Forest Gate Energy Inc.

Financial Statements

For the years ended December 31, 2011 and 2010

Contents

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Forest Gate Energy Inc.

Report on the financial statements

We have audited the accompanying financial statements of Forest Gate Energy Inc., which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of operations and comprehensive loss, statements of changes in equity, and statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Forest Gate Energy Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada — *"Morgan & Company"*

June 25, 2012 — Chartered Accountants

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Forest Gate Energy Inc.
Statements of Financial Position
(in Canadian dollars)

	December 31, 2011	December 31, 2010 (Note 24)	January 1, 2010 (Note 24)
	$	$	$
Assets			
Current assets			
Cash and cash equivalents	**115,193**	396,991	85,263
Accounts receivable	**75,622**	34,077	10,139
Prepaid expenses	**16,625**	55,425	20,000
Assets held for sale *(Note 8)*	**430,000**	-	-
	637,440	486,493	115,402
Non-current assets			
Deposit in escrow	**-**	213,000	-
Exploration and evaluation assets *(Note 6)*	**804,622**	789,256	2,703,630
Producing oil and gas assets *(Note 7)*	**96,213**	222,181	351,473
Equipment *(Note 9)*	**17,358**	23,393	31,664
	918,193	1,247,830	3,086,767
	1,555,633	1,734,323	3,202,169
Liabilities			
Current liabilities			
Bank line of credit *(Note 10)*	**121,261**	-	-
Accounts payable and accrued liabilities *(Note 11)*	**873,833**	606,054	913,131
Convertible note *(Note 15)*	**-**	736,020	-
Flow-through premium liability	**90,500**	112,000	-
Liabilities on assets held for sale *(Note 12)*	**428,860**	-	-
Provision for flow-through obligations *(Note 13)*	**170,000**	-	-
	1,684,454	1,454,074	913,131
Non-current liabilities			
Decommissioning liabilities *(Note 12)*	**89,861**	423,556	427,798
Due to Joint Venturers	**183,684**	122,455	122,455
	273,545	546,011	550,253
Total Liabilities	**1,957,999**	2,000,085	1,463,384
Equity (Note 14)			
Share capital	**20,450,640**	18,099,269	16,879,739
Warrants	**5,187,236**	4,744,055	4,767,488
Share-based payments reserve	**2,009,369**	1,834,334	1,588,226
Equity component of convertible note *(Note 15)*	**57,521**	57,521	-
Deficit	**(28,107,132)**	(25,000,941)	(21,496,668)
Total Equity	**(402,366)**	(265,762)	1,738,785
	1,555,633	1,734,323	3,202,169

Approved on behalf of the Board of Directors:

Signed "Michael C. Judson" *Director*

Signed "Nicholas Powell" *Director*

See accompanying notes to the financial statements.

Forest Gate Energy Inc.
Statements of Operations and Comprehensive Loss
(in Canadian dollars)

For the years ended December 31,	**2011**	2010 (Note 24)
	$	$
Revenues		
Petroleum and natural gas revenue	**632,122**	332,603
Royalties	**(93,964)**	(68,988)
Interest and other income	**163,258**	750
	701,416	264,365
Expenses		
Operating expenses	**627,067**	93,034
Salaries and levies	**299,265**	588,754
Value of stock options granted *(Note 14)*	**111,647**	236,831
Professional and consulting fees	**628,949**	568,645
Corporate marketing and business development	**219,626**	199,446
Financial charges	**108,553**	88,338
Amortization of discount on convertible note	**-**	103,750
Depletion	**320,605**	132,855
Depreciation of equipment	**6,035**	10,789
General and administration expenses	**163,724**	382,466
	2,485,471	2,404,908
Loss before write-downs and discontinued operations	**1,784,055**	2,140,543
Loss on sale of interests in producing oil and gas properties *(Note 7)*	**542,739**	-
Flow-through obligations expense	**170,000**	-
Write-down of exploration and evaluation assets	**200,000**	-
Write-down of producing oil and gas assets	**455,186**	1,344,454
Net loss from continued operations	**3,151,980**	3,484,997
Net (income) loss from discontinued operations *(Note 16)*	**(45,789)**	19,276
Net loss and comprehensive loss	**3,106,191**	3,504,273
Basic and diluted loss (earnings) per share		
continuing operations	**$ 0.06**	$ 0.12
discontinued operations	**$ (0.00)**	$ 0.00
Basic and diluted loss per share	**$ 0.06**	$ 0.12
Weighted average number of shares outstanding	**49,857,876**	30,406,731

See accompanying notes to the financial statements.

Forest Gate Energy Inc.
Statements of Changes in Equity
Years ended December 31, 2011 and 2010
(in Canadian dollars)

	Number of common shares	Share capital $	Warrants $	Share-based payments reserve $	Equity component of convertible note $	Deficit $	Total equity $
Balance, January 1, 2010	**24,687,233**	**16,879,739**	**4,767,488**	**1,588,226**	**-**	**(21,496,668)**	**1,738,785**
Issuance of common shares	25,025,950	1,731,203	-	-	-	-	1,731,203
Common shares cancelled	(3,596,053)	(593,349)	-	-	-	-	(593,349)
Subscriptions exercised/cancelled	(5,250,000)	(716,751)	-	-	-	-	(716,751)
Debt settlement	5,733,252	711,538	-	-	-	-	711,538
Warrants issued	-	-	768,370	-	-	-	768,370
Warrants forfeited/exercised	722,050	150,456	(791,803)	-	-	-	(641,347)
Broker warrants issued	-	-	-	46,082	-	-	46,082
Broker warrants exercised	157,550	25,183	-	(13,253)	-	-	11,930
Options forfeited/exercised	150,000	23,250	-	(20,400)	-	-	2,850
Share issue costs, net of tax	-	-	-	(3,152)	-	-	(3,152)
Value of stock optons granted	-	-	-	236,831	-	-	236,831
Issuance of convertible debt	-	-	-	-	57,521	-	57,521
Net loss during the year	-	-	-	-	-	(3,504,273)	(3,504,273)
Adjustments from IFRS transition	-	(112,000)	-	-	-	-	(112,000)
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	30,585,075	1,685,696	443,181	63,388	-	-	2,192,265
Debt settlement	5,405,400	675,675	-	-	-	-	675,675
Cancellation of common shares	(344,827)	(50,000)	-	-	-	-	(50,000)
Share subscription received	-	40,000	-	-	-	-	40,000
Value of stock options granted	-	-	-	111,647	-	-	111,647
Net loss during the year	-	-	-	-	-	(3,106,191)	(3,106,191)
Balance, December 31, 2011	**83,275,630**	**20,450,640**	**5,187,236**	**2,009,369**	**57,521**	**(28,107,132)**	**(402,366)**

See accompanying notes to the financial statements.

Forest Gate Energy Inc.
Statements of Cash Flows
(in Canadian dollars)

For the years ended December 31,	**2011**	2010 (Note 24)
	$	$
Cash provided by (used in)		
Operating Activities		
Net loss from continuing operations	**(3,151,980)**	(3,484,997)
Items not involving cash:		
Expenses paid through issuance of shares	**-**	380,546
Amortization of discount on convertible note	**-**	103,750
Interest on convertible note	**-**	64,791
Accretion of decommissioning liabilities	**6,892**	3,558
Accretion of assets held for sale	**19,712**	-
Flow through premium	**(112,000)**	-
Depletion	**320,605**	132,855
Depreciation of equipment	**6,035**	10,789
Write-down of exploration and evaluation assets	**200,000**	
Write-down of producing oil and gas assets	**455,186**	1,344,454
Loss on sale of interests in producing oil and gas properties	**542,739**	-
Value of stock options granted	**111,647**	236,831
Provision for flow-through obligations	**170,000**	-
Debt settlement paid through issuance of shares	**-**	330,992
Changes in non-cash working capital *(Note 18)*	**278,342**	(347,164)
Changes in non-cash discontinued operations	**45,789**	(19,276)
	(1,107,033)	(1,242,871)
Financing activities		
Share subscription received	**40,000**	-
Proceeds from issuance of equity	**1,411,102**	2,612,737
Convertible note	**-**	625,000
	1,451,102	3,237,737
Investing activities		
Increase in deposit in escrow	**-**	(213,000)
Acquisition of property and equipment	**-**	(2,518)
Purchase of exploration and evaluation assets, and oil and gas assets	**(625,867)**	(1,467,620)
	(625,867)	(1,683,138)
Changes in cash and cash equivalents	**(281,798)**	311,728
Cash and cash equivalents, beginning of year	**396,991**	85,263
Cash and cash equivalents, end of year	**115,193**	396,991
Supplementary cash flow information		
Interest paid (received)	**13,439**	(750)
Income taxes paid	**-**	79
Bank line of credit assumed on asset acquisition	**121,261**	-
Shares issued for asset acquisitions	**877,800**	302,000
Shares issued for debt	**675,675**	711,538

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". The address of the Company's corporate office and its principal place of business is 2075 University, Suite 1212, Montreal, Quebec, Canada.

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.

2. BASIS OF PRESENTATION

Statement of compliance

These financial statements represent the first annual financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company adopted IFRS in accordance with IFRS 1, First-time Adoption IFRS.

These financial statements should be read in conjunction with the IFRS transition disclosures included in Note 24 which contains reconciliations and descriptions of the effect of the transition from Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS on reported financial position and financial performance, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended December 31, 2011. "Previous GAAP" refers to Canadian GAAP before the adoption of IFRS.

The Board of Directors approved the statements on June 25, 2012.

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 statement of financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments would be material.

Basis of measurement

The financial statements have been prepared on the historical cost basis except where noted in the accounting policies or where items have been restated in compliance with IFRS 1. In addition, the financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. BASIS OF PRESENTATION (cont'd)

Functional and presentation currency

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

3. SIGNIFICANT 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 or 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 fair value through profit or loss and consist of cash and cash equivalents 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 expired. 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 assets

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).

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Producing oil and gas assets

Producing oil and gas assets ("O&G") include costs directly attributable to oil and natural gas development and production 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.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 fiscal years ended December 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 statement of financial position date.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income taxes (cont'd)

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.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Exploration and evaluation assets

The carrying value of the Company's exploration and evaluation expenditures is evaluated by management at each reporting period, or whenever events or circumstances indicate that its carrying value may not be recovered. If impairment is determined to exist, a formal estimate of the recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is measured at fair value less costs to sell.

Depletion, depreciation and reserves

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

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

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

Depletion, depreciation and reserves (cont'd)

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

Assets and liabilities held for sale

Judgment is used to establish the fair value less costs to sell and associated liabilities for assets classified as held for sale. Expected selling prices and disposal costs could vary significantly from management's estimates and prospective adjustments could be material.

Decommissioning and restoration costs

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

Income taxes

The Company follows the 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 the deferred tax liability. In addition, the Company recognizes the future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the statement of financial position date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

Share based compensation

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

CGU definition

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

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

Impairment

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

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

5. RECENT ACCOUNTING 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.

(in Canadian dollars)

5. RECENT ACCOUNTING PRONOUNCEMENTS (cont'd)

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 financial statements.

6. EXPLORATION AND EVALUATION ASSETS

	2011 **$**	2010 (Note 24) $
Balance, beginning of year	**789,256**	2,703,630
Acquisitions - oil and gas properties	**-**	288,606
Acquisitions - mining properties	**515,366**	-
Transfer to assets held for sale	**(300,000)**	-
Dispositions	**-**	(2,202,980)
Write-down of mining properties	**(200,000)**	-
Balance, end of year	**804,622**	789,256

Canada

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.

(in Canadian dollars)

6. EXPLORATION AND EVALUATION ASSETS (cont'd)

Canada (cont'd)

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

On September 28, 2010, 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.

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.

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.

7. PRODUCING OIL AND GAS ASSETS

	2011	2010 (Note 24)
	$	$
Balance, beginning of year	**222,181**	351,473
Additions	**1,576,273**	48,138
Dispositions	**(796,450)**	-
Devaluation	**(455,186)**	-
Depletion	**(320,605)**	(132,855)
Impairment recovery	**-**	(44,575)
Transfer to assets held for sale	**(130,000)**	-
Balance, end of year	**96,213**	222,181

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.

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

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.

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.

At the year end, 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.

8. 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 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 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.

(in Canadian dollars)

9. EQUIPMENT

	Cost $	Accumulated Depreciation $	Net book value $
Balance, January 1, 2010	104,521	72,857	31,664
Acquisitions	2,518	-	2,518
Depreciation	-	10,789	(10,789)
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**

10. 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 7). 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.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2011 $	December 31, 2011 $	January 1, 2010 $
Accounts payable - trade	**565,413**	302,905	370,436
Amounts due to related parties	**-**	-	313,242
Tax penalty on flow through	**308,420**	241,920	168,224
Current portion due to joint ventures	**-**	61,229	61,229
	873,833	606,054	913,131

12. 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.

(in Canadian dollars)

12. DECOMMISSIONING LIABILITIES (cont'd)

The following table reconciles the Company's decommissioning liabilities:

	Continuing operations $	Discontinued operations $	Total $
Balance – January 1, 2010	**77,470**	**350,328**	**427,798**
Reduced obligations	(23,076)	-	(23,076)
Accretion expense	3,500	15,334	18,834
Balance - December 31, 2010	**57,894**	**365,662**	**423,556**
Accretion expense (recovery)	31,967	(5,363)	26,604
Balance - December 31, 2011	**89,861**	**360,299**	**450,160**

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.

13. 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 flow-through 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.

14. SHARE CAPITAL

Authorized:

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

Issuances during 2011

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

14. SHARE CAPITAL (cont'd)

Issuances during 2011 (cont'd)

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.

14. SHARE CAPITAL (cont'd)

Issuances during 2011 (cont'd)

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.

Issuances during 2010

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

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

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

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

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

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

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

14. SHARE CAPITAL (cont'd)

Issuances during 2010 (cont'd)

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

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

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

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

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

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

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

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 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.

(in Canadian dollars)

14. SHARE CAPITAL (cont'd)

Stock option plan (cont'd)

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

	Weighted Average Forfeiture Rate	Number Of Options	Weighted Average Exercise Price
Balance - January 1, 2010	**0.31**	**1,895,000**	**0.60**
Options granted (*)	0.09	3,395,000	0.11
Options forfeited	0.44	(1,135,000)	0.64
Options exercised	0.14	(150,000)	0.16
Balance - December 31, 2011 and 2010	**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 share-based payments reserve for options vesting in the period:

For the years ended December 31,	**2011**	2010
	$	$
Director and management compensation	**96,952**	71,026
Consultant compensation	**14,695**	165,805
Charged to income	**111,647**	236,831

As at December 31, 2011, the outstanding options, as issued under the stock option plan to directors, officers, employees and consultants for the purchase on one common share per option, are as follows:

Granted	Exercisable	Weighted Average Exercise 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**	

(in Canadian dollars)

14. SHARE CAPITAL (cont'd)

Broker warrants

During the year, the activities and information concerning outstanding and exercisable broker warrants are as follows:

	Number Of Warrants	Weighted Average Exercised Price
Balance - January 1, 2010	**415,313**	**0.51**
Warrants issued	828,061	0.11
Warrants forfeited	(225,313)	0.75
Warrants exercised	(157,550)	0.15
Balance - December 31, 2010	**860,511**	**0.12**
Warrants issued	1,728,181	0.06
Warrants forfeited	(32,450)	0.20
Balance - December 31, 2011	**2,556,242**	**0.08**
Exercisable at December 31, 2011	**1,939,576**	**0.08**

As at December 31, 2011, the Company had the following broker warrants outstanding:

Issued	Exercisable	Exercise Price	Expiry Date
25,000*	25,000	0.10	January 2012
64,450*	64,450	0.25	February 2012
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
364,425	364,425	0.06	June 2013
538,000	538,000	0.06	July 2013
250,000	-	0.06	September 2013
366,666	-	0.06	October 2013
2,556,242	**1,939,576**		

* Subsequent to year-end, these broker warrants expired unexercised.

Share purchase warrants

During the year, the activities and information concerning outstanding and exercisable warrants are as follows:

	Number Of Warrants	Weighted Average Exercised Price
Balance - January 1, 2010	**11,962,360**	**0.40**
Warrants issued	16,358,139	0.21
Warrants forfeited	(9,447,360)	0.44
Warrants exercised	(722,050)	0.21
Balance - December 31, 2010	**18,151,089**	**0.21**
Warrants issued	17,613,075	0.06
Warrants forfeited	(1,950,500)	0.24
Balance - December 31, 2011	**33,813,664**	**0.17**
Exercisable at December 31, 2011	**24,326,998**	**0.17**

(in Canadian dollars)

14. SHARE CAPITAL (cont'd)

Share purchase warrants (cont'd)

As at December 31, 2011, the Company had the following share purchase warrants outstanding:

Number of Warrants	Exercise Price	Expiry Date
2,580,000*	0.20	January 2012
1,182,479*	0.25	February 2012
662,000*	0.40	May 2012
6,736,110	0.15	October 2012
5,040,000	0.25	December 2012
4,015,909	0.18	April 2013
782,500	0.18	June 2013
1,176,000	0.12	June 2013
2,152,000	0.12	July 2013
2,500,000	0.12	September 2013
6,986,666	0.12	October 2013
33,813,664		

*Subsequent to year-end, these share purchase warrants expired unexercised.

Fair value

The fair value of stock options, warrants and broker warrants issued were estimated at their respective grant dates using the Black-Scholes pricing model with the following weighted average assumptions:

Stock options:	**2011**	2010
Risk-free interest rate	**-**	2.04%
Expected life (years)	**-**	5
Expected volatility	**-**	100%
Expected dividend yield	**-**	nil
Weighted average grant date fair value	**-**	$0.081

Warrants:	**2011**	2010
Risk-free interest rate	**1,90%**	2.08%
Expected life (years)	**2**	2
Expected volatility	**100%**	100%
Expected dividend yield	**nil**	nil
Weighted average grant date fair value	**$0.025**	$0.047

Broker warrants:	**2011**	2010
Risk-free interest rate	**1.84%**	1.92%
Expected life (years)	**2**	2
Expected volatility	**100%**	100%
Expected dividend yield	**nil**	nil
Weighted average grant date fair value	**$0.037**	$0.056

(in Canadian dollars)

14. SHARE CAPITAL (cont'd)

Flow-through share issuances

The Company is partially financed through the issuance of flow-through shares, requiring that the Company spend the proceeds for qualified exploration expenditures. 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.

15. 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.

16. 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.
The following table presents summarized financial information related to these discontinued operations:

	Oil and gas Exploration (USA) $	Oil and gas Exploration (Celtic Sea) $	Total $
For the year ended December 31, 2011			
(Recovery) write-down of oil and gas exploration	**(62,823)**	**17,034**	**(45,789)**
Net loss from discontinued operations in 2011	**(62,823)**	**17,034**	**(45,789)**
For the year ended December 31, 2010			
Write-down of oil and gas exploration	-	19,276	19,276
Net loss from discontinued operations in 2010	-	19,276	19,276

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

Fair value: the Company's financial instruments consist of cash and cash equivalents, 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 December 31, 2011.

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

Liquidity risk: 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 December 31, 2012. Additional funds will be required to meet the Company's planned capital expenditures.

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

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

Market risk - market sensitivity analysis: due to the fact that the Company is at a very early stage of production and has not 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.

(in Canadian dollars)

18. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Net changes in non-cash components of operating working capital

	Years ended December 31,	
	2011	2010
	$	$
Decrease (increase) in:		
Accounts receivable	**(91,545)**	(23,938)
Prepaid expenses	**38,800**	(35,425)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**331,087**	(287,801)
	278,342	(347,164)

19. RELATED PARTY TRANSACTIONS AND BALANCES

	Years ended December 31	
	2011	2010
Key management compensation	**$**	$
Salaries	**103,713**	226,881
Expenses:		
Bookkeeping services (a)	**66,760**	30,315
Prinitng services (b)	**40,496**	52,386
Advertising (c)	**6,288**	20,000
	217,257	329,582

	December 31,	December 31,	January 1,
	2011	2010	2010
Related party balances	**$**	$	$
Finger Communications Ltd. (a)	**1,382**	-	-
Total payable	**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.

(in Canadian dollars)

20. INCOME TAXES

The Company's provision for income taxes for the years ended December 31, 2011 and 2010 differs from the amounts computed by applying the combined Canadian federal and provincial income tax rates to the loss as a result of the following:

	2011	2010
	$	$
Statutory tax rates	**28%**	30%
Expected income tax recovery	**(882,000)**	(1,048,000)
Items not deductible for tax purposes	**38,000**	53,000
Effect of rate change	**22,000**	63,000
Valuation allowance and other	**822,000**	932,000
Total income tax expense (recovery)	**-**	-

The Company is permitted, under Canadian income tax legislation, to renounce flow-through related resource expenditures to investors in advance of the Company incurring the expenditure. In accordance with this legislation, the Company has twelve months following the effective date of renunciation to incur the expenditures. The Company begins incurring interest charges for unspent funds after one month and fees for unspent funds at the end of the calendar year following the effective date of renunciation, and until such time as funds are fully expended.

The significant components of the Company's deferred income taxes are as follows:

	2011	2010
	$	$
Equipment	**5,000**	3,000
Capital loss carried forward	**336,000**	336,000
Non-capital loss carried forward	**3,266,000**	2,878,000
Resource deductions	**239,000**	(60,000)
Share issue costs	**71,000**	67,000
	3,917,000	3,224,000
Valuation allowance for deferred income tax assets	**(3,917,000)**	(3,224,000)
	-	-

The Company has available federal non-capital tax losses of approximately $12,141,000 which may be carried forward and offset against future Canadian taxable income. The losses expire as follows:

Expiry Date	**$**
2014	641,000
2015	1,284,000
2026	699,000
2027	2,433,000
2028	1,866,000
2029	1,665,000
2030	2,109,000
2031	1,444,000
	12,141,000

The Company has net capital losses of $1,247,000 that may be carried forward indefinitely.

The Company has resource pools of approximately $ 2,219,000 available to offset future taxable income. The tax benefit of these amounts is available for carry-forward indefinitely.

21. 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.

22. SEGMENTED INFORMATION

All revenues and expenses in 2011 and 2010 were incurred in Canada and as at December 31, 2011 and 2010 all assets were held in Canada.

23. SUBSEQUENT EVENTS

Subsequent to year end, the Company has commenced 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.

24. FIRST TIME ADOPTION OF IFRS

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

Exemptions applied

Full cost oil and gas entities
The Company elected under IFRS 1 D8A to measure the Canadian full cost pool at the amount determined under Canadian GAAP upon transition to IFRS (the "full cost exemption"). The Canadian GAAP full cost pool was allocated to production and development assets pro-rata using proven and probable reserve values.

Share based payments
The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010. Awards that vested prior to this date were accounted for in accordance with Canadian GAAP.

Decommissioning liabilities
The Company has elected under IFRS D21 to apply IAS 37 "Provisions, contingent liabilities and contingent assets" prospectively.

Estimates that were previously made under Canadian GAAP were not revised for application of IFRS. An exception to this is revisions to reflect differences in accounting policies.

(in Canadian dollars)

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

The following is a reconciliation of the statement of financial position at January 1, 2010 from Canadian GAAP to IFRS:

	Previous GAAP as at January 1, 2010 $	Adjustments on Transition to IFRS $	Notes	**IFRS as at January 1, 2010 $**
Assets				
Current assets				
Cash and cash equivalents	85,263	-		**85,263**
Accounts receivable	10,139	-		**10,139**
Prepaid expenses	20,000	-		**20,000**
	115,402	-		**115,402**
Non-current assets				
Oil & gas participating interests and deferred exploration costs	2,664,338	(2,664,338)	(A) (B)	**-**
Exploration and evaluation assets	-	2,203,630	(A)	**2,203,630**
Producing oil and gas assets	-	351,473	(B)	**351,473**
Saskatchewan diamond properties	500,000	-		**500,000**
Property and equipment	31,664	-		**31,664**
	3,311,404	(109,235)		**3,202,169**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	913,131	-		**913,131**
	913,131	-		**913,131**
Non-current liabilities				
Decommissioning liabilities	402,798	25,000	(C)	**427,798**
Due to Joint Venturers	122,455	-		**122,455**
Total Liabilities	1,438,384	25,000		**1,463,384**
Equity				
Share capital	16,879,739	-		**16,879,739**
Warrants	4,767,488	-		**4,767,488**
Share-based payments reserve	1,588,226	-		**1,588,226**
	23,235,453	-		**23,235,453**
Deficit	(21,362,433)	(134,235)	(B) (C)	**(21,496,668)**
Total Equity	1,873,020	(134,235)		**1,738,785**
	3,311,404	(109,235)		**3,202,169**

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

Notes to the reconciliation of the opening statement of financial position as at January 1, 2010

(A) Exploration & evaluation assets

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

(B) Impairment tests

Under IFRS, impairment tests for producing oil and gas assets are performed at a cash generating unit (CGU) level. Under previous GAAP, producing oil and gas assets were subject to impairment tests at a country level. Under IFRS, the deemed cost was allocated to the CGUs based on proved plus probable reserves. Upon transition to IFRS, the Company recognized a $109,235 impairment which was charged to opening deficit.

(C) Decommissioning liabilities

Under IFRS, decommissioning liabilities are determined by discounting future cash flows at the current risk free rate. Under previous GAAP, the historical credit adjusted risk free rate of interest was used. As a result of this change, decommissioning liabilities increased by $25,000.

(D) Deferred taxes

Deferred tax liabilities relating to the renunciation of the right to tax deductions have not been recognized in the statement of financial position at January 1, 2010 due to large tax losses available to offset this liability.

(in Canadian dollars)

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

The following is a reconciliation of the statement of financial position at December 31, 2010 from Canadian GAAP to IFRS:

	Previous GAAP as at December 31, 2010 $	Adjustments on Transition to IFRS $	Notes	**IFRS as at December 31, 2010 $**
Assets				
Current assets				
Cash and cash equivalents	396,991	-		**396,991**
Accounts receivable	34,077	-		**34,077**
Prepaid expenses	55,425	-		**55,425**
	486,493	-		**486,493**
Non-current assets				
Deposit in escrow	213,000	-		**213,000**
Oil & gas participating interests and deferred exploration costs	345,714	(345,714)	(A)	**-**
Mining properties and deferred exploration costs	289,256	(289,256)	(A)	**-**
Exploration and evaluation assets	-	289,256	(A)	**289,256**
Producing oil and gas assets	-	222,181	(A) (B) (C)	**222,181**
Saskatchewan diamond properties	500,000	-		**500,000**
Property and equipment	23,393	-		**23,393**
	1,857,856	(123,533)		**1,734,323**
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	606,054	-		**606,054**
Convertible note	736,020	-		**736,020**
Flow-through premium liabilities	-	112,000	(E)	**112,000**
	1,342,074	112,000		**1,454,074**
Non-current liabilities				
Decommissioning liabilities	402,556	21,000	(G)	**423,556**
Due to Joint Venturers	122,455	-		**122,455**
Total Liabilities	1,867,085	133,000		**2,000,085**
Equity				
Share capital	18,211,269	(112,000)	(E)	**18,099,269**
Warrants	4,744,055	-		**4,744,055**
Share-based payments reserve	1,839,334	(5,000)	(F)	**1,834,334**
	24,794,658	(117,000)		**24,677,658**
Equity component of convertible note	57,521	-		**57,521**
Deficit	(24,861,408)	(139,533)	(B) (C) (F) (G)	**(25,000,941)**
	(9,229)	(256,533)		**(265,762)**
	1,857,856	(123,533)		**1,734,323**

(in Canadian dollars)

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

The following is a reconciliation of the statement of operations and comprehensive loss for the year ended December 31, 2010 from Canadian GAAP to IFRS:

	Previous GAAP as at December 31, 2010 $	Adjustments on Transition to IFRS $	Notes	**IFRS as at December 31, 2010 $**
Revenues				
Petroleum and natural gas revenue	332,603	-		**332,603**
Royalties	(68,988)	-		**(68,988)**
Interest and other income	750	-		**750**
	264,365	-		**264,365**
Expenses				
Operating expenses	93,034	-		**93,034**
Salaries and levies	588,754	-		**588,754**
Value of stock options granted	241,831	(5,000)	(F)	**236,831**
Professional and consulting fees	568,645	-		**568,645**
Corporate marketing and business development	199,446	-		**199,446**
Financial charges	88,780	(442)	(D) (G)	**88,338**
Amortization of discount on convertible note	103,750	-		**103,750**
Accretion of decommissioning liabilities	3,558	(3,558)	(D)	**-**
Depletion	156,967	(24,112)	(B)	**132,855**
Depreciation of property and equipment	10,789	-		**10,789**
General and administration expenses	382,466	-		**382,466**
	2,438,020	(33,112)		**2,404,908**
Loss before write-down and discontinued operations	2,173,655	(33,112)		**2,140,543**
Write-down of oil and gas lease	153,350	-		**153,350**
Write-down of oil and gas properties	1,152,694	38,410	(C)	**1,191,104**
Net loss from continuing operations	3,479,699	5,298		**3,484,997**
Net loss from discontinued operations	19,276	-		**19,276**
Net loss and comprehensive loss	3,498,975	5,298		**3,504,273**

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

Notes to the reconciliation of the statement of financial position as at December 31, 2010 and of the statement of operations and comprehensive loss for the year ended December 31, 2010

(A) Exploration & evaluation assets

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

(B) Depletion and depreciation

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

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

(C) Impairment

Impairment under previous GAAP was recorded if the carrying amount of assets exceeded the undiscounted expected cash flow from proved reserves. If the carrying amount was not recoverable, the assets were written down to their fair value. Fair value was calculated using the present value of the expected future cash flows of proved and probable reserves discounted at the risk-free interest rate. Under previous GAAP, $1,306,044 of impairment were recorded in the year ended December 31, 2010. Upon transition to IFRS, the Company recorded a $109,235 impairment which was charged to opening deficit.

Under IFRS, the recoverable amounts have been determined based on the higher of value-in-use calculations and fair value less costs to sell for each cash-generating unit and individual asset as described in the Company's accounting policies in Note 3. If the carrying amount of the assets exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to income reducing the balance to its recoverable amount. Under IFRS, the Company recorded impairment of $1,344,454 in the year ended December 31, 2010.

(D) Finance charges

Under previous GAAP, accretion for decommissioning liabilities was recorded under depletion, depreciation and accretion expense. Under IFRS, the accretion expense is recorded as a finance charge. For the year ended December 31, 2010, $3,558 has been reclassified from accretion of decommissioning liabilities to financial charges. As a result of this change, the caption "accretion of decommissioning liabilities" has been removed.

(E) Flow-through shares

During the year ended December 31, 2010, the Company issued 10,681,110 flow-through shares having a value of $1,007,000. If these shares had been issued as common shares, they would have had a value of $895,000. The value of the premium on the flow-through shares is recognized as a liability under IFRS. This liability is reduced as the expenditures are incurred and tax attributes are renounced. The difference between the initial liability and the deferred tax liability created is recorded as a deferred tax expense. In 2010, there is no IFRS adjustment for the renunciation of the right to tax deductions, because the renunciation occurred in 2011, and furthermore, there are sufficient tax losses to offset a deferred tax liability.

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

Notes to the reconciliation of the statement of financial position as at December 31, 2010 and of the statement of operations and comprehensive loss for the year ended December 31, 2010 (cont'd)

(F) Value of stock options granted

IFRS 2 does not permit the booking of forfeitures as they occur, which is an alternative in accordance with Section 3870 of previous GAAP. Instead, expected forfeitures must be estimated. Based on an estimated forfeiture rate of 25%, $5,000 of expenses related to stock options and $5,000 of stock options booked to share-based payments reserve were reversed.

(G) Decommissioning liabilities

Under IFRS, decommissioning liabilities are determined by discounting future cash flows at the current risk free rate. Under previous GAAP, the historical credit adjusted risk free rate of interest was used. As a result of this change, decommissioning liabilities increased by $25,000 and accretion expense decreased by $4,000.