Forest Gate Energy Inc.

Interim Financial Statements

March 31, 2011

(Unaudited)

Contents

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended March 31, 2011.

Forest Gate Energy Inc.
Balance Sheet
As at
(unaudited, in Canadian dollars)

	March 31, 2011	December 31, 2010 (Note 18)	January 1, 2010 (Note 18)
	$	$	$
Assets			
Current assets			
Cash and cash equivalents	**95,683**	396,991	85,263
Accounts receivable	**53,225**	34,077	10,139
Prepaid expenses	**8,425**	55,425	20,000
	157,333	486,493	115,402
Non-current assets			
Deposit in escrow	**-**	213,000	-
Exploration and Evaluation *(note 6)*	**671,460**	443,256	2,203,630
Producing oil and gas assets *(note 7)*	**1,769,703**	222,181	351,473
Saskatchewan diamond properties *(note 8)*	**500,000**	500,000	500,000
Property and equipment *(note 9)*	**11,039**	23,393	31,664
	2,952,202	1,401,830	3,086,767
	3,109,535	1,888,323	3,202,169
Liabilities			
Current liabilities			
Bank line of credit	**350,000**	-	-
Accounts payable and accrued liabilities *(note 10)*	**1,115,043**	606,054	913,131
Convertible note *(note 11)*	**736,020**	736,020	-
Other liabilities	**112,000**	112,000	-
	2,313,063	1,454,074	913,131
Non-current liabilities			
Asset retirement obligations *(note 12)*	**410,707**	402,556	402,798
Due to Joint Venturers *(note 3)*	**122,455**	122,455	122,455
	533,162	525,011	525,253
Total Liabilities	**2,846,225**	1,979,085	1,438,384
Shareholders' Equity *(note 13)*			
Share capital	**18,675,543**	18,099,269	16,879,739
Warrants	**4,744,055**	4,744,055	4,767,488
Contributed surplus	**1,905,334**	1,839,334	1,588,226
	25,324,932	24,682,658	23,235,453
Equity component of convertible note *(note 11)*	**57,521**	57,521	-
Deficit	**(25,119,143)**	(24,830,941)	(21,471,668)
Total Equity	**263,310**	(90,762)	1,763,785
	3,109,535	1,888,323	3,202,169

Subsequent events *[note 17]*

Approved on behalf of the board:

Signed "Michael C. Judson" *Director*

Signed "Nicholas Powell" *Director*

See accompanying notes to the financial statements.

Forest Gate Energy Inc.
Statement of Loss and Comprehensive Loss
Three months ended March 31
(unaudited, in Canadian dollars)

	2011	2010
	$	$
Revenues		
Petroleum and natural gas revenue	**125,800**	81,605
Royalties	**(28,500)**	(15,551)
Interest and other income	**373**	31
	97,673	66,085
Expenses		
Operating expenses	**46,730**	28,073
Salaries and levies	**77,731**	87,245
Value of stock option granted *(note 13)*	**66,000**	66,105
Professional and consulting fees	**172,120**	111,976
Corporate marketing and business development	**92,327**	68,303
Financial charges	**16,560**	18,379
Amortization of discount on convertible note	**-**	10,388
Depletion	**146,988**	65,373
Depreciation of property and equipment	**12,354**	2,424
General and administration expenses	**40,913**	130,748
	671,723	589,014
Loss before write-down, income taxes and discontinued operations	**574,050**	522,929
Write-down of oil and gas lease	**-**	317,816
Loss before income taxes and discontinued operations	**574,050**	840,745
Future income taxes recovered	**(291,526)**	-
Net loss from continued operations	**282,524**	840,745
Net loss from discontinued operations	**5,678**	4,819
Net loss and comprehensive loss	**288,202**	845,564
Deficit at the beginning of period	**24,830,941**	21,471,668
Deficit at the end of period	**25,119,143**	22,317,232
Basic and diluted loss per share		
continuing operations	**$ 0.0083**	$ 0.0314
discontinued operations	**$ 0.0002**	$ 0.0002
Basic and diluted loss per share	**$ 0.0085**	$ 0.0316
Weighted average number of shares outstanding	**33,992,256**	26,802,871

See accompanying notes to the financial statements.

Forest Gate Energy Inc.
Statement of Changes in Equity
Three months ended March 31
(unaudited, in Canadian dollars)

	Number of common shares	Share capital $	Warrants $	Contributed surplus $	Equity component of convertible note $	Deficit $	Total equity $
Balance, January 1, 2010	**24,687,233**	**16,879,739**	**4,767,488**	**1,588,226**	**-**	**(21,471,668)**	**1,763,785**
Issuance of common shares for cash	21,913,149	1,132,641	28,383	46,083	-	-	1,207,107
Warrants issued	-	-	39,187	-	-	-	39,187
Warrants exercised	722,050	150,456	-	-	-	-	150,456
Warrant forfeited	-	-	(91,003)	-	-	-	(91,003)
Broker warrants exercised	157,550	25,183	-	(13,253)	-	-	11,930
Options exercised	150,000	23,250	-	(20,400)	-	-	2,850
Share issue costs, net of tax	-	-	-	(3,153)	-	-	(3,153)
Stock based compensation	-	-	-	241,831	-	-	241,831
Net loss during the year	-	-	-	-	-	(3,359,273)	(3,359,273)
Adjustments from IFRS transition	-	(112,000)	-	-	-	-	(112,000)
Equity component of convertible note	-	-	-	-	57,521	-	57,521
Balance, December 31, 2010	**47,629,982**	**18,099,269**	**4,744,055**	**1,839,334**	**57,521**	**(24,830,941)**	**(90,762)**
Issuance of common shares for cash	7,980,000	877,800	-	-	-	-	877,800
Cancellation of common shares	(344,827)	(50,000)	-	-	-	-	(50,000)
Receivable from subscribers	-	40,000	-	-	-	-	40,000
Stock based compensation	-	-	-	66,000	-	-	66,000
Net loss during the period	-	-	-	-	-	(288,202)	(288,202)
Future income taxes on flow through expenses renounced	-	(291,526)	-	-	-	-	(291,526)
Balance, March 31, 2011	**55,265,155**	**18,675,543**	**4,744,055**	**1,905,334**	**57,521**	**(25,119,143)**	**263,310**

See accompanying notes to the financial statements.

Forest Gate Energy Inc.
Statements of Cash Flows
Three months ended March 31
(unaudited, in Canadian dollars)

	2011	2010 (Note 18)
	$	$
Cash provided (used in)		
Operations		
Net loss from continuing operations	**(282,524)**	(840,745)
Items not involving cash:		
Amortization of discount on convertible note	**-**	10,388
Accretion of asset retirement obligation	**2,473**	4,006
Depletion	**146,988**	65,373
Depreciation of property and equipment	**12,354**	2,424
Future income taxes recovered *(note 13)*	**(291,526)**	-
Write-down of oil and gas properties	**-**	317,816
Value of stock option granted *(note 13)*	**66,000**	66,105
Change in non-cash working capital *(note 16)*	**486,841**	93,301
	140,606	(281,332)
Financing		
Proceeds from the issue of equity *(note 13)*	**40,000**	970,517
Convertible note *(note 11)*	**-**	625,000
Line of credit	**350,000**	-
	390,000	1,595,517
Investing		
Acquisitions	**-**	(2,518)
Exploration and evaluation assets and oil and gas assets	**(831,914)**	(1,050,531)
	(831,914)	(1,053,049)
Change in cash	**(301,308)**	261,136
Cash beginning of the period	**396,991**	85,263
Cash end of period	**95,683**	346,399
Represented by:		
Cash with financial institutions	**95,683**	223,399
Restricted Cash	**-**	123,000
	95,683	346,399

Cash is defined as cash and cash equivalents.

See accompanying notes to the financial statements.

1. BACKGROUND AND GENERAL INFORMATION

Forest Gate Energy Inc. (“Forest Gate” or the “Company”) is incorporated under the Canada Business Corporations Act and is publicly traded on the TSX Venture Exchange under the symbol “FGE”. At a special meeting held on June 23, 2009, shareholders approved changing the name to Forest Gate Energy Inc. from Forest Gate Resources Inc.

Forest Gate is a publicly listed oil and gas exploration and production, and non-energy resource company seeking to increase shareholder value through participation and development of energy and other resources in Canada and internationally. The Company’s operations consist of the exploration and production of oil and gas reserve properties, and non-energy resources, either directly, through joint ventures or with working interest partners. Recovery of deferred exploration costs and reserve properties depend on the existence of economically recoverable reserves and the Company’s ability to obtain financing for its operations and future profitable commercial production.

These interim financial statements were approved and authorized for issuance by the Board of Directors on June 30, 2011.

2. BASIS OF PRESENTATION

The Company prepares its financial statements in compliance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”) which apply for years beginning on or after January 1, 2011. “Previous GAAP” refers to Canadian GAAP before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting” and IFRS 1 “First-time Adoption of International Financial Reporting Standards”. Subject to certain transition elections disclosed in note 18, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 18 discloses the impact of the transition to IFRS on the Company’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s financial statements for the year ended December 31, 2010. Comparative figures for 2010 have been restated to give effect to these changes.

The interim consolidated financial statements should be read in conjunction with the Company’s Previous GAAP annual financial statements for the year ended December 31, 2010.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of June 30, 2011. Any subsequent changes to IFRS, that are given effect in the Company’s annual consolidated financial statements for the year ended December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

Going Concern Disclosure

These financial statements have been prepared using IFRS applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

Several adverse conditions and events cast substantial doubt upon the validity of this assumption. The company has a history of operating losses and negative cash flow and its ability to continue as a going concern is uncertain and is dependent upon its ability to fund its working capital, complete the development of its wells, and eventually to generate positive cash flows from oil and gas extraction operations. Management plans to explore all alternatives possible, including joint ventures, debt and equity financings, and merger opportunities.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. BASIS OF PRESENTATION (cont'd)

Basis of measurement

The interim financial statements have been prepared on the historical cost basis except where noted in the accounting policies or where the items have been restated in compliance with IFRS 1.

Functional and presentation currency

These interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

The Company determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at year end. All financial instruments are recognized initially at fair value. Transaction costs are included in the initial carrying amount of each financial instrument except for instruments under the fair value through profit and loss category which are expensed as incurred. Measurement in subsequent periods depends on its classification. Financial instruments are classified as either: fair value through profit or loss; loans and receivables; available for sale; held to maturity or financial liabilities measured at amortized cost as defined by IAS 39.

Financial instruments classified as fair value through profit or loss are measured at their fair values at each reporting period with the change in fair value recognized in net income (loss). Loans and receivables, held to maturity and financial liabilities measured at amortized cost are all measured at amortized cost less any impairment using the effective interest method. Amortization of any discounts or premiums is recognized in finance expense. The Company's cash and cash equivalents are classified as loans and receivables and consist of cash and all investments that have a maturity of three months or less. Financial assets classified as available for sale are measured at fair value with changes in fair value recognized in other comprehensive income (loss). When available for sale items are derecognized or impaired the amounts previously recorded in other comprehensive income are recognized in net income (loss).

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced and/or substantially modified, the difference in the respective carrying amounts is recognized in net income (loss).

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Impairments are recognized in net income (loss) as they occur.

Exploration and Evaluation

Exploration and evaluation ("E&E") costs are capitalized for projects after the Company has acquired the legal right to explore but prior to their technical feasibility and commercial viability being confirmed, generally determined as the establishment of proved or probable reserves. These costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, including remuneration of production personnel and supervisory management, the projected costs of retiring the assets, and any activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources.

Once technical feasibility and commercial viability are confirmed the E&E asset is then reclassified to producing oil and gas assets and tested for impairment. For purposes of impairment testing, E&E assets are allocated to the appropriate cash-generating units based on geographic proximity. Expired lease costs are expensed as part of depletion and depreciation expense as they occur and costs incurred prior to the legal right to explore are charged to net income (loss).

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization is calculated over the estimated useful lives of the related assets at the following rates and methods:

	Rates	Methods
Furniture and office equipment	20%	Diminishing balance
Computer equipment	30%	Diminishing balance

Producing oil and gas assets

Producing oil and gas assets ("O&G") includes costs directly attributable to oil and natural gas exploration and development that are not E&E and costs for other tangible goods including office equipment and other. O&G is recorded at cost less accumulated depletion, depreciation, and impairment losses net of recoveries. Gains and losses on disposal of oil and natural gas properties are recognized in net income (loss). The carrying amount of a replaced asset is derecognized when replaced.

The provision for depletion for oil and natural gas assets is calculated for each major area using the unit-of-production method based on the area's production for the period divided by the Company's estimated total proved and probable oil and natural gas reserve volumes before royalties for that area. Production and reserves of natural gas and associated liquids are converted at the energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of oil. Estimates of future development costs for developing the proved and probable reserves are included in each area's depletion base.

At each reporting period the Company assesses whether there are indicators of impairment for its O&G. If indicators exist, the Company determines if the recoverable amount of the asset or cash generating unit ("CGU") is greater than its carrying amount. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used geographical proximity, geological similarities, analysis of shared infrastructure, commodity type, assessment of exposure to market risks and materiality to define its CGUs.

If the carrying amount exceeds the recoverable amount, the asset or CGU is recorded at its recoverable amount with the reduction recognized in net income (loss) in depletion expense. The recoverable amount is the greater of the value in use or fair value less costs to sell. Fair value is the amount the asset could be sold for in an arm's length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. The fair value less costs to sell considers the continued development of a property and market transactions in a valuation model. The Company uses the present value of the cash generating unit's estimated future cash flows from both proved and probable reserves in its fair value model. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Impairments are reversed in subsequent periods when there has been an increase in the recoverable amount of a previously impaired asset or CGU and these reversals are recognized in net income (loss). The recovery is limited to the original carrying amount less depletion and depreciation that would have been recorded had the asset not been impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Mining Deferred exploration costs

Development expenditure incurred is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure includes costs directly attributable to the construction of a mine and related infrastructure. Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non current assets as "Exploration and evaluation". Mine development assets are reclassified as "producing mining assets" at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management. No depreciation is recognised in respect of mine development assets until they are reclassified as "producing mining assets".

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Mine production assets and certain mining equipment, where economic benefits from the asset are consumed in a pattern which is linked to the production level, are depreciated using a unit of production method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves. Subsequently these assets are measured at cost less accumulated depreciation and impairment.

Capitalised mine development expenditure is, upon commencement of production, reclassified to "producing mining assets", depreciated using a unit of production method based on the estimated economically recoverable reserves to which they relate or are written-off if the property is abandoned.

General provisions and decommissioning liabilities

i) General provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The present value of expected future cash outflows is recognized as a liability and the increase to the liability due to the passage of time is recorded as a finance expense.

ii) Decommissioning liabilities

Decommissioning liabilities are present obligations where the Company is required to retire assets or restore sites where assets are located and includes restoring well and facility sites and decommissioning plants and oil batteries. When a liability is recorded, the carrying amount of the related asset is increased by the same amount.

The amount recognized represents management's estimate of the present value of the estimated future expenditures to abandon and reclaim the Company's net ownership in wells and facilities determined in accordance with local conditions and requirements as well as an estimate of the future timing of the costs to be incurred. These costs are subsequently depreciated as part of the costs of the item of O&G. Any changes in the estimated timing of the decommissioning or decommissioning cost estimates are accounted for prospectively by recording an adjustment to the provision, and a corresponding adjustment to O&G.

The Company uses a credit adjusted discount rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount of the decommissioning provision is included as a finance cost. The Company recognizes the deferred tax asset regarding the temporary difference on the decommissioning liability and the corresponding deferred tax liability regarding the temporary difference on a decommissioning asset.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred stripping costs

Stripping (i.e. overburden and other waste removal) costs incurred in the development of a mine before commercial production commences are capitalised as part of the cost of constructing the mine and are written-off to the income statement over the period during when the related economic benefits are realised. This period may be the life of the operation, or another appropriate basis, depending on the particular circumstances existing at each mine.

The Company defers stripping costs incurred subsequently, during the production stage of its operations, for those operations where this is the most appropriate basis for matching the costs against the related economic benefits. Where stripping costs do not fluctuate significantly over the life of the mine, these costs are deferred in inventory and are written off to the income statement in the following year, this being the period over which economic benefits relating to the stripping activity are realised.

For other mine operations it may be more appropriate to defer these stripping costs in "producing mining assets", and charge these costs to operating profit on the basis of the average life of the mine stripping ratio. The average stripping ratio is calculated as the number of cubic metres of waste material removed per tonne of ore mined. The average life of the mine ratio is revised annually in the light of additional knowledge and change in estimates.

Joint ventures

Substantially all of the Company's petroleum, natural gas and mining activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

Stock-based compensation

Stock based compensation amounts are determined using certain assumptions. By their nature, these estimates and assumptions are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant. The Company follows the fair value method to record compensation expense with respect to stock options and warrants granted in exchange for goods and services. This method is applied for all awards made to non-employees and employees. The fair value of each option or warrant granted is estimated on the date of grant and a provision for the costs is provided for as contributed surplus over the term of the option agreement. Compensation expense associated with options issued to employees, consultants, officers and directors of the Company are expensed. The consideration received by the Company on the exercise of share options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Expense related to broker warrants issued are recorded as share issue costs and deducted from share capital.

Flow through common shares

Proceeds received upon the issue of common shares that transfer the exploratory expense deductions to investors are credited to the share capital and the related exploration costs are charged to deferred exploration costs. The estimated tax benefits transferred to shareholders are recorded as a future income tax liability at the time of filing of the renouncement documents with the tax authorities with a corresponding reduction in share capital.

Deferred financing costs

These costs are directly identifiable with the raising of capital will be charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs are deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related share capital or charged to operations if the shares are not issued. The deferred financing costs consist primarily of corporate finance fees, legal fees and filing fees.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Loss per share

The basic loss per share is computed by dividing the net loss by weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the treasury stock method is used for the assumed proceeds upon the exercise of stock options that are used to purchase common shares at the average market price during the year.

Future income taxes

i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

ii) Deferred income tax

The Company follows the liability method for calculating deferred income taxes. Differences between the amounts reported in the financial statements and the tax bases are applied to tax rates in effect to calculate the deferred tax liability. The effect of any change in income tax rates is recognized in the current period income. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Discounting of deferred tax assets and liabilities is not permitted. Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes related to the same taxable entity and the same taxation authority. Deferred tax is provided in full for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except when the temporary differences arises from the initial recognition of goodwill, or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Revenue recognition

Revenue associated with oil and gas sales is recognized when title passes from the Company to its customers. Investment transactions are accounted for on the transaction date and resulting revenues are recognized using the accrual basis. Interest income is accrued based on the number of days the investment is held during the period.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgments, estimates and assumptions based on currently available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on managements' experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimated. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements:

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd)

Depletion, depreciation and reserves

The Company's reserves have been evaluated in accordance with the Canadian Oil and Gas Evaluation Handbook ("COGEH") and comply with the standards that govern all aspects of reserves as prescribed in National Instrument 51-101 (NI 51-101). Under NI 51-101 standards proved plus probable are considered a "best estimate" of future recoverable reserves.

The estimation of oil and gas reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity prices, and the timing of future expenditures. The Company expects reserve estimates to be revised based on the results of future drilling activity, testing, production levels, and economics of recovery based on cash flow forecasts. Future development costs are estimated using assumptions as to number of wells required to produce the reserves, the cost of such wells and associated production facilities, and other capital costs.

Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring fair value less costs to sell for impairment calculations.

Decommissioning and restoration costs

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of the Company's assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results. In the Company's judgment, the most appropriate discount rate to use is the Company's credit adjusted rate.

Income taxes

The Company follows the liability method for calculating deferred income taxes. Differences between the amounts reported in the financial statements and the tax bases are applied to tax rates in effect to calculate the deferred tax liability. In addition, the Company recognizes the future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the balance sheet date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Stock based compensation

The Company uses the fair value method of valuing compensation expense associated with the Company's stock option plan. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, expected forfeitures and distribution yield.

CGU definition

The determination of CGUs requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Cash generating units are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd)

Impairment

The recoverable amounts of cash-generating units and individual assets are based on the higher of their value-in-use and fair values less costs to sell. These calculations require the use of estimates and assumptions. Unless indicated otherwise, the recoverable amount used in assessing impairment charges is fair value less costs to sell. The Company generally estimates fair value less costs to sell using a discounted cash flow model which has a significant number of assumptions. The model uses expected cash flows from proved plus probable reserves. These estimates are subject to measurement uncertainty as discussed above and subject to variability to changes in forecasted commodity prices. The discount rate applied to the cash flows is also subject to management's judgment and will affect the recoverable amount calculated.

It is reasonably possible that the commodity price assumptions may change which may then impact the estimated life of the field and may then require a material adjustment to the carrying value of its tangible and intangible assets. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets. These indicators include changes in (a) commodity prices, (b) reserve volumes and (c) discount rates.

The Company has elected to value its property, plant and equipment assets using fair value as deemed cost as at January 1, 2010 using a discounted cash flow model. As a result changes in commodity prices, a reduction to reserve volumes or an increase in the discount rate may potentially lead to impairments.

Exploration and evaluation assets

The decision to transfer assets from exploration and evaluation to property, plant and equipment is based on the estimated proved and probable reserves which are in part used to determine a project's technical feasibility and commercial viability.

5. CHANGES IN ACCOUNTING POLICIES AND PRACTICES

Recent accounting pronouncements

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 9 is not expected to have a significant impact on the financial statements.

IFRS 11 Joint Arrangements

IFRS 11 *Joint Arrangements* will apply to interests in joint arrangements where there is joint control. IFRS 11 would require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures, previously called jointly controlled entities, using proportionate consolidation would be removed, and equity accounting would be required. Venturers would transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not yet assessed the impact of the new standard on the financial statements.

5. CHANGES IN ACCOUNTING POLICIES AND PRACTICES (cont'd)

IFRS 12 Disclosure of Interests in Other Entities

The IASB has issued IFRS 12 *Disclosure of Interests in Other Entities*, which includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. This standard is effective for annual periods beginning on or after January 1, 2013. Entities will be permitted to apply any of the disclosure requirements in IFRS 12 before the effective date. The Company has not yet assessed the impact of the new standard on the financial statements.

IFRS 13 Fair Value Measurements

IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. The key features of IFRS 13 include: a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied, fair value would be defined as the 'exit price', and concepts of 'highest and best use' and 'valuation premise' would be relevant only for non-financial assets and liabilities. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not yet assessed the impact of the new standard on the financial statements.

IAS 27 Separate Financial Statements

As a result of the issue of the new consolidation suite of standards, IAS 27 *Separate Financial Statements* has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not yet assessed the impact of the new standard on the financial statements.

IAS 28 Investments in Associates and Joint Ventures

As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not yet assessed the impact of the new standard on the consolidated financial statements.

6. EXPLORATION AND EVALUATION

	March 31, 2011 **Net** **$**	December 31, 2010 Net (note 18) $
Balance, beginning of period	**443,256**	2,203,630
Acquisitions - oil and gas properties	**-**	288,606
Acquisitions - mining properties	**228,204**	-
Dispositions	**-**	(2,202,980)
Transfers from producing oil and gas assets	**-**	154,000
Balance, end of period	**671,460**	443,256

No general and administrative expenses have been capitalized. The Company applied a ceiling test to its petroleum and natural gas assets at December 31, 2010 and determined that there was no impairment of costs.

6. EXPLORATION AND EVALUATION (cont'd)

On October 8, 2010 the Company entered into a Purchase Agreement to acquire the Pershing Gold property located near Val D'Or, Quebec, from two private gold exploration companies. Pershing is a gold exploration property consisting of 252 contiguous, unpatented mining claims. Following the closing of the purchase, Forest Gate will have a 100 percent interest in the Pershing property.

In consideration for the 100% interest in the claims, Forest Gate issued 3,000,000 Forest Gate common shares. In addition, the seller will hold a 2% net smelter return royalty on the Pershing gold property. One percent (1%) of the royalty can be purchased by Forest Gate at any time following the completion of a pre-feasibility study on the property. Forest Gate also holds a right of first refusal on the sale or reassignment of the remaining 1% royalty. A finder's fee of $150,000 Forest Gate common shares has been paid to a consultant.

United States

Forest Gate had entered into an agreement with Vanterra Energy Inc, whereby Forest Gate acquired a 70% equity interest in all Arizona oil and gas licenses belonging to Vanterra. In consideration, Forest Gate issued to Vanterra 2,690,000 Forest Gate common shares, 5,250,000 subscription receipts convertible into Forest Gate common shares, without any additional consideration, and 7,300,000 warrants at an exercise price of $0.25 per share. The warrants were to expire on the second anniversary of their issuance.

On November 29, 2010 the Company reported that it has completed an unwinding transaction with Vanterra Energy Inc. by transferring its 70% interest in certain Arizona and Utah oil and gas licenses vended-in to Forest Gate, in exchange for the cancellation by Vanterra of 3,596,053 common shares of Forest Gate, 4,343,947 subscription receipts convertible into common shares of Forest Gate, and 7,300,000 common share purchase warrants. Effective November 26, 2010, Forest Gate cancelled all of the foregoing subscription receipts and common share purchase warrants, and remitted the 3,596,053 common shares to its transfer agent and registrar so that the shares could be returned to treasury and cancelled.

7. PRODUCING OIL AND GAS ASSETS

	March 31, 2011 Net $	December 31, 2010 Net (note 18) $
Balance, beginning of period	**222,181**	351,473
Additions	**1,694,510**	48,138
Depletion	**(146,988)**	(132,855)
Impairment recovery	**-**	109,425
Transfer to Exploration and evaluation	**-**	(154,000)
Balance, end of period	**1,769,703**	222,181

Forest Gate has entered into a number of Joint Venture Agreements with Emerald Bay Energy Inc. to acquire working interests in Alberta properties. As of December 31, 2010, the total cost of the Company's participating interest is $1,179,625 (2009 - $1,280,364) less cumulative depletion expenses of $833,890 (2009 - $665,655) and a write-down of $153,350. The Company's accounts reflect only the proportionate interest in these activities.

7. PRODUCING OIL AND GAS ASSETS (cont'd)

Pursuant to its agreement with Emerald Bay Energy, the Company and its joint venture partners committed to drill two offset wells at the Ferrybank property in Alberta. Forest Gate later opted not to fund its participations and carried on the first and second $91,900 of costs. Accordingly, under the penalty clause in the agreement, the joint venture partners will be reimbursed 300% of these costs. As a result, Emerald Bay will withhold from Forest Gate future revenues if the well goes into production. The Company is in good standing with Emerald Bay and they have resumed paying the net revenue from the other pre-existing producing wells.

On December 23rd, Forest Gate reported that it has entered into an agreement to purchase 20% of the oil and gas assets from a privately-held Calgary company. The total consideration for the acquisition is approximately $1.5 million. Forest Gate has invested $65,000 which is a non-refundable payment and $213,000 as a deposit which is being held in escrow until the official close of the transaction in 2011.

On February 18, 2011 Forest Gate had entered into an agreement to purchase oil and gas assets from a privately-held, Calgary company. Forest Gate owns a non-operated 20 percent interest in oil and gas licenses encompassing 19,848 acres in south western Saskatchewan. The remaining 80 percent interest is owned and operated by Trafina Energy Ltd., a publicly-traded oil and gas company based in Calgary. The total consideration for the acquisition is $1,662,196. Forest Gate will issue to the vendor 7.98 million shares, assume its bank line of credit in the amount of $350,000 and assume various liabilities of the vendor with its joint venture partner in the amount of $434,396.

8. SASKATCHEWAN DIAMOND PROPERTIES

	Cost of Claims	**Deferred Exploration Costs**	**Impairment**	**December 31, 2010 Net**	December 31, 2009 Net
	$	**$**	**$**	**$**	$
East Side	**69,792**	**554,307**	**(312,050)**	**312,049**	312,049
West Side	**330,517**	**45,384**	**(187,950)**	**187,951**	187,951
	400,309	**599,691**	**(500,000)**	**500,000**	500,000

Forest Gate continues to own its Saskatchewan diamond properties, which includes the East Side and West Side properties at the Fort a la Corne kimberlite field. The Company is reviewing its alternatives for these mining properties. Management believes that the carrying amount of these assets reflects the fair market value of the properties that would be realized on disposal.

9. PROPERTY AND EQUIPMENT

	Cost $	Accumulated Depreciation $	Net book value $
Balance, January 1, 2010	104,521	72,857	31,664
Acquisitions	2,518	-	2,518
Depreciation for the period	-	10,789	(10,789)
Disposals	-	-	-
Balance, December 31, 2010	107,039	83,646	23,393
Additions	-	-	-
Depreciation for the period		12,354	(12,354)
Disposals	-	-	-
Balance, March 31, 2011	**107,039**	**96,000**	**11,039**

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2011 **Net** **$**	December 31, 2010 Net (note 18) $
Accounts payable - trade	**762,288**	302,905
Amounts due to entity significantly influenced by the company's chief executive officer	**-**	-
Tax penalty on flow through	**291, 526**	241,920
Current portion due to joint ventures	**61,229**	61,229
	1,115,043	606,054

11. CONVERTIBLE NOTE

On January 15, 2010, the Company issued a convertible note for a principal amount of $675,675, for net proceeds to the Company of $625,000. The note bears interest at a rate of 10% per annum and is convertible into Forest Gate common shares at a conversion price of $0.125 at the discretion of the lender. Any outstanding principal amount together with accrued but unpaid interest are payable by the Company one year from closing date in equity or cash at the Company's discretion. Twenty five percent of the net proceeds in excess of $500,000 of any future financing will be used to redeem this note. The accumulated interest on the convertible note is $64,791. The Company is examining its payment options and expects to settle the debt in 2011.

12. ASSET RETIREMENT OBLIGATIONS

The Company is committed to a program of environmental protection at the site of its oil and gas properties. Management believes that it was in compliance with government regulations in 2010. At the time of completion of drilling and testing, the Company identifies obligations related to a liability equal to the present value of expected future asset retirement obligations. The total future ARO was estimated by management based on the Company's net ownership interest in the wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its asset retirement obligations, using the credit adjusted risk-free rate, to be $410,707 as at March 31, 2011. These payments are expected to be made over the next 10 years. The following table reconciles the Company's asset retirement obligation:

	Continuing Operations $	**Discontinued operations** $	**Total** $
Balance - December 31, 2009	**74,691**	**328,107**	**402,798**
Additional obligations	(23,076)	-	(23,076)
Revisions is estimated cash flows	-	-	-
Accretion expenses	3,558	19,276	22,834
Balance - December 31, 2010	**55,173**	**347,383**	**402,556**
Additional obligations	-	-	-
Accretion expenses	2,473	5,678	8,151
Balance - March 31, 2011	**57,646**	**353,061**	**410,707**

The asset retirement obligation for Continuing Operations (wells in Alberta) is based on current reserves estimates, forecasted production and estimated future cash flows underlying the obligation. The Company recorded a revision based on a credit adjusted risk free interest rate of 5.75%. The value will be accreted to $92,239 over the next 2 to 10 years (2009 - accreted to $101,294 over the next 7 to 10 years).

The asset retirement obligation for the Discontinued Operations is based on an estimate of ultimate reclamation costs. The Company recorded a revision based on a credit adjusted risk free interest rate of 5.75%. The value will be accreted to $436,501 over the next 2 to 4 years (2009 – accreted to $436,501 over the next 3 to 5 years).

13. SHARE CAPITAL

On June 30, 2009, the shares of the Company were consolidated on the basis of one (1) post-consolidation common share for every ten (10) pre-consolidation common shares held, passing from 142,322,333 to 14,232,233 common shares issued and outstanding. As a result, basic and diluted net earnings (loss) per common shares have been retroactively adjusted to reflect the stock consolidation. Prior year's numbers have been restated to reflect the stock consolidation.

Authorized:

The authorized share capital comprises an unlimited number of common shares with no par value.

Issues during 2011

During January 2011, Forest Gate received $40,000 as receivable from subscribers from a private placement announced on December 17, 2010.

13. SHARE CAPITAL (cont'd)

Issues during 2011 (cont'd)

On February 24, 2011, Forest Gate issued 7,980,000 common shares at a price of $0.11 per share in consideration for the acquisition of participation of 20% of oil and gas assets located in south western Saskatchewan. The remaining 80% interest is owned and operated by Trafina Energy Ltd., a publicly-traded oil and gas company based in Calgary, Alberta.

On March 18, 2011, Forest Gate cancelled 344,827 common shares that were granted on January 2010 to a Denver based company with regards to the potential acquisition of various oil and gas licenses in Utah. The option was cancelled and the value of the shares for $50,000 was reversed into capital stock.

Issues during 2010

On January 15, 2010, Forest Gate issued 5,160,000 Units at a price of $0.10 per Unit, for total gross proceeds of $516,000. Each Unit consists of one common share and one half common share purchase warrant and net proceeds credited to share capital of $314,870 after payment of share issue costs. Share issue costs include $2,500 of cash finder's fee, a stock based compensation of $196,080 in the form of 2,580,000 warrants and $2,550 to agents paid in the form of 25,000 broker warrants.

On January 18, 2010, the Company was granted an option by a Denver based company with regards to Forest Gate's potential acquisition of various oil and gas licenses in Utah. The option was granted in consideration for $50,000 payable to the vendor by the issuance of 344,827 Forest Gate common shares.

On February 17, 2010, Forest Gate issued 2,364,960 Units at a price of $0.13 per Unit, for total gross proceeds of $307,445. Each Unit consists of one common share and one half common share purchase warrant and net proceeds credited to share capital of $205,546 after payment of share issue costs. Share issue costs include $8,379 of cash finder's fee, a stock based compensation of $88,686 in the form of 1,182,479 warrants and $4,834 to agents paid in the form of 64,450 broker warrants.

On February 25, 2010, Forest Gate issued 906,053 common shares with no value consideration in exchange of 906,053 subscription receipts that were issued on October 13, 2009.

On May 5, 2010, Forest Gate issued 1,324,000 Units at a price of $0.25 per Unit, for total gross proceeds of $331,000. Each Unit consists of one common share and one half common share purchase warrant and net proceeds credited to share capital of $260,184 after payment of share issue costs. Share issue costs include $16,250 of cash finder's fee, a stock based compensation of $48,326 in the form of 662,000 warrants and $6,240 to agents paid in the form of 65,000 broker warrants.

On May 5, 2010, the Company issued 1,504,962 common shares to Blue Note Mining Inc. at a deemed price of $0.20 each. These shares have been issued in settlement of a debt of $330,992 resulting from Blue Note's payment of various invoices on the Company's behalf.

On July 30, 2010, Forest Gate issued 4,228,290 common shares valued at $380,546, based on the fair market value using the quoted market price on the date of grant. The shares were issued for unpaid salaries and consulting fees, payable to officers, directors and consultants of the Company. The payment of salaries and consulting fees had been deferred in order to preserve cash.

On October 8, 2010, Forest Gate issued 3,000,000 common shares to acquire the Pershing gold property (see note 6) in Val D'Or, Quebec. A finder's fee of 150,000 Forest Gate common shares has been paid to a consultant. The net proceed credited to share capital is $252,000.

13. SHARE CAPITAL (cont'd)

Issues during 2010 (cont'd)

On October 28, 2010, Forest Gate issued 6,111,110 flow-through Units at a price of $0.09 per Unit, for gross proceeds of $550,000. Each flow-through Unit consists of one flow-through common share and one non-flow-through common share purchase warrant and net proceeds credited to share capital of $309,833 after payment of share issue costs. Share issue costs include $27,500 of cash finder's fee, a stock based compensation of $183,333 in the form of 6,111,110 warrants and $29,334 to agents paid in the form of 611,111 broker warrants.

On October 28, 2010, Forest Gate issued 625,000 Units at a price of $0.08 per unit for gross proceeds of $50,000. The hard dollar unit consists of one common share and one common share purchase warrant and net proceeds credited to share capital of $23,125 after payment of share issue costs. Share issue costs include $2,500 of cash finder's fee, a stock based compensation of $21,250 in the form of 625,000 warrants and $3,125 to agents paid in the form of 62,500 broker warrants.

On November 26, 2010, Forest Gate reported that it has completed its unwinding transaction with Vanterra Energy Inc. by transferring its 70% interest in certain Arizona and Utah oil and gas licenses vended-in to Forest Gate in the fourth quarter of 2009 and January 2010 in exchange for the surrender by Vanterra of 3,596,053 common shares ($593,349) of Forest Gate, 4,343,947 subscription receipts ($716,751) convertible into common shares of Forest Gate, and 7,300,000 common share purchase warrants ($700,800).

On December 10, 2010, Forest Gate issued 94 Units, comprising a total of 470,000 common shares and 470,000 flow-through shares for gross proceeds of $94,000. Each Unit consists of 5,000 common share and 5,000 flow-through common shares and 10,000 common share purchase warrants. Net proceeds credited to share capital were $59,220 after payment of share issue costs. Share issue costs include a stock based compensation of $34,780 in the form of 940,000 warrants.

On December 17, 2010, Forest Gate issued 4,100,000 units, comprising of 4,100,000 flow-through shares and 4,100,000 common share purchase warrants for gross proceeds of $410,000. Each Unit consists of 1 flow-through common shares and 1 common share purchase warrants and net proceeds credited to share capital of $258,300 after payment of share issue costs. Share issue costs include a stock based compensation of $151,700 in the form of 4,100,000 warrants.

During the year 2010, 722,050 warrants ($150,456) were exercised into common share, 157,550 broker warrants ($25,183) and 150,000 stock options ($23,250).

Stock option plan

The Company has a stock option plan authorizing the Board of Directors to grant options to directors, officers, employees and consultants to acquire common shares of the Company at a price computed by reference to the closing market price of the shares of the Company on the business day before the Company notifies the stock exchanges of the grant of the option. The number of shares which may be granted to any one person shall not exceed 5% (2% for consultants) over a twelve month period. The options will vest from the date of the grant to 18 months and expire within 5 years, as determined by the board, with exceptions for death, employment, etc. The Company is authorized to issue a maximum of 1,943,723 common shares.

13. SHARE CAPITAL (cont'd)

Stock option plan (cont'd)

The option activity, under the share option plan and information concerning outstanding and exercisable options, is as follows:

	Weighted Forfeited Rate	Number Of Options	Weighted Average exercice price
Balance - January 1, 2010	**0.31**	**1,895,000**	**0.60**
Options granted (*)	0.09	3,395,000	0.11
Options forfeited	0.44	(1,135,000)	0.64
Options exercised	0.14	(150,000)	0.16
Balance - December 31, 2010	**0.10**	**4,005,000**	**0.19**
Options granted (*)		**-**	
Options forfeited		**-**	
Options exercised		**-**	
Balance - March 31, 2011	**0.10**	**4,005,000**	**0.19**

(*) The following amounts were recorded as value of stock options granted to directors and consultants (stock-based compensation) and credited to contributed surplus for options vesting in the period:

For the three months ended March 31,	**2011**	2010
	$	$
Directors and management compensation	**56,195**	58,450
Consultants Compensation	**9,805**	7,655
Charged to income	**66,000**	66,105

Broker warrants

During the year, the activity and information concerning outstanding and exercisable broker warrants is as follows:

	Number Of Warrants	Weighted Average exercised price
Balance - January 1, 2010	**415,313**	**0.51**
Warrants granted	828,061	0.11
Warrants forfeited	(225,313)	0.75
Warrants exercised	(157,550)	0.15
Balance - December 31, 2010	**860,511**	**0.12**
Warrants granted	-	
Warrants forfeited	-	
Warrants exercised	-	
Balance - March 31, 2011	**860,511**	**0.12**
Exercisable at March 31, 2011	**186,900**	**0.12**

13. SHARE CAPITAL (cont'd)

Share purchase warrants

During the year, the activity and information concerning outstanding and exercisable warrants is as follows:

	Number Of Warrants	Weighted Average exercised price
Balance - January 1, 2010	**11,962,360**	**0.40**
Warrants granted	16,358,139	0.21
Warrants forfeited	(9,447,360)	0.44
Warrants exercised	(722,050)	0.21
Balance - December 31, 2010	**18,151,089**	**0.21**
Warrants granted	-	
Warrants forfeited	-	
Warrants exercised	-	
Balance - March 31, 2011	**18,151,089**	**0.21**

Flow-through share issues

The Company is partially financed through the issuance of flow-through shares, requiring that the Company spend the proceeds for qualified exploration expenses. Moreover, tax rules regarding flow-through investments set deadlines for carrying out the exploration work, subject to penalties if the conditions are not respected. Although the Company is committed to taking all the necessary measures, refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

In 2010, the Company received nothing from flow-through share issues. After year-end, but effective December 31, 2010, the Company has renounced all of its tax deductions relating to flow-through investments. In order to meet its obligation under flow-through share program, the Company must spend $927,734 in Canadian exploration by December 31, 2011 in addition to the exploration expenses it has incurred to date.

14. NET LOSS FROM DISCONTINUED OPERATIONS

The Company formally adopted a plan to divest in November 2010 of its interest in certain Arizona and Utah oil and gas licenses, Also of its Saskatchewan Diamond Properties and in September 2008 forfeited its entire interest in the Celtic Sea project. The properties were evaluated and management believes the carrying value was impaired. The deferred exploration costs have therefore been written down. There was no write-down in 2011.

The following table presents summarized financial information related to these discontinued operations:

	Oil and gas Exploration (USA)	Oil and gas Exploration (Celtic Sea)	Mining Exploration (Saskatchewan)	Total
For the three months ended March 31, 2011				
Write-down of diamond properties	-	-	-	-
Write-down of oil and gas exploration	-	5,678	-	5,678
Net loss from discontinued operations in 2011	-	5,678	-	5,678

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

Fair value: the Company's financial instruments consist of cash and cash equivalent, accounts receivable and accounts payable and accrued liabilities and a convertible note. Cash and cash equivalents are presented at fair value.

Risk management of financial instruments

The Company is exposed to various risks arising from financial instruments. The following analysis provides a measurement of risks as at March 31, 2011.

Credit risk: the Company's principal financial assets are cash and cash equivalents and accounts receivable. Cash and cash equivalents are held with major financial institutions and the risk of default is considered remote. Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers and project operators. The maximum exposure to credit risk as at March 31, 2011 is represented by the carrying value of the accounts receivable on the balance sheet.

Liquidity risk: the cash and cash equivalents on hand and expected cash generated from operations will allow the Company to meet its planned operating requirements. Financial liabilities all have maturity dates prior to March 31, 2012. Additional funds will be required to meet the Company's planned capital expenditures.

Market risk - commodity price risk: the value of the Company's mineral resource properties is related to the prices of oil, gas and diamonds and the outlook for these commodities. Commodity prices historically have fluctuated widely and are affected by numerous factors outside the Company's control, including, but not limited to, industrial and retail demand, levels of worldwide production, short term changes in supply and demand due to speculative hedging activities, and macro-economic variables.

The profitability of the Company's continuing operations is highly correlated to the market price of oil and gas. To the extent that prices increase over time, asset value increases and cash flows improve; conversely, declines in the prices directly impact value and cash flows negatively. A protracted period of depressed prices could impair the Company's operations and development opportunities, and significantly erode shareholder value. The Company did not have any financial instruments in place to manage commodity prices during the period ended March 31, 2011.

Market risk - market sensitivity analysis: due to the fact that the Company is at a very early stage of production and has not as yet developed its most significant assets, it is not possible to do a market sensitivity analysis on the earnings.

Market risk – dependence: *o*il and gas activities are conducted presently through partners and in respect of which the Company is not the operator. Forest Gate is dependent upon its operating partners for the financial and technical support which they contribute to the Company's oil and gas projects. If those operating partners are unable to fulfill their own contractual obligations, the Company's interests could be jeopardized, resulting in project delays, additional costs and loss of the participating interests.

16. SUPPLEMENTAL DISCLOSURES OF EXPENSES AND CASH FLOW INFORMATION

a) Net change in non-cash components of operating working capital

For the three months ended March 31,	**2011**	2010
	$	$
Decrease (increase) in:		
Accounts receivable	**(19,148)**	(7,773)
Prepaid expenses	**47,000**	-
Deposit Denver property	**(50,000)**	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	**508,989**	101,074
	486,841	93,301

b) Interest paid and received

Interest received during the period amounts to $373 (March 31, 2010 - $31).

c) Non-monetary transactions

On February 25, 2010, Forest Gate issued 906,053 common shares with no value consideration in exchange for 906,053 of subscription receipts that were issued on October 13, 2009. On November 26, 2010, Forest Gate reports that it has completed its unwinding transaction with Vanterra Energy Inc. by transferring its 70% interest in certain Arizona and Utah oil and gas licenses vended-in to Forest Gate in the fourth quarter of 2009 and January 2010 in exchange for the surrender for cancellation by Vanterra of 3,596,053 common shares ($593,349) of Forest Gate, 4,343,947 subscription receipts ($716,751) convertible into common shares of Forest Gate, and 7,300,000 common share purchase warrants ($700,800).

On January 15, 2010, Forest gate was granted an option by a Denver based company with regards to Forest gate's potential acquisition of various oil and gas licenses in Utah. The option was granted in consideration for $50,000 payable to the vendor by the issuance of 344,827 Forest gate common shares.

Non-cash transactions have been incurred in relation to stock-based compensation for the issue of stock options and warrants as partial payment of share issue costs and other services.

17. SUBSEQUENT EVENTS

On April 11, 2011, Forest Gate announced that it has completed a private placement by issuing an aggregate of 4,015,909 units (the "Units") at an issue price of eleven cents ($0.11) per Unit to two accredited investors resident in Ontario and Quebec, for gross proceeds to Forest Gate of $441,750. Each Unit consists of one common share in the capital of Forest Gate issued on a "flow-through" basis with a deemed issue price per share of eleven cents ($0.11), and one common share purchase warrant entitling the holder to acquire one additional common share of Forest Gate at an exercise price of eighteen cents ($0.18) for a period of two years.

18. FIRST TIME ADOPTION OF IFRS

The Company has prepared its financial statements in accordance with Previous GAAP for all periods up to including the year ended December 31, 2010. These interim consolidated financial statements for the three month period ended March 31, 2011 are the first the Company has prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company has prepared these interim consolidated financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2011 and the significant accounting policies meeting those requirements are described in note 3.

The Company has prepared its opening balance sheet using IFRS as at January 1, 2010, the date of transition to IFRS. IFRS 1 "First-time Adoption of International Financial Reporting Standards" allows first-time adopters certain exemptions from the general requirement to apply IFRS retrospectively. The Company has elected to measure the cost of oil and natural gas properties at fair value and used that fair value as deemed cost as at January 1, 2010. Fair value was calculated using the fair value less cost to sell method.

18. FIRST TIME ADOPTION OF IFRS (cont'd)

The following is a reconciliation of the balance sheet at January 1, 2010 from Canadian GAAP to IFRS:

	Previous GAAP as at January 1, 2010 $	Adjustments on Transition to IFRS $	Notes	**IFRS as at January 1, 2010 $**
Assets				
Current assets				
Cash and cash equivalents	85,263	-		**85,263**
Accounts receivable	10,139	-		**10,139**
Prepaid expenses	20,000	-		**20,000**
	115,402	-		**115,402**
Non-current assets				
Oil & Gas participating interests and deferred exploration costs	2,664,338	(2,664,338)	(A) (B)	**-**
Exploration and Evaluation	-	2,203,630	(A)	**2,203,630**
Producing oil and gas assets	-	351,473	(B)	**351,473**
Saskatchewan diamond properties	500,000	-		**500,000**
Property and equipment	31,664	-		**31,664**
	3,196,002	(109,235)		**3,086,767**
	3,311,404	(109,235)		**3,202,169**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	913,131	-		**913,131**
Convertible note	-	-		**-**
	913,131	-		**913,131**
Non-current liabilities				
Asset retirement obligations	402,798	-		**402,798**
Due to Joint Venturers	122,455	-		**122,455**
	525,253	-		**525,253**
Total Liabilities	1,438,384	-		**1,438,384**
Shareholders' Equity				
Share capital	16,879,739	-		**16,879,739**
Warrants	4,767,488	-		**4,767,488**
Contributed surplus	1,588,226	-		**1,588,226**
	23,235,453	-		**23,235,453**
Deficit	(21,362,433)	(109,235)	(B)	**(21,471,668)**
Total Equity	1,873,020	(109,235)		**1,763,785**
Total Equity and Liabilities	3,311,404	(109,235)		**3,202,169**

18. FIRST TIME ADOPTION OF IFRS (cont'd)

Notes to the reconciliation of the opening Balance Sheet as at January 1, 2010

(A) Exploration & Evaluation assets

As required under IFRS 6, properties in the exploration and evaluation ("E&E") phase are presented separately from Oil and gas participating interests and deferred exploration costs. This resulted in $2,203,630 of Oil and gas participating interests and deferred exploration costs being transferred to Exploration and Evaluation.

(B) IFRS 1 – Fair value as deemed cost election for Producing oil and gas assets

On transition to IFRS, the Company elected to use the IFRS 1 fair value exemption for producing oil and gas assets, whereby the Previous GAAP full cost pool, less the amount representing E&E, was restated to fair value. Fair value was calculated using the fair value less cost to sell method. The Company recorded a $109,235 reduction to Oil and gas participating interests and deferred exploration costs on transition to IFRS.

18. FIRST TIME ADOPTION OF IFRS (cont'd)

The following is a reconciliation of the balance sheet at March 31, 2010 from Canadian GAAP to IFRS:

	Previous GAAP as at March 31, 2010 $	Adjustments on Transition to IFRS $	Notes	**IFRS as at March 31, 2010 $**
Assets				
Current assets				
Cash and cash equivalents	223,399	-		**223,399**
Accounts receivable	17,912	-		**17,912**
Prepaid expenses	20,000	-		**20,000**
	261,311	-		**261,311**
Non-current assets				
Deposit in escrow	123,000	-		**123,000**
Oil & Gas participating interests and deferred exploration costs	3,227,561	(3,227,561)	(A)	**-**
Mining porperties and deferred exploration costs	-	-		**-**
Exploration and Evaluation	-	2,838,252	(A) (D)	**2,838,252**
Producing oil and gas assets	-	384,193	(A) (C)	**384,193**
Saskatchewan diamond properties	500,000	-		**500,000**
Discount on convertible note	40,287	-		**40,287**
Property and equipment	31,758	-		**31,758**
	3,922,606	(5,116)		**3,917,490**
	4,183,917	(5,116)		**4,178,801**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	1,014,205	-		**1,014,205**
Convertible note	675,675	-		**675,675**
	1,689,880	-		**1,689,880**
Non-current liabilities				
Asset retirement obligations	411,623	-		**411,623**
Due to Joint Venturers	122,455	-		**122,455**
	534,078	-		**534,078**
Total Liabilities	2,223,958	-		**2,223,958**
Shareholders' Equity				
Share capital	17,775,741	-		**17,775,741**
Warrants	4,852,492	-		**4,852,492**
Contributed surplus	1,643,842	-		**1,643,842**
	24,272,075	-		**24,272,075**
Deficit	(22,312,116)	(5,116)	(C) (D)	**(22,317,232)**
Total Equity	1,959,959	(5,116)		**1,954,843**
Total Equity and Liabilities	4,183,917	(5,116)		**4,178,801**

18. FIRST TIME ADOPTION OF IFRS (cont'd)

The following is a reconciliation of the statement of comprehensive loss for the three months period ended March 31, 2010 from Canadian GAAP to IFRS:

	Previous GAAP as at March 31, 2010 $	Adjustments on Transition to IFRS $	Notes	**IFRS as at March 31, 2010 $**
Revenues				
Petroleum and natural gas revenue	81,605	-		**81,605**
Royalties	(15,551)	-		**(15,551)**
Interest and other income	31	-		**31**
	66,085	-		**66,085**
Expenses				
Operating expenses	28,073	-		**28,073**
Salaries and levies	87,245	-		**87,245**
Value of stock option granted	66,105	-		**66,105**
Professional and consulting fees	111,976	-		**111,976**
Corporate marketing and business development	68,303	-		**68,303**
Financial charges	14,373	4,006	(D)	**18,379**
Amortization of discount on convertible note	10,388	-		**10,388**
Accretion of asset retirement obligation	4,006	(4,006)	(D)	**-**
Depletion	71,401	(6,028)	(B)	**65,373**
Depreciation of property and equipment	2,424	-		**2,424**
General and administration expenses	130,748	-		**130,748**
	595,042	(6,028)		**589,014**
Loss before write-down, income taxes and discontinued operations	528,957	(6,028)		**522,929**
Write-down of oil and gas lease	415,907	(98,091)	(C)	**317,816**
Net loss from continuing operations	944,864	(104,119)		**840,745**
Net loss from discontinued operations	4,819	-		**4,819**
Net loss and comprehensive loss	949,683	(104,119)		**845,564**
Deficit at the beginning of period	21,362,433	109,235		**21,471,668**
Deficit at the end of period	22,312,116	5,116		**22,317,232**

18. FIRST TIME ADOPTION OF IFRS (cont'd)

Notes to the reconciliation of the balance sheet as at March 31, 2010 and of the statement of comprehensive loss for the three months ended March 31, 2010

(A) Exploration & Evaluation assets

As required under IFRS 6, properties in the exploration and evaluation ("E&E") phase are presented separately from Oil and gas participating interests and deferred exploration costs. This resulted in $2,838,252 of Oil and gas participating interests and deferred exploration costs was transferred to Exploration and Evaluation.

(B) Depletion and depreciation

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas properties on a unit of production basis over proved plus probable reserves. The depletion policy under Previous GAAP was based on units of production over proved reserves. In addition, depletion was done on the Canadian cost center under Previous GAAP. IFRS requires depletion and depreciation to be calculated for each major area using the unit-of-production method.

For the three months ended March 31, 2010, depletion decreased $6,028 which resulted in a $6,028 increase to producing oil and gas assets.

(C) Impairment

Impairment under previous GAAP was recorded if the carrying amount of assets exceeded the undiscounted expected cash flow from proved reserves. If the carrying amount was not recoverable the assets were written down to their fair value. Fair value was calculated using the present value of the expected future cash flows of proved and probable reserves discounted at the risk-free interest rate. Under the previous GAAP of $415,907 of impairments were recorded in the first quarter of 2010.

Under IFRS, the recoverable amounts have been determined based on the higher of value-in-use calculations and fair value less costs to sell for each cash-generating unit and individual asset as described in the Company's accounting policies in note 3. If the carrying amount of the assets exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to income reducing the balance to its recoverable amount. Under IFRS, the Company recorded impairments of $328,960 in the first quarter of 2010.

(D) Finance charges

Under the Previous GAAP, accretion for the asset retirement obligation was recorded under depletion, depreciation and accretion expense. Under IFRS, the accretion expense is recorded as a finance charge. For the three months ended March 31, 2010, $4,006 has been re-classed from accretion of asset retirement obligation to financial charges. As a result of this change, the caption "accretion of asset retirement obligation" has been removed.

18. FIRST TIME ADOPTION OF IFRS (cont'd)

The following is a reconciliation of the balance sheet at December 31, 2010 from Canadian GAAP to IFRS:

	Previous GAAP as at December 31, 2010 $	Adjustments on Transition to IFRS $	Notes	**IFRS as at December 31, 2010 $**
Assets				
Current assets				
Cash and cash equivalents	396,991	-		**396,991**
Accounts receivable	34,077	-		**34,077**
Prepaid expenses and deposits	55,425	-		**55,425**
	486,493	-		**486,493**
Non-current assets				
Deposit in escrow	213,000	-		**213,000**
Oil & Gas participating interests and deferred exploration costs	345,714	(345,714)	(A)	**-**
Mining properties and deferred exploration costs	289,256	(289,256)	(A)	**-**
Exploration and Evaluation	-	443,256	(A)	**443,256**
Producing oil and gas assets	-	222,181	(A) (B) (C)	**222,181**
Saskatchewan diamond properties	500,000	-		**500,000**
Property and equipment	23,393	-		**23,393**
	1,371,363	30,467		**1,401,830**
	1,857,856	30,467		**1,888,323**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	606,054	-		**606,054**
Convertible note	736,020	-		**736,020**
Other liabilities	-	112,000	(E)	**112,000**
	1,342,074	112,000		**1,454,074**
Non-current liabilities				
Asset retirement obligations	402,556	-		**402,556**
Due to Joint Venturers	122,455	-		**122,455**
	525,011	-		**525,011**
Total Liabilities	1,867,085	112,000		**1,979,085**
Shareholders' Equity				
Share capital	18,211,269	(112,000)	(E)	**18,099,269**
Warrants	4,744,055	-		**4,744,055**
Contributed surplus	1,839,334	-		**1,839,334**
	24,794,658	(112,000)		**24,682,658**
Equity component of convertible note	57,521	-		**57,521**
Deficit	(24,861,408)	30,467	(B) (C)	**(24,830,941)**
	(9,229)	(81,533)		**(90,762)**
Total Equity and Liabilities	1,857,856	30,467		**1,888,323**

18. FIRST TIME ADOPTION OF IFRS (cont'd)

The following is a reconciliation of the statement of comprehensive loss for the three months period ended December 31, 2010 from Canadian GAAP to IFRS:

	Previous GAAP as at December 31, 2010 $	Adjustments on Transition to IFRS $	Notes	**IFRS as at December 31, 2010 $**
Revenues				
Petroleum and natural gas revenue	332,603	-		**332,603**
Royalties	(68,988)	-		**(68,988)**
Interest and other income	750	-		**750**
	264,365	-		**264,365**
Expenses				
Operating expenses	93,034	-		**93,034**
Salaries and levies	588,754	-		**588,754**
Value of stock option granted	241,831	-		**241,831**
Professional and consulting fees	568,645	-		**568,645**
Corporate marketing and business development	199,446	-		**199,446**
Financial charges	88,780	3,558	(D)	**92,338**
Amortization of discount on convertible note	103,750	-		**103,750**
Accretion of asset retirement obligation	3,558	(3,558)	(D)	**-**
Depletion	156,967	(24,112)	(B)	**132,855**
Depreciation of property and equipment	10,789	-		**10,789**
General and administration expenses	382,466	-		**382,466**
	2,438,020	(24,112)		**2,413,908**
Loss before write-down, income taxes and discontinued operations	2,173,655	(24,112)		**2,149,543**
Write-down of oil and gas lease	153,350	-		**153,350**
Write-down of oil and gas properties	1,152,694	(115,590)	(C)	**1,037,104**
Net loss from continuing operations	3,479,699	(139,702)		**3,339,997**
Net loss from discontinued operations	19,276	-		**19,276**
Net loss and comprehensive loss	3,498,975	(139,702)		**3,359,273**
Deficit at the beginning of period	21,362,433	109,235		**21,471,668**
Deficit at the end of period	24,861,408	(30,467)		**24,830,941**

18. FIRST TIME ADOPTION OF IFRS (cont'd)

Notes to the reconciliation of the balance sheet as at December 31, 2010 and of the statement of comprehensive loss for the three months ended December 31, 2010

(A) Exploration & Evaluation assets

As required under IFRS 6, properties in the "E&E" phase are presented separately from producing oil and gas assets and separately from producing mining assets. This resulted in $289,256 of expenditures previously classified as "mining properties and deffered exploration costs" and $154,000 of expenditures previously classified as "oil and gas participating interests and deferred exploration costs" being reclassified as E&E assets as at December 31, 2010.

(B) Depletion and depreciation

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas properties on a unit of production basis over proved plus probable reserves. The depletion policy under Previous GAAP was based on units of production over proved reserves. In addition, depletion was done on the Canadian cost center under Previous GAAP. IFRS requires depletion and depreciation to be calculated for each major area using the unit-of-production method.

For the year ended December 31, 2010, depletion decreased $24,112 which resulted in a $24,112 increase to producing oil and gas assets.

(C) Impairment

Impairment under previous GAAP was recorded if the carrying amount of assets exceeded the undiscounted expected cash flow from proved reserves. If the carrying amount was not recoverable the assets were written down to their fair value. Fair value was calculated using the present value of the expected future cash flows of proved and probable reserves discounted at the risk-free interest rate. Under the previous GAAP of $1,306,044 of impairments were recorded in the year ended December 31, 2010.

Under IFRS, the recoverable amounts have been determined based on the higher of value-in-use calculations and fair value less costs to sell for each cash-generating unit and individual asset as described in the Company's accounting policies in note 3. If the carrying amount of the assets exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to income reducing the balance to its recoverable amount. Under IFRS, the Company recorded impairments of $1,190,454 in the year ended December 31, 2010.

(D) Finance charges

Under the Previous GAAP, accretion for the asset retirement obligation was recorded under depletion, depreciation and accretion expense. Under IFRS, the accretion expense is recorded as a finance charge. For the year ended December 31, 2010, $3,558 has been re-classed from accretion of asset retirement obligation to financial charges. As a result of this change, the caption "accretion of asset retirement obligation" has been removed.

(E) Flow-through shares

During the year ended December 31, 2010, the Company issued 10,681,110 flow-through shares having a value of $1,007,000. If these shares had been issued as common shares they would have had a value of $898,000. The value of the premium on the flow-through shares is recognized as a liability under IFRS. This liability is reduced as the expenditures are incurred and tax attributes are renounced. The difference between the initial liability and the deferred tax liability created is recorded as a deferred tax expense.