This Management's Discussion and Analysis ("MD&A") of financial position and results of operations, as provided by the management of Forest Gate Energy Inc. ("Forest Gate" or the "Company"), should be read in conjunction with the financial statements and related notes thereto for the period ended March 31, 2012. Forest Gate's accounting policies are in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts are in Canadian dollars unless otherwise indicated.

This MD&A is dated June 30, 2012. The Company's shares trade under the symbol FGE on the TSX Venture Exchange. These documents and additional information about Forest Gate are available on SEDAR at www.sedar.com.

Forward-Looking Statements

Certain information in this MD&A of the Company's financial position and results of operations constitutes forward-looking information. These statements and this information represent Forest Gate's intentions, plans, expectations and beliefs, and are subject to risks, uncertainties and other factors, of which many are beyond the control of the Company. All information other than statements of historical fact may be forward-looking information. In consequence, actual results in the future may differ materially from any conclusion, forecast or projection in such forward-looking information.

Examples of statements that constitute forward-looking information may be identified by words such as "may", "could", "should", "believe", "expect", "plan", "target" and other similar words and expressions. These statements reflect current expectations of management regarding future events and operating performance, and speak only as of the date of this report.

This forward-looking information includes, amongst others, information with respect to our objectives and strategies to achieve those objectives. Readers are cautioned not to place undue reliance on these forward-looking statements or information. You will find more information about the risks that could cause our actual results to significantly differ from our current expectations in the "Risks and Uncertainties" section. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Corporate Overview

Forest Gate is incorporated under the Canada Business Corporations Act and is a publicly listed oil and gas exploration and production, and non-energy resource company trading on the TSX Venture Exchange under the symbol FGE. The Company is seeking to increase shareholder value through participation and development of energy and other resources in Canada and internationally.

In 2007, the Company entered into its first oil and gas project with a joint venture agreement with Emerald Bay Energy Inc. ("Emerald Bay") in a coal bed methane (CBM) project in the Nevis area of Central Alberta. Later in 2007, Forest Gate successfully drilled an oil well at Ferrybank, also located in Central Alberta. This represented the second joint venture signed in 2007 with Emerald Bay. In March 2008, Forest Gate entered into a third joint venture agreement with Emerald Bay to acquire a 38% working interest in the Kelsey exploration well in Alberta. In August, drilling was successful at Kelsey and this gas well was tied-in in the first quarter of 2009.

At a special meeting held on June 23, 2009, shareholders approved Management's proposal to consolidate the Company's common shares at a rate of one (1) new common share for each tranche of ten (10) outstanding common shares and to change the company's name to Forest Gate Energy Inc. The common shares of Forest Gate started trading on June 30, 2009 under the new symbol "FGE".

Late in June 2009, the Company terminated discussions related to the previously announced agreement to acquire 90% of all of the issued and outstanding shares of Atlantis Deepwater Production, Inc. and of Impact Exploration & Production, LLC, of Houston, Texas.

In October 2009, Forest Gate acquired a 70% equity interest in all Arizona oil and gas licenses belonging to Vanterra Energy Inc. ("Vanterra"). In consideration for the 70% equity interest in the licenses, the Company 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, which will expire on the second anniversary of their issuance. No such subscription receipt or warrant may be converted or exercised by Vanterra if, as a result of that conversion or exercise, Vanterra would hold more than 15% of Forest Gate's outstanding common shares. Forest Gate undertook to pay 100% of the cost to drill, case and complete the initial exploratory well on the lands covered by the licenses.

Forest Gate and Vanterra were targeting oil in the Sacramento Valley Neogene Sub-Basin of Arizona which lies within what is known as the Basin and Range Geologic Province, which loosely runs north to south from northern Nevada to southern Arizona and east to west from Utah to California.

In January 2010, the Company began acquiring a number of additional licenses in Utah. Drilling at the Crescent Junction property in Grand County, Utah well began in January 2010. In March 2010, Forest Gate abandoned this first well following production testing that recovered oil but at non-commercial rates.

In May 2010, Forest Gate received a cash call for its portion of its Rush Lake oil prospect in Cedar Valley, Iron County, Utah. The Rush Lake prospect is a shallow-drilling target. The initial 5,000-foot well will test the Dakota Formation and a deeper Navajo target at a cost of $800,000 or $1.2 million if completed. Permit applications for drilling at the Rush Lake prospect have been filed.

In July 2010, Forest Gate reported that it has reached an agreement with Vanterra whereby Vanterra would return to Forest Gate 3,596,053 Forest Gate common shares, 4,343,947 Forest Gate's subscription receipts and 7,550,000 Forest Gate common share purchase warrants in exchange for Forest Gate's 70% interest in certain oil and gas licenses vended-in to the company in late 2009 and in January of this year. Vanterra is a private company owned by Donald Vandergrift. Mr. Vandergrift is a former President of Forest Gate Energy.

In October 2010, Forest Gate entered into a Purchase Agreement to acquire the Pershing gold property located near Val D'Or, Quebec from two private gold exploration companies called Montigua Resources Inc. ("Montigua") and Bermont Resources Inc. ("Bermont"). Pershing is a gold exploration property consisting of 252 contiguous, unpatented mining claims. In consideration for the acquisition of a 100% interest in the claims comprising the Pershing gold property, Forest Gate issued 3,000,000 Forest Gate common shares to Montigua and Bermont. In addition, Montigua and Bermont 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. Forest Gate also issued 150,000 common shares as a finder's fee to a consultant upon closing of the transaction.

Following the receipt of the conditional acceptance of the TSX Venture Exchange, on November 26, 2010, Forest Gate completed the transfer to Vanterra of the Arizona and Utah oil and gas licenses that were originally vended-in to the Company, and proceeded to cancel the 3,596,053 common shares, 4,343,947 subscription receipts and 7,300,000 warrants that were previously-issued to Vanterra.

On December 23, Forest Gate entered into an agreement to purchase 20% oil and gas assets from a privately-held Calgary company. The total consideration for the acquisition is $1.5 million. The transaction closed on February 24, 2011.

Forest Gate amended its participation in the oil and gas licences located in areas known as Rangeview, Divide and Katherine in the south western region of the Province of Saskatchewan in July, 2011 and reduced its interest in these properties to 10% from 20%.

Forest Gate's mineral group completed its acquisition of the Cuff Lake iron property located in the Abitibi region of Quebec, approximately 160 kilometres southeast of Val d'Or and 145 kilometres south of Forest Gate's Pershing iron property for cash consideration of $100,000.

Pricing

Crude oil prices improved 8% during the first quarter of 2012 as compared to 2011 as West Texas Intermediate ("WTI") benchmark price averaged US$102.88 per Bbl in the first three months of 2012, as compared to US$94.87 per Bbl in 2011. The price of crude oil continued to be volatile, a result of uncertainty around future worldwide economic conditions.

Natural gas prices averaged $2.53 per Mcf for AECO in the first quarter of 2012 as compared to $3.91 per Mcf (35% decrease) in 2011. Fluctuating North American supply/demand forecasts along with volatile international natural gas prices, which affect the global flow of liquefied natural gas, continue to cause significant price volatility in North American natural gas prices. Continued uncertainty around North American industrial demand has resulted in a continued high volatile price trends for North American natural gas.

Results of Operations

For the three months ended March 31, 2012, Forest Gate incurred a net loss from continuing operations of $193,698 ($0.0039 per share) compared to $282,524 ($0.0083 per share) for the same period in 2011. The net loss from discontinued operations was $2,600 ($0.0001 per share) compared to a net loss of $5,678 ($0.0002 per share) in the same period of 2011. The total net loss, after discontinued operations in the first quarter of 2012 was $196,298 ($0.0040 per share) and for the same period of 2011 was $288,202 ($0.0085 per share).

Revenues

	Three months	
For the period ended March 31,	**2012** **$**	2011 $
Revenues petroleum and natural gas revenue	**86,630**	125,800
Royalties	**(6,874)**	(28,500)
Operating expenses	**62,087**	46,730

For the three months ended March 31, 2012, Forest Gate reported oil and gas revenue of $86,630 less royalties of $6,874 and direct operating expenses of $62,087, compared to revenue of $125,800 less royalties of $28,500 and direct operating expenses of $46,730 for the three months ended March 31, 2011. The substantial revenue decrease of the period is primarily related to the acquisition in Q1 2011 of a 20% interest in the Rangeview / Divide properties.

Lower production volumes for the first quarter of 2012, added to lower natural gas prices and higher direct operating expenses in 2012 explain these results.

Expenses

Expenses consist primarily of petroleum extraction costs, depletion, salaries, professional and consulting fees, general and administration fees and expenses relating to the business development of the Company. Forest Gate incurred total expenses from continuing operations of $193,698 in the first quarter of 2012 compared to $282,524 in the same period of 2011:

For the three month period ended March 31,	**2012** $	2011 $
Revenues		
Petroleum and natural gas revenue	**86,630**	125,800
Royalties	**(6,874)**	(28,500)
Interest and other income	**187**	373
	79,943	97,673
Expenses		
Operating expenses	**62,087**	46,730
Salaries and levies	**58,646**	77,731
Value of stock option granted	**9,000**	66,000
Professional and consulting fees	**54,575**	172,120
Corporate marketing and business development	**9,718**	92,327
Financial charges	**5,458**	16,560
Depletion	**40,500**	146,988
Depreciation of property and equipment	**1,105**	12,354
General and administration expenses	**32,552**	40,913
	273,641	671,723
Loss before write-downs and discontinued operations	**193,698**	574,050
Future income taxes recovered	**-**	(291,526)
Net loss from continued operations	**193,698**	282,524

The decrease in total expenses relates mainly to the professional and consulting fees of $54,575 (2011 - $172,120), and the depletion of $40,500 (2011 – $146,988). The change to IFRS has requested more professional and consulting fees in 2011. The depletion of first quarter of 2012 is lower than the same period of last year, as assets are lower also.

Selected Quarterly Information

		Net loss (unaudited) $	**Loss per weighted average number of shares outstanding $**
2012	First quarter	196,298	0.0039
2011	Fourth quarter	1,475,814	0.0205
	Third quarter	1,008,119	0.0225
	Second quarter	334,056	0.0085
	First quarter	288,202	0.0085
2010	Fourth quarter	1,475,217	0.0485
	Third quarter	757,856	0.0264
	Second quarter	316,220	0.0110
	First quarter	949,683	0.0354

Assets held for sale

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 looking for an investor for these mining properties that are now held for sale. The fair market value of the properties is based on an offer received for them and has been reduced to $300,000 to reflect this value.

The Company is also looking for sale his remaining participation in the oil and gas licenses located in areas known as Rangeview, Divide and Katherine in the south western region of the Province of Saskatchewan.

Exploration and Evaluation

As of March 31, 2012, total Exploration and evaluation assets, net of depletion and write-offs, were $806,197 compared to $804,622 as at December 31, 2011. The increase is the result of capitalized expenses related to the Pershing gold property.

	March 31, 2012	December 31, 2011
	Net	Net
	$	$
Canada	**806,197**	804,622

On October 8, 2010 the Company entered into a Purchase Agreement and acquired a 100% interest in 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.

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 was paid to a consultant.

During the year ended December 31, 2011, Forest Gate capitalized $415,367 of costs related to the Pershing gold property and made a new investment of $100,000 at Cuff Lake.

During the three months ended March 31, 2012, Forest Gate capitalized $1,575 of costs related to the Pershing gold property.

Producing oil and gas assets and mining properties

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. 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 go 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 February 18, 2011 Forest Gate 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 (Rangeview, Divide and Katherine). 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 $1,579,800. Forest Gate has issued to the vendor 7.98

million shares at $0.11 per share, 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 $352,000.

On July 20, 2011, Forest Gate reports that it has amended its participation in the oil and gas licenses located in areas known as Rangeview, Divide and Katherine in the south western region of the Province of Saskatchewan. As a result of this arrangement with Trafina Energy Ltd., the majority owner and operator of the oil and gas licenses, Forest Gate has reduce its non-operated ownership from a 20 percent undivided working interest to a 10 percent undivided working interest in the licenses. As part of this transaction, payables totalling $253,711 were forgiven. Of the $253,711, $177,000 related to the initial liability due to the joint venture that was assumed on purchase. The remaining $76,711 related to payables due to Trafina and were associated with operating losses on the oil and gas assets that occurred after the transaction closed. The remaining 90 percent interest is owned and operated by Trafina Energy.

The relinquishment of the 10% interest of $789,900 and the write off of the related portion of deferred costs of $6,550, less payables of $253,711 that were forgiven, resulted in a loss on sale of interest in producing oil and gas properties of $542,739.

The Company has recorded a devaluation of $455,186 of his participation in the oil and gas licenses located in areas known as Rangeview, Divide and Katherine in the south western region of the Province of Saskatchewan. The remaining participation did not meet what was planned and the Company has devaluated these properties to show the loss of value.

During the year 2011, the depletion for the properties of Emerald Bay was $135,000 and the depletion for Rangeview, Divide and Katherine was $185,605.

At the year end, the Company has decided to record the remaining value of Rangeview, Divide and Katherine as an asset held for sale. The Company is still in negotiation to sell these properties.

Liquidity, Financing and Capital Resources

The Company's ability to fund operations is contingent on revenues from oil and gas properties and raising of new equity through the issuance of shares. Should the Company encounter operating problems at its oil and gas properties that reduce cash flow or be unable to raise new capital, the Company's cash situation could deteriorate rapidly. Please see risk factors for more detailed explanations.

The Company seeks to raise capital to fund operations through a variety of methods including but not limited to issuing equity, raising debt, selling a portion or all of certain assets or concluding partnership opportunities depending on which method offers the best value to shareholders.

Cash and cash equivalents as at March 31, 2012 totalled $42,209 when compared to $95,683 at March 31, 2011.

Cash flows used in the operating activities were $304,844 for the three months ended March 31, 2012, and the cash flows generated by the operation activities were $140,606 for the same period in 2011:

Cash provided by (used in) operating activities	**2012**	2011
	$	$
Net loss from continuing operations	**(193,698)**	(288,202)
Non-cash items:		
Accretion of decommissioning liabilities	**800**	2,473
Depletion	**40,500**	146,988
Depreciation of property and equipment	**1,105**	12,356
Future income taxes recovered	**-**	(291,526)
Value of stock option granted	**9,000**	66,000
Change in non-cash working capital	**(159,951)**	486,841
Change in non-cash discontinued operations	**(2,600)**	5,678
	(304,844)	140,606

The cash flows from financing activities were $240,659 for the first quarter of 2012 compared to $390,000 in 2011:

Cash provided by (used in) financing activities	**2012**	2011
	$	$
Share subscription received	**-**	40,000
Other non-current liabilities	**241,920**	-
Line of credit	**(1,261)**	350,000
	240,659	390,000

The cash flows used in investing activities were $8,799 for the first quarter of 2012 compared to $831,914 in 2011:

Cash flows from (used in) investing activities	**2012**	2011
	$	$
Change in liabilities on assets held for sale	**(7,224)**	-
Purchase of exploration and evaluation assets, and oil and gas assets	**(1,575)**	(831,914)
	(8,799)	(831,914)

The Company currently has no financial commitments for spending and is constantly seeking to raise capital on favourable terms for its shareholders. The Company presently has no commitment for new funding nor unused debt capacity it can draw on.

Issue of Equity

There was no issues of equity amounted during the first three months of 2012 ($40,000 in the same period of 2011).

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

On February 24, 2011, Forest Gate issued 7,980,000 common shares at a price of $0.11 per share (total consideration of $877,800) 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.

On April 11, 2011, Forest Gate issued 4,015,909 Units at a price of $0.11 per Unit, for total gross proceeds of $441,750. Each Unit consists of one common share and one common share purchase warrant. Net proceeds credited to share capital were $218,522 after payment of share issue costs. The warrants were valued with the Black Scholes method to a total amount of $182,884. Share issue costs include $26,384 of cash finder's fee and stock based compensation of $13,960, valued with the Black Scholes method, in the form of 209,090 broker warrants. Broker warrants were credited to share-based payments reserve.

On May 6, 2011, the Company issued a total of 5,405,400 common shares to Jones, Gable & Company Limited in payment of the principal amount of $675,675 outstanding in respect of a convertible debenture issued by the Company in January 2010. The common shares were issued as a result of the exercise by the Company of its conversion privilege contained in the convertible debenture, and at the conversion price provided for in the convertible debenture, namely $0.125 per share.

On June 29, 2011, Forest Gate issued 782,500 Units at a price of $0.08 per Unit, for total gross proceeds of $62,600. Each Unit consists of one common share and one common share purchase warrant. Net proceeds credited to share capital were $32,487 after payment of share issue costs. The warrants were valued with the Black Scholes method to a total amount of $21,111. Share issue costs include $5,634 of cash finder's fee and stock based compensation of $3,368, valued with the Black Scholes method, in the form of 70,425 broker warrants. Broker warrants were credited to share-based payments reserve.

On June 30, 2011, Forest Gate issued 147 Units for total gross proceeds of $176,400. Each Unit consists of 4,000 common shares, 16,000 "flow-through" common shares and 8,000 common share purchase warrants. Net proceeds credited to share capital were $103,972 after payment of share issue costs. The warrants were valued with the Black Scholes method to a total amount of $40,724. Share issue costs include $17,639 of cash finder's fee and stock based compensation of $14,065, valued with the Black Scholes method, in the form of 294,000 broker warrants. Broker warrants were credited to share-based payments reserve.

On July 26, 2011, Forest Gate issued 269 Units for total gross proceeds of $322,800. Each Unit consists of 4,000 common shares, 16,000 "flow-through" common shares and 8,000 common share purchase warrants. Net proceeds credited to share capital were $227,627 after payment of share issue costs. The warrants were valued with the Black Scholes method to a total amount of $46,946. Share issue costs include $31,128 of cash finder's fee and stock based compensation of $17,099, valued with the Black Scholes method, in the form of 538,000 broker warrants. Broker warrants were credited to share-based payments reserve.

On September 23, 2011, Forest Gate issued an aggregate of 2,500,000 flow through Units at a price of $0.06 per Unit, for total gross proceeds of $150,000. Each Unit consists of one common share and one common share purchase warrant entitling the holder to acquire one additional common share at an exercise price of twelve cents ($0.12) for a period of two years. Net proceeds credited to share capital were $89,132 after payment of share issue costs. The warrants were valued with the Black Scholes method to a total amount of $39,838. Share issue costs include $15,000 of cash finder's fee and stock based compensation of $6,030, valued with the Black Scholes method, in the form of 250,000 broker warrants. Broker warrants were credited to share-based payments reserve.

On October 14, 2011, Forest Gate issued an aggregate of 3,666,666 flow through Units at a price of $0.06 per Unit, for total gross proceeds of $220,000. Each Unit consists of one common share and one common share purchase warrant entitling the holder to acquire one additional common share at an exercise price of twelve cents ($0.12) for a period of two years. Net proceeds credited to share capital were $130,501 after payment of share issue costs. The warrants were valued with the Black Scholes method to a total amount of $58,633. Share issue costs include $22,000 of cash finder's fee and stock based compensation of $8,866, valued with the Black Scholes method, in the form of 366,666 broker warrants. Broker warrants were credited to share-based payments reserve.

On October 18, 2011, Forest Gate issued 166 Units for total gross proceeds of $199,200. Each Unit consists of 20,000 "flow-through" common shares and 20,000 common share purchase warrants. Net proceeds credited to share capital were $146,155 after payment of share issue costs. The warrants were valued with the Black Scholes method to a total amount of $53,045.

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.

The weighted average number of shares issued and outstanding as at March 31, 2012 is 49,857,876 compared to 33,992,256 as at March 31, 2011. As of March 31, 2012 there were 83,275,630 shares issued and outstanding compared to 83,275,630 at December 31, 2011 and 55,265,155 at March 31, 2011.

As of the date of this report there are 83,975,630 shares issued and outstanding.

Disclosure Controls, Procedures and Internal Controls

We evaluated our disclosure controls and procedures as defined in the rules under the Canadian Securities Administrators. The Board of Director's duties include the assessment of the integrity of the Company's internal control and information system. Based on that evaluation, the Chairman and Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

As of March 31, 2012 we believe that our internal control systems at Forest Gate are sufficient to execute our business plan and to provide meaningful results upon which to manage our business. No changes were made in our internal control systems during the period that have materially affected our financial reporting and controls.

Summary of Significant of Accounting Policies

Cash and cash equivalents

The Company considers currency on hand and demand deposits with financial institutions to be cash. The Company considers all highly liquid investments with an insignificant risk and purchased with a maturity of three months or less to be cash equivalents.

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 International Accounting Standards ("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 as either tangible or intangible exploration and evaluation assets for projects after the Company has acquired the legal right to explore but prior to their technical feasibility and commercial viability being confirmed. 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 first tested for impairment and then reclassified to property, plant and equipment. 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).

Equipment

Equipment are recorded at cost. Depreciation 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.

Impairment of long-lived assets

The Company evaluates the recoverability of its long-lived assets at each reporting period. An impairment loss is recognized when estimated future cash flows resulting from the use of an asset and its eventual disposition is less than its carrying amount. When indicators of impairment 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.

For exploration and evaluation assets, the indicators for impairment include significant unfavourable economic, legal regulatory, environmental, political and other factors. In addition, management's development activities towards its planned principal operations are a key factor considered as part of the on-going assessment of the recoverability of the carrying amount of its exploration and evaluation assets.

Whenever events or changes in circumstances indicate that the carrying amount of a resource property in the exploration stage may be impaired, the capitalized costs are written down to the estimated recoverable amount. For producing oil and gas assets any write-downs are recognized as additional depletion in net income (loss).

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.

Assets held for sale and discontinued operations

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use or abandonment. This condition is regarded as met only when the sale is highly probable and the assets are available for immediate sale in their present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Any profit or loss arising from the sale or re-measurement of discontinued operations is presented as part of a single line item in the Statement of Operations and Comprehensive Loss.

General provisions and decommissioning liabilities

i) General provisions

A provision is a liability of uncertain timing or amount of a future expenditure 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. 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.

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 depleted or 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.

Joint ventures

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

Share based payments

The Company uses 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 the amount is recorded as share-based payments reserves over the term of the grant agreement. Compensation expense associated with options issued to employees, consultants, officers and directors of the Company are expensed. Compensation expense related to broker warrants issued are recorded as share issue costs and deducted from share capital.

The fair value of share based payments is measured using the Black Scholes option pricing model. The measurement inputs include the measurement date share price, exercise price of the instrument, expected share price volatility, the expected life of the instrument adjusted for expected forfeitures and the measurement date risk-free interest rate.

Flow through common shares

The Company finances a portion of its exploration activities through the issuance of flow-through shares.

On the date of issuance of the flow-through shares, the premium relating to the proceeds received in excess of the closing market price of the Company's shares is allocated to liabilities. Under the terms of the flow-through common share issues, the tax attributes of the related expenditures are renounced to investors. The premium liability is reduced pro-rata based on the actual amount of flow-through eligible expenditures incurred during the reporting period. The reduction to the premium is recognized through profit and loss as other income.

A deferred tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures that are capitalized to exploration and evaluation assets and their tax basis. If the Company has sufficient tax assets to offset the deferred tax liability the liability will be offset by the recognition of a corresponding deferred tax asset and recovery of deferred income taxes through profit or loss in the reporting period.

Deferred financing costs

Financing costs directly identifiable with the raising of capital are 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. Deferred financing costs consist primarily of corporate finance fees, legal fees and filing fees.

Loss per share

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the year. 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.

Due to the Company incurring net losses for the period ended March 31, 2011 and 2010, no incremental shares are included in calculating diluted loss per share because the effect would be anti-dilutive. As a result, basic and diluted loss per share are equal.

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 financial position date.

ii) Deferred income tax

The Company follows the asset and 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 deferred tax assets and liabilities. 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 statement of financial position 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.

Risks and uncertainties

The Company is exposed to various risks arising from financial instruments. The following analysis provides a measurement of risks as at March 31, 2012.

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, 2012 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, 2013. 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, 2012.

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

Accounting changes and new pronouncements

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the International Accounting Standards Board's ("IASB") 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.

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.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Readers are encouraged to read and consider the risk factors, which are incorporated in this MD&A, and additional information regarding the Corporation, the SEDAR website at www.sedar.com.

Signed: *"Michael Judson"*

Michael Judson
Chairman and Chief Executive Officer
Forest Gate Energy Inc.

June 30, 2012
Montreal, Quebec