Forest Gate Energy Inc.

Interim Condensed Financial Report

March 31, 2012

(Unaudited)

Contents

UNAUDITED INTERIM CONDENSED 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, 2012.

Forest Gate Energy Inc.
Interim Statement of Financial Position
As at
(unaudited, in Canadian dollars)

	March 31, 2012	December 31, 2011 (Audited)
	$	$
Assets		
Current assets		
Cash and cash equivalents	**42,209**	115,193
Accounts receivable	**20,944**	75,622
Prepaid expenses	**16,268**	16,625
Assets held for sale *(Note 4)*	**430,000**	430,000
	509,421	637,440
Non-current assets		
Exploration and Evaluation *(Note 5)*	**806,197**	804,622
Producing oil and gas assets *(Note 6)*	**55,713**	96,213
Equipment *(Note 7)*	**16,253**	17,358
	878,163	918,193
	1,387,584	1,555,633
Liabilities		
Current liabilities		
Bank line of credit *(Note 8)*	**120,000**	121,261
Accounts payable and accrued liabilities *(Notes 9 & 17)*	**658,847**	873,833
Flow-through premium liability	**90,500**	90,500
Liabilities on assets held for sale *(Note 10)*	**421,636**	428,860
Provision for flow-through obligations *(Note 11)*	**170,000**	170,000
	1,460,983	1,684,454
Non-current liabilities		
Decommissioning liabilities *(Note 11)*	**90,661**	89,861
Due to Joint Venturers	**183,684**	183,684
Other non-current liabilities	**241,920**	-
	516,265	273,545
Total Liabilities	**1,977,248**	1,957,999
Equity *(Note 12)*		
Share capital	**20,450,640**	20,450,640
Warrants	**5,187,236**	5,187,236
Share-based payments reserve	**2,018,369**	2,009,369
Equity component of convertible note *(Note 13)*	**57,521**	57,521
Deficit	**(28,303,430)**	(28,107,132)
Total Equity	**(589,664)**	(402,366)
	1,387,584	1,555,633

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.
Interim Statement of Operations and Comprehensive Loss
Three months ended March 31
(unaudited, in Canadian dollars)

	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 *(Note 17)*	**58,646**	77,731
Value of stock option granted *(Note 12)*	**9,000**	66,000
Professional and consulting fees *(Note 17)*	**54,575**	172,120
Corporate marketing and business development *(Note 17)*	**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-down and discontinued operations	**193,698**	574,050
Future income taxes recovered	**-**	(291,526)
Net loss from continued operations	**193,698**	282,524
Net loss from discontinued operations *(Note 14)*	**2,600**	5,678
Net loss and comprehensive loss	**196,298**	288,202
Basic and diluted loss per share		
continuing operations	**$ 0.0039**	$ 0.0083
discontinued operations	**$ 0.0001**	$ 0.0002
Basic and diluted loss per share	**$ 0.0040**	$ 0.0085
Weighted average number of shares outstanding	**49,857,876**	33,992,256

See accompanying notes to the financial statements.

Forest Gate Energy Inc.
Interim 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, December 31, 2010	**47,629,982**	**18,099,269**	**4,744,055**	**1,834,334**	**57,521**	**(25,000,941)**	**(265,762)**
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
Future income taxes on flow through expenses renounced	-	(291,526)	-	-	-	-	(291,526)
Net loss during the period	-	-	-	-	-	(288,202)	(288,202)
Balance, March 31, 2011	**55,265,155**	**18,675,543**	**4,744,055**	**1,900,334**	**57,521**	**(25,289,143)**	**88,310**
Issuance of common shares for cash	22,605,075	807,896	443,181	63,388	-	-	1,314,465
Debt settlement	5,405,400	675,675	-	-	-	-	675,675
Stock based compensation	-	-	-	45,647	-	-	45,647
Future income taxes on flow through expenses renounced	-	291,526	-	-	-	-	291,526
Net loss during the period	-	-	-	-	-	(2,817,989)	(2,817,989)
Balance, December 31, 2011	**83,275,630**	**20,450,640**	**5,187,236**	**2,009,369**	**57,521**	**(28,107,132)**	**(402,366)**
Stock based compensation	-	-	-	9,000	-	-	9,000
Net loss during the period	-	-	-	-	-	(196,298)	(196,298)
Balance, March 31, 2012	**83,275,630**	**20,450,640**	**5,187,236**	**2,018,369**	**57,521**	**(28,303,430)**	**(589,664)**

See accompanying notes to the financial statements.

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

	2012	2011
	$	$
Cash provided (used in)		
Operations		
Net loss from continuing operations	**(193,698)**	(288,202)
Items not involving cash:		
Accretion of decommissioning liabilities	**800**	2,473
Depletion	**40,500**	146,988
Depreciation of 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 *(Note 16)*	**(159,951)**	486,841
Change in non-cash discontinued operations *(Note 14)*	**(2,600)**	5,678
	(304,844)	140,606
Financing		
Share subscription received	**-**	40,000
Other non-current liabilities	**241,920**	-
Line of credit	**(1,261)**	350,000
	240,659	390,000
Investing		
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)
Change in cash and cash equivalents	**(72,984)**	(301,308)
Cash and cash equivalents, beginning of the period	**115,193**	396,991
Cash and cash equivalents, end of the period	**42,209**	95,683
Supplementary cash flow information		
Interest paid	**4,188**	13,340
Bank line of credit assumed on asset acquisition	**-**	350,000
Shares issued for asset acquisitions	**-**	877,800

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 condensed financial statements were approved and authorized for issuance by the Board of Directors on June 30, 2012.

2. BASIS OF PRESENTATION

Statement of compliance

These interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting, and have been prepared following the same accounting policies as the annual consolidated financial statements for the year ended December 31, 2011.

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 may cast significant 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.

Basis of measurement

The interim condensed financial statements have been prepared on the historical cost basis except for certain financial instruments and other financial assets which are carried at fair value. In addition, the financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Functional and presentation currency

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

2. BASIS OF PRESENTATION (cont'd)

Significant accounting estimates and judgments

The Company makes estimates and assumptions concerning the future that may, by definition, differ from actual results. The estimates and judgments applied by management that most significantly affect the Company's financial statements include: reserve estimation; exploration and evaluation expenditures; impairment of non-financial assets; decommissioning costs, share-based payments; deferred income taxes; and financial instruments. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Additional information on these estimates and judgements are disclosed in note 4 of the 2011 annual financial statements. Accordingly, these unaudited interim condensed financial statements should be read in conjunction with the 2011 annual consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

These interim condensed financial statements follow the same accounting policies and basis or presentation as the 2012 annual financial statements. These interim condensed financial statements note disclosures do not include all of those required by IFRS applicable for annual financial statements. Accordingly, these Interim condensed financial statements should be read in conjunction with the 2012 annual financial statements.

4. ASSETS HELD FOR SALE

Forest Gate continues to own its Saskatchewan diamond properties, which include the East Side and West Side properties at the Fort a la Cornbe kimberlitic 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 to sell its 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.

5. EXPLORATION AND EVALUATION ASSETS

	March 31, 2012 **Net** **$**	December 31, 2011 Net (Audited) $
Balance, beginning of period	**804,622**	789,256
Acquisitions - mining properties	**1,575**	515,366
Transfer to assets held for sale		(300,000)
Write-down of mining properties	**-**	(200,000)
Balance, end of period	**806,197**	804,622

Canada

During the year ended December 31, 2011, Forest Gate capitalized $415,366 of costs related to the Pershing gold property.

On September 28, 2011, the Company entered into a purchase agreement and acquired a 100% interest in the Cuff Lake iron property located in the Abitibi region of Quebec. Cuff Lake is an iron ore exploration property consisting of approximately 150 contiguous, unpatented mining claims.

5. EXPLORATION AND EVALUATION ASSETS (cont'd)

In consideration for the 100% interest in the claims, the Company issued cash payments of $100,000. In addition, the seller will hold a 2% net smelter return royalty on the Cuff Lake property. Fifty percent (50%) of the royalty can be purchased by Forest Gate at any time with written notice together with a payment of $3,000,000. The Company also holds a right of first refusal on the sale or reassignment of the remaining vendor royalty.

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

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 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.

6. PRODUCING OIL AND GAS ASSETS

	March 31, 2012 Net $	December 31, 2011 Net (Audited) $
Balance, beginning of period	**96,213**	222,181
Additions	**-**	1,576,273
Dispositions	**-**	(796,450)
Devaluation	**-**	(455,186)
Depletion	**(40,500)**	(320,605)
Transfer to assets held for sale	**-**	(130,000)
Balance, end of period	**55,713**	96,213

Pursuant to its agreement with Emerald Bay Energy Inc., 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 wells 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 7,980,000 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.

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

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 this 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. During the first quarter of 2012, the depletion for the properties of Emerald Bay was $40,500.

At the year ended December 31, 2011, the Company has decided to record the remaining value of Rangeview, Divide and Katherine as assets held for sale. The Company is still in negotiation to sell these properties.

7. EQUIPMENT

	Cost $	Accumulated Depreciation $	Net book value $
Balance, December 31, 2010	107,039	83,646	23,393
Depreciation	-	6,035	(6,035)
Balance, December 31, 2011	107,039	89,681	17,358
Depreciation	-	1,105	(1,105)
Balance, March 31, 2012	**107,039**	**90,786**	**16,253**

8. BANK LINE OF CREDIT

The Company has available a demand loan up to $350,000. The facility must be used for general corporate purposes, ongoing operations, capital expenditures and to assist in the acquisition of certain additional Saskatchewan petroleum and natural gas assets (Note 8). The loan bears interest at prime rate plus 3% per annum. The loan is secured by a $10,000,000 hypothec covering the universality of the assets. The Company is required to meet a working capital ratio covenant. The covenant was not met at December 31, 2011.

On April 2, 2012, the Company was in default of its demand loan and the bank has demanded repayment of the amounts owing.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2012 Net $	December 31, 2011 Net (Audited) $
Accounts payable - trade	**658,847**	565,413
Tax penalty on flow through	-	308,420
	658,847	873,833

10. DECOMMISSIONING LIABILITIES

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 2011 and 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 decommissioning liabilities. The total future decommissioning liabilities were 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 decommissioning liabilities, using the risk-free rate, to be $450,160 as at December 31, 2011. These payments are expected to be made over the next 10 years.

The following table reconciles the Company's decommissioning liabilities:

	Continuing Operations $	**Discontinued operations $**	**Total $**
Balance - December 31, 2010	**57,894**	**365,662**	**423,556**
Accretion expenses	31,967	(5,363)	26,604
Balance - December 31, 2010	**89,861**	**360,299**	**450,160**
Accretion expenses	800	2,600	3,400
Balance - March 31, 2011	**90,661**	**362,899**	**453,560**

The decommissioning liabilities for continuing operations (wells in Alberta) are based on current reserves estimates, forecasted production and estimated future cash flows underlying the obligations. The Company recorded a revision based on a risk free interest rate of 4.5%. The value will be accreted to $92,239 over the next 2 to 10 years.

The decommissioning liabilities for the discontinued operations are based on an estimate of ultimate reclamation costs. The Company recorded a revision based on a risk free interest rate of 4.5%. Together with amounts owing to the operator, total liabilities as at December 31, 2011 amounted to $428,860.

11. PROVISION FOR FLOW-THROUGH OBLIGATIONS

As at December 31, 2011, the Company had fulfilled only a portion of its commitment to incur exploration expenditures by December 31, 2011 in relation to flow-through share financings in 2010. The Company may be required to indemnify flow-through individual investors for the amount of increased taxes payable by the flow-through investor as a consequence of the failure of the Company to incur qualifying exploration expenditures previously renounced to the flowthrough investors. As at December 31, 2011, the Company estimated that the maximum potential liabilities on unspent amounts is approximately $346,000. The Company estimated that approximately 50% of the investors may file reimbursement claims against the Company and has recorded a provision in the amount of $170,000 for these potential liabilities.

12. SHARE CAPITAL

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.

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.

12. SHARE CAPITAL (cont'd)

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.

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.

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 – December 31, 2010	**0.10**	**4,005,000**	**0.19**
Balance - December 31, 2011	**0.10**	**4,005,000**	**0.19**
Balance - March 31, 2012	**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,	**2012**	2011
	$	$
Directors and management compensation	**8,166**	56,195
Consultants Compensation	**834**	9,805
Charged to income	**9,000**	66,000

12. SHARE CAPITAL (cont'd)

As at March 31, 2012, the outstanding options, as issued under the stock option plan to directors, officers, employees and consultants for the purchase on one common share per options, are as follows:

Granted	Exercisable	Weighted Average Exercice Price	Expiry date
30,000	30,000	1.30	June 2012
20,000	20,000	1.50	August 2012
260,000	260,000	1.00	December 2013
585,000	585,000	0.16	October 2014
310,000	310,000	0.16	February 2015
100,000	100,000	0.24	April 2015
2,700,000	-	0.10	November 2015
4,005,000	**1,305,000**	**0.19**	

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 - December 31, 2010	**860,511**	**0.12**
Warrants granted	1,728,181	0.06
Warrants forfeited	(32,450)	0.20
Balance - December 31, 2010	**2,556,242**	**0.08**
Warrants forfeited	(89,450)	0.21
Balance - March 31, 2012	**2,466,792**	**0.07**
Exercisable at March 31, 2012	**2,466,792**	**0.07**

As at March 31, 2012, the Company had the following broker warrants outstanding:

Granted	Exercisable	Exercice price	Expiry date
65,000*	**65,000**	**0.25**	**May 2012**
611,111	**611,111**	**0.09**	**October 2012**
62,500	**62,500**	**0.08**	**October 2012**
209,090	**209,090**	**0.08**	**April 2013**
70,425	**70,425**	**0.06**	**June 2013**
294,000	**294,000**	**0.06**	**June 2013**
538,000	**538,000**	**0.06**	**July 2013**
250,000	**250,000**	**0.06**	**September 2013**
366,666	**366,666**	**0.06**	**October 2013**
2,466,792	**2,466,792**	**0.07**	

* Subsequent to the period, these broker warrants expired unexercised.

12. 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 - December 31, 2010	**18,151,089**	**0.21**
Warrants granted	17,613,075	0.06
Warrants forfeited	(1,950,500)	0.24
Balance - December 31, 2011	**33,813,664**	**0.17**
Warrants forfeited	(3,762,479)	0.22
Balance - March 31, 2012	**30,051,185**	**0.16**

As at March 31, 2012, the Company had the following broker warrants outstanding:

Number of Warrants	Exercisable	Exercise Price	Expiry date
662,000*	662,000	0.40	May 2012
6,736,110	6,736,110	0.15	October 2012
5,040,000	5,040,000	0.25	December 2012
4,015,909	4,015,909	0.18	April 2013
1,958,500	1,958,500	0.14	June 2013
2,152,000	2,152,000	0.12	July 2013
2,500,000	2,500,000	0.12	September 2013
6,986,666	6,986,666	0.12	October 2013
30,051,185	**30,051,185**	**0.16**	

* Subsequent to the period, these share purchase warrants expired unexercised.

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 met. Although the Company is committed to taking all the necessary measures, refusal of certain expenditures by the tax authorities would have a negative tax impact for investors.

In order to meet its obligations under the flow-through share program, the Company must spend $1,468,894 in Canadian exploration by December 31, 2012 in addition to the exploration expenditures it has incurred to date.

13. 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.

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 the 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.

14. NET LOSS FROM DISCONTINUED OPERATIONS

In November 2010, the Company formally adopted a plan to divest of its interest in certain Arizona and Utah oil and gas licenses and its Saskatchewan Diamond Properties. In September 2008, the Company forfeited its entire interest in the Celtic Sea project. The properties were evaluated and management believed the carrying value was impaired. The deferred exploration costs have therefore been written down. There was no write-down in 2012.

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, 2012				
Write-down of diamond properties	-	-	-	-
Write-down of oil and gas exploration	-	2,600	-	2,600
Net loss from discontinued operations in 2012	-	2,600	-	2,600

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

Fair value: the Company's financial instruments consist of cash and cash equivalent, accounts receivable, bank line of credit, accounts payable and accrued liabilities, and 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, 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.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

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.

16. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Net change in non-cash components of operating working capital

For the three months ended March 31,	**2012**	2011
	$	$
Decrease (increase) in:		
Accounts receivable	**54,678**	(69,148)
Prepaid expenses	**357**	47,000
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(214,986)**	508,989
	(159,951)	486,841

17. RELATED PARTY TRANSACTIONS AND BALANCES

For the three months ended March 31,	**2012**	2011
Key management compensation	**$**	$
Salaries	**29,500**	29,500
Expenses:		
Bookkeeping services (a)	**13,500**	14,600
Printing services (b)	**135**	619
Advertising (c)	**5,000**	10,000

	March 31, 2012	December 31, 2011
Related party balances	**$**	$
Finger Communications Ltd. (b)	**-**	1,382

The Company has identified its directors and certain senior officers as its key management personnel and the compensation costs for key management personnel and companies related to them were recorded at their exchange amounts as agreed upon by transacting parties as follows:

a) Ledger solutions Inc. provides bookkeeping services and is controlled by an officer of the Company.

b) Finger Communications Ltd. provides printing services and is controlled by an officer of the Company.

c) Infinitheartre is a theatre company that has one common director.

19. CAPITAL DISCLOSURE

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

There are no externally imposed capital requirements. The Company manages the capital structure and makes adjustments depending on economic conditions.

The Company manages its capital structure and makes adjustments to it in response to changes in general industry conditions and its resource assets. The Company may choose to issue equity or debt, revise its capital expenditure programme, and/or sell assets. Access to equity markets is currently very limited due to a very weak global economy and low commodity prices.

The Company's capital management objectives, evaluation measures and targets have remained unchanged over the periods presented.

20. SEGMENTED INFORMATION

All revenues and expenses in 2012 and 2011 were incurred in Canada and as at March 31, 2012 and December 31, 2011 all assets were held in Canada.

21. SUBSEQUENT EVENTS

Subsequent to the period, the Company is still in negotiation for sale of its 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.

On April 26, 2012, Forest Gate Energy reports that it has completed a private placement by issuing an aggregate of 35 flow-through units at a price of $1,000 per unit for gross proceeds to Forest Gate of $35,000. Each flow-through unit consists of twenty thousand (20,000) flow-through common shares, at a price of $0.05 per share, and twenty thousand (20,000) non-flow-through common share purchase warrants. Each warrant will entitle the holder to purchase one additional common share of Forest Gate at a price of $0.10 until April 26, 2014. Forest Gate will use the proceeds from the issuance of the flow-through units to explore its 100% owned Pershing Iron/Gold Property located in the Abitibi Region of Québec. As a result of the private placement, there are 83,975,630 common shares of Forest Gate issued and outstanding. Under applicable securities legislation and policies of the TSX Venture Exchange, the securities issued in the private placement are subject to a hold period expiring on August 27, 2012. Michael Judson, Forest Gate's President & CEO, participated for 20 units in this private placement.

On May 29, 2012, Forest Gate Energy Inc. reports that it has entered into a definitive purchase and sale agreement with its joint interest partner in the Rangeview, Divide and Katherine properties located in southwest Saskatchewan to sell their entire working interest to an arms-length partner for gross proceeds of $1.5 million. At closing, as a ten percent interest holder in the licenses, Forest Gate's share of the proceeds will amount to $150,000. In a follow-on agreement, Forest Gate will pay $37,500 of its share of the proceeds to its joint interest partner that holds ninety percent. This is in respect of unpaid operator's expenses that the joint interest partner had incurred as operator of the properties. The balance of the proceeds will used to pay off Forest Gate's loan to the Canadian Western Bank, Edmonton. Pursuant to the purchase and sale agreement, the purchaser has paid a non-refundable deposit totaling $100,000 to joint venture partners. Closing of the sale of the properties is expected to occur on May 31, 2012 and subject to a number of conditions including but not limited to, approval of the TSX Venture Exchange.