from Canadian GAAP to IFRS:

Interim Consolidated Balance Sheet (unaudited)
Six months ended June 30, 2010

(CDN \$000's)	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Cash and cash equivalents	\$ 58	\$ -	\$ 58
Accounts receivable and other current assets	169	-	169
Total current assets	227	-	227
Property and equipment	18	-	18
Petroleum and natural gas assets (i)	564	(564)	-
Exploration and evaluation assets	-	564	564
Total non-current assets	582	-	582
Total assets	\$ 809	\$ -	\$ 809
Liabilities			
Trade and other payables	\$ 608	\$ -	\$ 608
Total current liabilities	608	-	608
Shareholders' equity	201	-	201
Total liabilities and shareholders' equity	\$ 809	\$ -	\$ 809

Interim Consolidated Statement of Comprehensive Loss (unaudited)
Six months ended June 30, 2010

(CDN \$000's)	Canadian GAAP	Correction of an error (iii)	Effect of transition to IFRS	IFRS
General and administrative expenses	\$ 596	-	-	596
Exploration and evaluation expenses (i)	-	-	270	270
Impairment of asset (i)	373	-	(373)	-
Share based payments (ii)	49	-	20	69
Warrant compensation (iii)	665	(665)	-	-
Results from operating activities	1,683	(665)	(83)	935
Net finance expenses	-	-	-	-
Loss and comprehensive loss for the period	\$ 1,683	\$ (665)	\$ (83)	\$ 935

Gallic Energy Ltd.
Notes to the Condensed Consolidated Financial Statements
As at and for the six months ended June 30, 2011 and 2010
(unaudited)

Interim Consolidated Statement of Comprehensive Loss (unaudited)
3 months ended June 30, 2010

(CDN \$000's)	Canadian GAAP	Effect of transition to IFRS	IFRS
General and administrative expenses	\$ 263	\$ -	\$ 263
Exploration and evaluation expenses (i)	-	133	133
Impairment of asset (i)	133	(133)	-
Share based payments (ii)	6	8	14
Results from operating activities	402	8	410
Net finance income	(7)	-	(7)
Loss and comprehensive loss for the period	\$ 395	\$ 8	\$ 403

The impact of the adoption of IFRS on the statement of cash flows is an increase in operating cash flows of \$101,000 for the first two quarters and a decrease of \$270,000 for the year-ended December 31, 2010, and corresponding reduction of funds used in investing activities, as costs incurred for pre-license activities (note (i)) were expensed as incurred under the Company's IFRS accounting policies whereas they were capitalized under Canadian GAAP.

Notes to reconciliations:

(i) On adoption of IFRS, exploration and evaluation assets were reclassified from the full cost pool to exploration and evaluation 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.

As a result of the above, in the three and six month periods of 2010, \$137,000 and \$133,000 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) Share-based payments:

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.

(iii) Correction of an error

Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects. In the first two quarters of 2010, share issue costs, including amounts relating to warrants issued in conjunction with unit offerings, were expensed. The relative fair value of the warrant component of units offered has been re-determined in accordance with the methodology outlined in note 5.