



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE PERIODS ENDED JUNE 30, 2010

Management's Discussion and Analysis ("MD&A") of Gallic Energy Ltd. ("Gallic" or the "Company") should be read in conjunction with the interim consolidated financial statements and accompanying notes for the quarters ended June 30, 2010 and June 30, 2009. The results reported herein have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are prepared in Canadian dollars unless otherwise stated. This document is dated August 23, 2010.

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 disclosures set forth in this MD&A constitute forward-looking statements. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "believes", "budget", "continue", "could", "estimate", "forecast", "intends", "may", "plan", "predicts", "projects", "should", "will" and other similar expressions. All estimates and statements that describe the Company's future, goals, or objectives, including management's assessment of future plans and operations, may constitute forward-looking information under securities laws. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Gallic's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, changes in environmental, tax and royalty legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Gallic's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements or if any of them do so, what benefits that Gallic will derive there from. Gallic disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

COMPANY OVERVIEW

Gallic was incorporated August 10, 1983 under the laws of the Province of Alberta. The principle business of the Company is twofold. First, the Company is in the business of the identification, evaluation and negotiation for the acquisition of oil and gas assets. Secondly, the Company is in the business of exploring and developing the assets in the search for oil and gas assets.

Gallic is an international exploration company with a portfolio of properties in France and Australia. The Company's headquarters are in Calgary, Alberta, Canada.

GOING CONCERN

The Company has prepared the financial statements in accordance with the GAAP under the assumption that the Company is a going concern. It would be inappropriate to use the going concern assumptions in the event that the Company is unable to meet its financial liabilities because there would be material uncertainties that may cast significant doubt on the recoverability of asset values. In order to mitigate the going concern risks, the Company plans to continue to meet its commitments from treasury by accessing the capital markets, as in the past, through the issuance of securities, as required and as available.

The Company raised gross proceeds of \$1,500,000 through a non-brokered private placement which closed January 28, 2010 (the "January Private Placement"). The funding was used to discharge outstanding liabilities.

As of June 30, 2010, the Company had a negative working capital of (\$381,550). To provide additional liquidity to discharge outstanding liabilities and to continue with exploration activities the Company Board of Directors approved a private placement of up to 44,000,000 units (the "Units") at a price of \$0.05 per Unit for gross proceeds

of up to \$2,200,000 (the “Private Placement”). Each unit is comprised of one class A common share (each a “Common Share”) of the Company and one warrant (each a “Warrant”), with each Warrant exercisable into one Common Share for a period of 24 months after closing of the Private Placement at an exercise price of \$0.10 per Common Share. A portion of the Private Placement of up to \$1,900,000 is being brokered with the Macquarie Private Wealth Inc. as agent (the “Non-brokered Portion”). The Private Placement is expected to close on approximately August 27, 2010.

SUMMARY

	For the three months		For the six months		For the period ended,	
	ended June 30,		ended June 30,		June 30, 2010	December 31, 2009
	2010	2009	2010	2009		
Cash used by investing activities	\$ (19,836)	\$ -	\$ (13,710)	\$ (4,375)	\$ (13,710)	\$ (547,758)
Cash used by operations	(354,659)	(119,391)	(1,245,758)	(537,236)		7,137
Loss per share - basic and diluted	(0.01)	(0.00)	(0.05)	(0.02)		(0.03)
Exploration and development spending:						
France	10,888	-	385,818	-	385,818	330,649
Australia	2,213	-	173,839	-	173,839	127,411
USA	-	-	-	-	-	102,008
Canada	-	-	4,044	-	4,044	-
Total petroleum and natural gas assets	13,100	-	563,700	-	563,700	560,068
Current assets	(432,327)	(109,867)	226,494	145,665	226,494	39,448
Current liabilities	(16,768)	19,732	608,042	330,550	608,042	871,946
Working capital	\$ (415,559)	\$ (129,599)	\$ (381,548)	\$ (184,885)	\$ (381,548)	\$ (832,498)

RESULTS OF OPERATIONS

The Company continues to direct its focus toward acquiring and developing international and domestic oil and gas assets. Gallic’s strategies to date have been focused in France and Australia. As at December 31, 2009, the Company had been granted exploration rights on properties in Western Australia and southern France. Gallic is also pursuing opportunities in North America.

SUMMARY OF QUARTERLY RESULTS

Total Operations	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net revenue (loss)	-	-	-	(3,423)	15,044	(1,419)	(16,396)	38,466
Expenses	396,630	1,286,074	38,469	206,170	221,548	122,964	116,177	290,966
Net loss for period	(396,630)	(1,286,074)	(38,469)	(209,593)	(206,504)	(124,383)	(129,545)	(255,528)
Loss per share - basic and diluted	(0.01)	(0.04)	0.00	0.00	0.00	0.00	0.00	0.00
Total assets	807,924	1,214,993	605,511	322,102	149,993	260,300	136,420	165,521
Long term debt	-	-	-	-	-	-	-	-

(1) 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 adjustments.

- (2) Expenses during the six months ended June 30, 2010 were \$1,682,703 which are attributed to two kinds of transactions. First, the evaluation for potential acquisitions of oil and gas assets in the United States and Canada cost the Company \$745,000. Secondly, the expenses attributable to the issuance of stock options and warrants issued in January 2010 cost \$714,000. The remaining expenses are attributed to office and corporate overhead.

EVALUATION AND EXPLORATION ASSETS

The Company was actively pursuing investment opportunities in France, Australia, the United States and Canada during the three and six months ended June 30, 2010. Acquisition attempts in the USA and Canada were terminated during 2010 and as a result the capitalized assets were impaired:

Six months ended June 30, 2010	Net book value		Net book value at June 30, 2010
	at December 31, 2009	Additions	
France			
"Ger" permit	138,890	31,151	170,041
"Ledieux" permit	42,630	10,726	53,356
France - general	149,129	17,335	166,464
France total	330,649	59,212	389,861
Australia	127,411	46,428	173,839
Canada	-	74,726	74,726
USA	102,008	196,013	298,021
Less: USA impairment	-	(298,021)	(298,021)
Less: Canadian impairment	-	(74,726)	(74,726)
Total petroleum and natural gas assets	\$ 560,068	\$ 3,632	\$ 563,700

Three months ended June 30, 2010	Net book value		Net book value at June 30, 2010
	at March 31, 2010	Additions	
France			
"Ger" permit	166,616	3,426	170,042
"Ledieux" permit	53,356	-	53,356
France - general	154,959	11,505	166,464
France total	374,931	14,931	389,862
Australia	171,626	2,213	173,839
Canada	4,044	70,682	74,726
USA	238,873	59,148	298,021
Less: USA impairment	(238,873)	(59,148)	(298,021)
Less: Canadian impairment	-	(74,726)	(74,726)
Total petroleum and natural gas assets	\$ 550,600	\$ 13,100	\$ 563,700

1. AUSTRALIA

Exploration rights to EP 464 in the Canning Basin in Western Australia were granted to the Company on January 15, 2009. 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. The exploration rights to EP 464 are associated with a commitment to incur expenditures of \$5,485,730 over a six year term. The commitment at the time the permit was granted was allocated as per the following work program:

Year	Minimum Work Requirement	Estimated Expenditures
2009	100 km 2D seismic reprocessing	179,860
2010	50 km new 2D seismic survey	359,720
2011	One (1) exploration well	1,798,600
2012	20 km2 new 3D seismic survey	629,510
2013	100 km 2D seismic survey	719,440
2014	One (1) exploration well	1,798,600
Total		\$ 5,485,730

On March 23, 2010 Gallic Energy Ltd. formally requested a variation of minimum work requirements to EP 464. The work done to date did not provide the necessary technical data required to proceed with an exploration drilling program in year three of the existing work program. Gallic proposed variations to the permit conditions that management is confident are more appropriate for the successful exploration of EP 464.

On May 28, 2010 Gallic received, from the Government of Western Australia, Department of Mines and Petroleum, approval for the following variation to its work commitment:

Year	Minimum Work Requirement	Estimated Expenditures
2009	100 km 2D seismic reprocessing	179,860
2010	150 km new 2D seismic reprocessing	449,650
2011	50km2 of new 3D seismic survey	1,348,950
2012	One exploration well	1,798,600
2013	20km2 of new 3D seismic survey	629,510
2014	One (1) exploration well	798,600
Total		\$ 5,205,170

As of June 30, 2010, the Company has spent \$173,839 on capital related activities. For the same period in 2009 there were no qualifying expenditures.

To date Gallic has undergone the process of compiling and analyzing available public records to formulate an exploration program to fully evaluate the hydrocarbon resources underlying the subject block. Gallic has loaded for evaluation approximately 55 kilometers ("km") of reprocessed seismic and has started to review 225 km of stacked 2D seismic data. In addition to the seismic data based population, Gallic has completed the process of uploading all pertinent geological data including digitized petro physical logs and cultural shape files into an industry software program. This has provided the tools to produce cross sections and subsurface geological maps necessary to enhance the geological understanding of the petroleum potential of the subject block.

Gallic commissioned a geological report ("Report") from a consulting petroleum geologist, familiar with the Canning Basin. The Report summarizes the petroleum potential of the subject block and concentrates on the hydrocarbon prospectivity of the Lennard Shelf, which forms the northern margin of the Canning Basin. EP464 is located on the Lennard Shelf, which currently hosts all the producing oil fields discovered to date.

Three play types relevant to exploration within EP464 were identified in the Report:

1. Middle to Upper Devonian Pillara and Upper Devonian Nullara reef complexes flanking the Fitzroy Trough as well as lateral equivalent marine fan sandstones and conglomerates of the Gogo Formation, exhibit excellent reservoir potential.
2. Sand development associated with the early Carboniferous “Laurel delta play”. Fine grained porous sandstones interbedded with marine shales that provide the stratigraphic trapping mechanism. Oil flowed from thin Laurel sands in Meda-1, while Yullero-1 and St. George Range-1 measured gas flows.
3. Carboniferous clastic and carbonate deposits of the Anderson Formation and Permian sandstones of the Grant Formations. All form excellent reservoirs with trapping mechanisms described as stratigraphic and structural four-way closures. Production is found in Lloyd, Sundown, Boundary, West Terrace and West Kora.

The geologic Report recommends that Gallic expedite a 3D seismic program over the southwestern portion of Gallic’s acreage to identify the reservoir’s play types located in EP 464. Benefits of 3D seismic surveys include seismic modeling, reservoir characterization and the ability to examine seismic character, continuity and quantification of coherence. Three dimensional seismic surveys eliminate out-of-plane reflections, provide superior focusing and achieve a higher degree of resolution of the subsurface geology. Time slices taken through the data provide a powerful means of mapping three-dimensional structures and identifying subtle stratigraphic traps. All of the above mentioned benefits will ensure that Gallic will fully evaluate the petroleum potential over its acreage in a timely and quantitative manner.

During the second quarter of 2010, the Company acquired 3,400 km of 2D seismic data covering the Lennard Shelf and the Fitzroy trough areas. Currently the seismic is being tied in with well data and interpreted for the purpose of generating regional time structure and isochron maps that will help Gallic to better understand and map the geology of the region. This data will delineate the area that Gallic chooses to shoot its 3D seismic program with the ultimate goal of identifying an exploration drilling location. In addition to the above, petrophysical well data is being examined in the vicinity of the Blina, Sundown, West Terrace, Boundary and Lloyd fields to analyze the geological and reservoir parameters which will be used to predict analogue play concepts over EP 464.

2. FRANCE

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

The exploration rights to Ger Permit are associated with a commitment to incur \$1,800,000 of qualifying expenditures over a 5 year term beginning on April 3, 2008. When the original acreage size and commitment was reduced due to the competition of the bidding process, the commitment of funds were reduced and no specific work program was submitted at the time.

On August 8, 2008 the Company received final approval from the French Ministry of Industry for the assignment to it of a permit for exploration rights for a second area of 781 square km (192,989 acres) in the Aquitaine Basin of France (the “Ledeux Permit”). The Ledeux Permit is situated approximately 10 km south of the Lacq field and about 24 km west of the Meillon field. The permit area is approximately 30 km east of the Company’s Ger Permit.

The exploration rights to Ledeux Permit are associated with a commitment to incur \$2,215,950 of qualifying expenditures over a 5 year term beginning on August 8, 2008. The commitments at the time of the permit grant were allocated as per the following work program:

Year	Minimum Work Requirement	Estimated Expenditures
2009	Compile existing data	130,350
2010	Process and interpret existing seismic data	130,350
2011	Acquire up to 40 km 3D or 60 km 2D new seismic data	912,450
2012	Reopen, test and potentially complete existing well	912,450
2013	Evaluate results and prepares second exploration phase	130,350
Total		\$ 2,215,950

As of June 30, 2010, the Company has spent \$389,861 for capital related activities for the combined permits of the Aquitaine Basin. For the same period in 2009 there were no qualifying expenditures.

Gallic has commenced its work program on both the Ger permit and Ledoux permit by translating and interpreting 29 well reports and digitizing 30 well logs from the corresponding wells. The Company is formatting the resulting information to develop a unique data base that is critical in creating geological cross sections and pertinent geological maps. To date, the Company has purchased and reprocessed approximately 254 km of 2D seismic. The new data will be instrumental in constructing key time structure and isochron maps that will evaluate hydrocarbon potential for both shallow Tertiary and deeper Cretaceous/Jurassic targets.

During the second quarter of 2010 the Company ordered 588 km of raw 2D seismic data in the Ger block for reprocessing. The Company has commenced the planning and permitting of a 116 square km 3D seismic program over the Ger block . Gallic has entered into discussions with the operator to acquire the Ger 101 surface location for the purpose of re-entering and establishing production from the gas charged Eocene coarse grained sandstones and micro-conglomerates. Ger 101 has produced 4 billion cubic metres (“Bcf”) of sweet gas and was prematurely shut in and abandoned due to mechanical problems.

In the Ledoux block, Gallic Energy has ordered 180 square km of raw 3D seismic data. The seismic data will cover an area encompassing the Saucedo #1 well which has produced 1.8 Bcf of sweet gas from the Jurassic Meillon dolomites. The 3D data will help Gallic analyze the structure of the underlying thrusts sheets and map the extent of the Meillon reservoir. The Company is continuing discussions with the operator to acquire the Saucedo wellbore for the purpose of re-entering and establishing production from the abandoned productive zone.

3. US (Oklahoma)

On October 14, 2009 Gallic announced that it had entered into an arms length letter of intent agreement with Energy Invest Group Ltd. (“EIG”) to acquire a 75% working interest in two oilfields in Creek County Oklahoma. On April 1, 2010, the Company terminated the acquisition due to findings during the due diligence process. The capital assets of \$298,021, related to this acquisition were impaired.

4. Canada (Sahara)

On March 18, 2010, the Company entered into an arm’s length letter of intent agreement (“LOI”) with Sahara Energy Ltd. (“Sahara”) to negotiate the acquisition by Gallic of Sahara’s Alberta and Saskatchewan properties. On June 4, 2010, Sahara terminated the LOI. The capital assets of \$74,726, related to this acquisition were impaired.

OUTLOOK FOR 2010

The Company will focus its resources on continuing to evaluate the exploration permits in Australia and France in order to meet the commitments for 2010. The commitments in France include reprocessing seismic data from the both blocks and to continue the design and development of a 3D seismic shoot over the Ger permit for execution in 2011. The commitments in Australia include the review and reprocessing of the acquired 2D seismic for EP464 for execution in 2011.

EXPENDITURES

The Company's principal activities required expenditures which included both capital and general and administrative expenses. The following discussion describes the expenditures in greater detail.

Expenses

	For the three months ended June 30,		For the six months ended June 30,		For the period For the period ended,	
	2010	2009	2010	2009	June 30, 2010	December 31, 2009
Audit / accounting fees	59,472	37,978	79,793	75,956	79,793	21,162
Legal & exchange fees	92,322	55,565	107,576	148,780	107,576	104,800
Office expenses	13,241	53,528	25,741	107,056	25,741	52,000
Consulting fees	98,289	-	382,178	-	382,178	202,144
Stock based compensation	6,328	36,387	49,330	72,774	49,330	194,500
Warrant compensation	-	-	664,711	-	664,711	-
Depreciation	1,034	440	1,656	880	1,656	1,930
Foreign exchange gain/(loss)	(7,930)	-	(1,028)	-	(1,028)	1,319
Impairment - Acquisition assets	133,874	-	372,747	-	372,747	-
Total	\$396,630	\$183,898	\$ 1,682,703	\$ 405,446	\$1,682,703	\$577,855

Depreciation expense for the three months ended June 30, 2010 and 2009 was \$1,656 and \$880 respectively. Depreciation expense is related to the amortization of office equipment. Stock based compensation expense of \$49,330 and \$72,774 were recorded for the six months ended June 30, 2010 and 2009, respectively. The stock option expenses were recorded for the options issued on January 29, 2010. The Company issued 575,000 stock options to directors and officers and 200,000 stock options to consultants. On January 8, 2010, the Company also issued 750,000 stock options to a consultant. The stock options are exercisable for a period of five years. The fair value of the options was determined at the grant date using the Black-Scholes pricing model assuming a risk-free rate of 2.19% and an expected volatility rate of 83%. Stock based compensation expense is a non-cash item with the offset charged to contributed surplus.

	*Options Outstanding	Option Price Range	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Balance at Dec 31, 2009	2,131,250	\$0.15 - \$1.16	\$ 0.67	2.2
Granted - January 8, 2010	750,000	\$0.15	\$ 0.15	4.5
Granted - January 29, 2010	775,000	\$0.11	\$ 0.11	4.5
Cancelled	(562,500)	\$1.12 - \$1.16	\$ 1.15	-
Expired	(937,500)	\$0.80	\$ 0.80	-
Balance at Jun 30, 2010	2,156,250	\$0.11 - \$1.16	\$ 0.16	3.2

*On July 29, 2009, the Company concluded an 8:1 share consolidation. As a result, the stock options presented have been adjusted to reflect this change.

The stock option expense was reduced in the second quarter of 2010 due to the resignation of a Director. Effective May 5, 2010, Colin Wagner resigned as Director and as Chairman of the Company's Audit Committee. Mr. Wagner held 100,000 stock options of the Company of which 50,000 options had vested with an exercise price of \$0.11. The 100,000 options were forfeited on June 5, 2010 being 30 days after Mr. Wagner's resignation date. To fill the vacancy Mr. Richard Wadsworth was appointed to the role of Audit Committee Chairman.

On January 28, 2010, pursuant to the January Private Placement, the Company issued 18,750,000 units comprised of one Common Share and one warrant with each warrant exercisable into one Common Share for a period of 18 months after closing at an exercise price of \$0.12 per Common Share. In addition, pursuant to the January Private Placement, Gallic paid a finders' fee which included the issuance of 494,000 finders' warrants. Each finders' warrant is exercisable into one Common share for a period of 18 months after closing at an exercise price of \$0.10 per share. A total of 19,244,000 warrants were issued pursuant to the January Private Placement.

Issued and outstanding warrants

	Warrant Exercise Price	Weighted Average Remaining Life	Number of Warrants	Amount
Balance, December 31, 2009	-	-	-	-
Warrants issued	\$ 0.119	0.7	19,244,000	664,711
Balance, June 30, 2010	\$ 0.119	0.7	19,244,000	\$ 664,711

Capital Expenditures

Petroleum and natural gas properties	
Opening balance, December 31, 2009	\$ 560,068
Additions	376,379
Impairment	(372,747)
Depreciation	-
Closing balance, June 30, 2010	\$ 563,700

Exploration expense consists of geological and geophysical costs, seismic, non-producing land lease rentals and indirect exploration expenses. These costs are capitalized as incurred under the full cost method of accounting. Under the full cost method of accounting for oil and gas activities, the costs of impaired exploration properties are written off to expense in the year a property is determined to be a poor prospect for future production. Until such determination is made, the costs are included in non-depleted capital.

Property, plant and equipment	
Opening balance, December 1, 2009	\$5,995
Additions	13,391
Disposals	-
Depreciation	(1,656)
Closing balance, June 30, 2010	\$17,730

Property, plant and equipment include computer and office equipment. Depreciation expense of \$1,656 and \$880 was recognized in income for the periods ended June 30, 2010 and June 30, 2009, respectively.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2010, the Company had a working capital deficit of (\$381,550) (the working capital deficit at June 30, 2009 – (\$184,885)). The Company closed the January Private Placement on January 28, 2010 pursuant to which it raised gross proceeds of \$1,500,000. The funds were used to retire outstanding liabilities and fund first quarter 2010 property evaluation activities. The Company has spending commitments of an additional \$130,000 related to its permits in France and \$450,000 related to its permits in Australia in 2010.

To provide additional liquidity to discharge outstanding liabilities and to continue with exploration activities the Company is raising gross proceeds of up to \$2,200,000 through a Private Placement approved by the Board of Directors which is expected to close on August 27, 2010. The Company will complete the private placement of up to 44,000,000 units at a price of \$0.05 per share for gross proceeds of \$2,200,000. A portion of the offering for up to \$1,900,000 will be brokered and the remaining \$300,000 will be non-brokered. Each unit is comprised of one class A common share (“common share”) and one warrant, with each warrant exercisable into one common share for a period of 24 months after closing at an exercise price of \$0.10 per share. The securities will be subject to a four month holding period.

Costs associated with the brokered private placement include either a 10% of the gross proceeds paid in cash or shares. The Company also intends to grant the Agent units equal to 10% of the brokered portion of the offering, exercisable at \$0.05 for a period of 24 months from the closing date.

ISSUED AND OUTSTANDING SHARE INFORMATION

On January 28, 2010, the Company completed the January Private Placement of 18,750,000 units at a price of \$0.08 per unit for gross proceeds of \$1,500,000. Each unit is comprised of one class A Common Share and one warrant, with each warrant exercisable into one common share for a period of 18 months after closing at an exercise price of \$0.12 per share. The proceeds from the private placement are used for general working capital requirements. The securities issued pursuant to this private placement were subject to a four-month hold period.

The Company paid a finders’ fee by way of the issuance of 473,000 Common Shares, 494,000 finders’ warrants and \$24,380 in cash for finders’ commissions and expenses. Each finders’ warrant is exercisable into one Common Share for a period of 18 months after closing at an exercise price of \$0.10 per share. The Company incurred an additional \$40,641 in legal and regulatory fees. Therefore, the total share issue costs for the private placement were \$65,021.

The Company has 38,939,154 Common Shares, 19,244,800 warrants and 2,156,250 stock options issued and outstanding as at June 30, 2010.

OFF BALANCE SHEET ARRANGEMENTS

The Company is not party to any off balance sheet arrangements or transactions.

ACCOUNTING POLICIES AND ESTIMATES

Management is required to make judgments, assumptions and estimates in the application of GAAP 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 audited consolidated financial statements for the year ended December 31, 2009.

BUSINESS RISKS

Readers are cautioned that the following is a summary only of certain risk factors and is not exhaustive and is qualified in its entirety by reference to, and must be read in conjunction with the additional information on these and other factors that could affect Gallic’s operations and financial results that are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

The Company is presently pursuing direct investments in international oil and gas projects. There is no assurance that exploration blocks will be granted in foreign jurisdictions where the Company is making applications, nor is there assurance the exploration efforts will be successful. If the Company is successful in obtaining exploration permits in foreign jurisdictions, additional capital will be required to execute the exploration programs.

Natural gas and crude oil exploration, development, production and marketing operations inherently have a number of business risks and uncertainties, including the uncertainty of finding new reserves, the volatility of commodity prices, operational risks, the cost of capital available to fund exploration and development programs, regulatory issues and taxation, and the requirements of new environmental laws and regulations.

The Company manages these risks by contracting competent professional staff, following sound operating practices and the prudent issuance of equity to fund capital expenditures so that debt does not become a burden. Extensive geological, geophysical, engineering and environmental analyses are performed before committing to the drilling of new prospects. These analyses are used to ensure a suitable balance between risk and reward. The Company conducts its operations in a manner consistent with environmental regulations as stipulated applicable local legislation. Gallic is committed to meeting its responsibilities to protect the environment wherever it may operate and anticipates making increased capital and operating expenditures as a result of the increasingly stringent laws relating to the protection of the environment. Gallic's operations are subject to the risks normally associated with the oil and gas industry. The Company is committed to respecting the safety of its personnel, the environment and the communities where it has operations.

The oil and gas industry has been subject to considerable price volatility, over which companies have little control, and a material decline in the price of oil and/or natural gas could result in a significant decrease in the Company's future anticipated revenues. The oil and gas industry has inherent business risks and there is no assurance that products can continue to be produced at economical rates or that produced reserves will be replaced. Fluctuations in currency and exchange rates and changes in production volumes are daily risks in the oil and gas industry.

IFRS CONVERSION

In 2008, the CICA Accounting Standards Board confirmed that International Financial Reporting Standard ("IFRS") will replace Canadian GAAP effective January 1, 2011 for publically accountable enterprises. The adoption date of January 1, 2011 will require the restatement of comparative amounts beginning in January 2010, including an opening balance sheet as at January 1, 2010.

Management will evaluate the effects of all current and pending pronouncements of the International Accounting Standards Board on the financial statements of the Company and will develop a plan for implementation. The Company's implementation is anticipated to have three components:

1. Scoping and diagnostic phase – This phase includes an analysis, on a high level, of the areas of the Company's financial statements and systems that will be impacted by the conversion to IFRS;
2. Impact analysis and evaluation phase – This phase includes a detailed analysis of each item identified in scoping and diagnostic phase to determine the impacts on the financial statements, accounting policies and procedures, internal control procedures and external agreements;
3. Implementation phase – This phase involves the implementation of all changes in the information systems and business processes approved in the impact analysis and evaluation phase. It also includes training of staff, management and the audit committee.

Until recently, management's focus has been on the development of international assets. Management will now be working to complete the scoping and diagnostic phase which it expects will be accomplished by the end of 2010. The Company will also be meeting with its information technology consultants to determine what changes, if any, need to be made to its information systems and will also be working internally and with its external auditors to identify the impacts on all other matters. The Company's Audit Committee will also continue to receive regular progress reports on the IFRS conversion going forward.

FINANCIAL INVESTMENTS AND RISK MANAGEMENT

All financial instruments are initially recognized at fair value on the balance sheet. The Company has classified each financial instrument into one of the following categories: "held-for-trading" (assets and liabilities), "loans and receivables", financial assets "available-for-sale", financial assets "held-to maturity", and "other financial liabilities". Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities "held-for-trading" are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax.

Financial assets "held-to-maturity", "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method. Cash and marketable securities are classified as "held-for-trading". Accounts receivable is classified as "loans and receivables". Accounts payable and accrued liabilities and note payable are designated as "other financial liabilities". The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity.

The Company is exposed to financial risk in a range of financial instruments including accounts receivable, accounts payable and marketable securities. The main financial risks affecting the Company are discussed below:

Fair values

The Company's cash and cash equivalents and accounts receivable and current liabilities are approximated by their carrying values due to the short-term nature of the items. Marketable securities are recorded at their fair value which is determined by the market.

Concentration risk

A majority of the Company's cash and cash equivalents are held by one major Canadian banking institution. Deposits held with this bank may exceed the amount of insurance provided on such deposits. Generally these deposits may be redeemed upon demand and bear minimal risk.

Credit risk

The Company has negligible accounts receivable.

Commodity price risk

The Company's operations and financial results may be affected by fluctuations in commodity prices and exchange rates.

Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements, including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing.

Capital Risk

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

The Company defines capital as total equity plus debt, net of cash. The Company is not subject to any externally imposed cash flow requirements.

COMMITMENTS

During the fourth quarter of 2009, the Company entered into an arm's length LOI agreement with Energy Invest Group Ltd. ("EIG"), a private company based in the United Kingdom, to acquire a 75% working interest in the East Cushing and Cottonwood oilfields in Creek County near Tulsa, Oklahoma, currently producing approximately 30 barrels of oil per day. The acquisition was expected to close on or before April 9, 2010 but was terminated when the Company was unable to satisfactorily complete the due diligence process.

Gallic was committed to spending up to \$1,800,000 on the Ger Permit over a five year period beginning on April 3, 2008. When the original acreage size and commitment was reduced due to the competition of the bidding process, the commitment of funds were reduced and no specific work program was submitted at the time.

The Company is also committed to spending \$2,200,000 on the Ledieux Permit over a five year period beginning August 8, 2008. As of June 30, 2010 the Company had spent \$389,861 on qualifying expenses for the Ledieux permit. There were no expenditures for the same period ended June 30, 2009.

Gallic was committed to spend \$5,500,000 over a period of six years beginning January 15, 2009 on the Western Australia permit, EP 464. On March 23, 2010, the Company received approval from the Government of Western Australia, Department of Mines and Petroleum to modify the commitment schedule to \$5,200,000 over the commitment period. As of June 30, 2010 the Company had spent \$173,839 on qualifying evaluation costs. There were no expenditures for the same period ended June 30, 2009.

As in previous periods the Company will continue to meet its financial commitments from treasury by accessing the capital markets through the issuance of securities, as required and as available.

RELATED PARTY TRANSACTIONS

During the periods ended June 30, 2010 and June 30, 2009, the Company paid \$141,000 and \$28,063 respectively in legal fees to a law firm of which one of the Company's officers, formerly a director, is a partner.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

SUBSEQUENT EVENTS

On July 19, 2010, the Company's Board of Directors approved the Private Placement of up to 44,000,000 Units at a price of \$0.05 per Unit for gross proceeds of up to \$2,200,000. Each Unit is comprised of one Common Share and one Warrant, with each Warrant exercisable into one Common Share for a period of 24 months after closing of the Private Placement at an exercise price of \$0.10 per Common Share. The Brokered Portion of up to \$1,900,000 is being brokered with Macquarie Private Wealth Inc. as agent and the remainder of up to \$300,000 of the Private Placement is non-brokered. The Private Placement is expected to close on approximately August 27, 2010.

DIRECTORS AND OFFICERS AS AT JUNE 30, 2010

Richard Wadsworth, Director, Chairman and Audit Committee Chairman
Peter Haverson, Director
Gordon McIntosh, Director
John Garden, Director, Chief Executive Officer
Mark Woods, President, Chief Operating Officer
David Little, Chief Financial Officer
Felicia Bortolussi, Corporate Secretary