Forest Gate Energy Inc.

Financial Statements

December 31, 2010

Contents

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Forest Gate Energy Inc.

We have audited the accompanying financial statements of **Forest Gate Energy Inc.**, which comprise the balance sheet as at December 31, 2010 and the statements of operations and comprehensive loss and deficit and cash flows for the year then ended, 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 Canadian generally accepted accounting principles, 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 audit. We conducted our audit 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 company'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 company'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 is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT - cont'd

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, 2010 and of its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

We draw attention to Note 2 to the financial statements which describes several adverse conditions and events that cast substantial doubt on the company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Horwath Leebosh Appel, LLP[1]

Montreal, Quebec
April 30, 2011

[1] CA Auditor permit no. 15046

Forest Gate Energy Inc.
Balance Sheet

At December 31,	**2010**	2009
	$	$
Assets		
Current assets		
Cash and cash equivalents	**396,991**	85,263
Accounts receivable	**34,077**	10,139
Prepaid expenses	**55,425**	20,000
	486,493	115,402
Deposit in escrow *(note 22)*	**213,000**	-
Oil & Gas participating interests and deferred exploration costs *(note 5)*	**345,714**	2,664,338
Mining properties and deferred exploration costs *(note 6)*	**289,256**	-
Saskatchewan diamond properties *(note 7)*	**500,000**	500,000
Property and equipment *(note 8)*	**23,393**	31,664
	1,857,856	3,311,404
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(note 9)*	**606,054**	913,131
Convertible note *(note 10)*	**736,020**	-
	1,342,074	913,131
Asset retirement obligations *(note 11)*	**402,556**	402,798
Due to Joint Ventures *(note 5)*	**122,455**	122,455
	1,867,085	1,438,384
Shareholders' Equity *(note 12)*		
Share capital	**18,211,269**	16,879,739
Warrants	**4,744,055**	4,767,488
Contributed surplus	**1,839,334**	1,588,226
	24,794,658	23,235,453
Equity component of convertible note *(note 10)*	**57,521**	-
Deficit	**(24,861,408)**	(21,362,433)
	(9,229)	1,873,020
	1,857,856	3,311,404

Contingent liabilities, commitment and subsequent event *[notes 19, 22 and 23]*

Approved on behalf of the board:

Signed "Michael C. Judson" *Director*

Signed "Nicholas Powell" *Director*

See accompanying notes to the financial statements.

Forest Gate Energy Inc.
Statement of Operations and Comprehensive Loss and Deficit

For the years ended December 31,	**2010** **$**	2009 $
Revenues		
Petroleum and natural gas revenue	**332,603**	276,647
Royalties	**(68,988)**	(48,057)
Interest and other income	**750**	1,995
	264,365	230,585
Expenses		
Operating expenses	**93,034**	315,461
Salaries and levies	**588,754**	188,056
Value of stock option granted *(note 12)*	**241,831**	85,808
Professional and consulting fees	**568,645**	272,714
General and administration expenses	**382,466**	277,318
Corporate marketing and business development	**199,446**	321,820
Financial charges	**88,780**	4,145
Amortization of discount on convertible note	**103,750**	-
Accretion of asset retirement obligation	**3,558**	22,355
Depletion	**156,967**	348,521
Depreciation of property and equipment	**10,789**	9,802
	2,438,020	1,846,000
Loss before write-downs, income taxes and discontinued operations	**2,173,655**	1,615,415
Write-down of oil and gas lease	**153,350**	64,000
Write-down of oil and gas properties *(note 5)*	**1,152,694**	-
Net loss from continuing operations	**3,479,699**	1,679,415
Net loss from discontinued operations *(note 13)*	**19,276**	509,900
Net loss and comprehensive loss	**3,498,975**	2,189,315
Deficit at the beginning of period	**21,362,433**	19,173,118
Deficit at the end of period	**24,861,408**	21,362,433
Basic and diluted loss per share *(note 16)*		
continuing operations	**$0.114**	$0.100
discontinued operations	**$0.001**	$0.030
Basic and diluted loss per share	**$0.115**	$0.130
Weighted average number of shares outstanding	**30,406,731**	16,745,313

See accompanying notes to the financial statements.

Forest Gate Energy Inc.
Statements of Cash Flows

For the years ended December 31,	**2010**	2009
	$	$
Cash flows from (used in) operating activities		
Net loss from continuing operations	**(3,479,699)**	(1,679,415)
Non-cash items:		
Expenses paid through issuance of shares	**380,546**	-
Amortization of discount on convertible note	**103,750**	-
Interest on convertible note	**64,791**	-
Accretion of asset retirement obligation	**3,558**	22,355
Depletion	**156,967**	348,521
Depreciation of property and equipment	**10,789**	9,802
Write-down of amount owing to shareholders	**-**	62,140
Write-down of oil and gas lease	**153,350**	-
Write-down of oil and gas properties *(note 5)*	**1,152,694**	-
Value of stock option granted *(note 12)*	**241,831**	85,808
Net changes in non-cash components of operating working capital *(note 15)*	**(366,440)**	326,861
	(1,577,863)	(823,928)
Cash flows from financing activities		
Proceeds from the issue of equity net of issue costs *(note 12)*	**2,616,737**	348,749
Equity component of convertible note	**57,521**	-
Increase in due to joint ventures	**-**	122,455
Debt settlement paid through issuance of shares	**330,992**	-
Convertible note *(note 10)*	**567,479**	-
	3,572,729	471,204
Cash flows used in investing activities		
Increase in deposit in escrow *(note 22)*	**(213,000)**	-
Acquisition of property and equipment	**(2,518)**	(3,113)
Mining properties and deferred exploration costs	**(289,256)**	-
Oil and gas participating interest and deferred exploration costs	**(1,178,364)**	(190,649)
	(1,683,138)	(193,762)
Net Increase (decrease) in cash and cash equivalents of continuing operations	**311,728**	(546,486)
Cash and cash equivalents, beginning of the year	**85,263**	631,749
Cash and cash equivalents, end of year	**396,991**	85,263

See accompanying notes to the financial statements.

1. DESCRIPTION OF OPERATIONS

Description of operations

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

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

2. BASIS OF PRESENTATION

Going Concern Disclosure

These financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Standards of financial statement presentation

The Canadian Institute of Chartered Accountants has amended section 1400, "General Standards of Financial statement Presentation", which is effective for interim periods beginning on or after October 1, 2008, to include requirements to assess and disclose the Company's ability to continue as a going concern.

The financial statements of the Company have been prepared by management in accordance with Canadian GAAP. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant areas requiring the use of management estimates include valuation of the following:

- Oil and gas participating interest and deferred exploration costs
- Mining properties and deferred exploration costs
- Saskatchewan diamond properties
- Asset retirement obligations
- Stock based compensation
- Warrants
- Future tax
- Convertible note

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below in the next section.

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

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.

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

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

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

Oil and gas participating interest and deferred exploration costs:

Capitalized costs: the Company follows the full cost method of accounting for oil and gas operations in accordance with Canadian guidelines. Under this method, all costs associated with the acquisition, exploration and development of oil and gas reserves are capitalized in cost centres on a country-by-country basis. Such costs can include lease acquisition costs, geological and geophysical costs and carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, tangible production equipment and overhead expenses directly related to these activities. Proceeds from the sale of properties are applied against capital costs, without any gain or loss recognized unless such sale would significantly alter the rate of depletion and depreciation by 20% or more.

Depletion: upon the commencement of commercial production, depletion of oil and gas properties is provided using the unit-of-production method based on estimated proven reserves, before royalties, as determined by independent consultants, on a cost centre basis. The costs of significant unevaluated properties and major development projects are excluded from costs subject to depletion. Unevaluated properties and major development projects are assessed for impairment periodically. When proved reserves are assigned or the property/major development project is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion. For depletion purposes, relative volumes, before royalties, of oil and gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Measurement Uncertainty*:* the amounts recorded for depletion and depreciation of oil and natural gas properties and equipment, the provision for asset retirement obligations, the provision for income taxes, and the ceiling test calculations are based on estimates of proven reserves, production rates, oil and natural gas prices, future costs, future prices and other relevant assumptions. Accruals for royalties and costs are prepared based on estimates when actual amounts are not yet known. Stock based compensation amounts are determined using certain assumptions (see *Note 12)*. By their nature, these estimates and assumptions are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Ceiling tests: in following the full cost method, an impairment loss is recognized when the carrying amount of the oil and gas properties of a cost centre is not recoverable and exceeds its fair value. The carrying amounts are assessed to be unrecoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market value of unproved properties and the cost of major development projects are less than the carrying amount of the cost centre. In determining the amount of impairment, the carrying amount of oil and gas properties capitalized in a cost centre is compared to the fair value of the associated proved and probable reserves and the lower of cost and market value of any unproved properties which are subject to a separate test for impairment. In determining the fair value of the proved and probable reserves, the Company uses cash flows based upon the oil and gas prices as quoted in the futures market. These cash flows are then discounted using a risk-free interest rate. If the carrying value of the oil and gas properties is in excess of its fair value, the excess is charged against earnings. All of the Company's oil and gas activities are conducted jointly with other participants. The Company's accounts reflect only the Company's proportionate interest in these activities.

Asset retirement obligation: the Company follows the CICA standard for Asset Retirement Obligation ("ARO"). Under this standard, the fair value of a liability for an ARO is recorded in the period where a liability is incurred and a reasonable estimate of the fair value can be determined. When the liability is recorded, the carrying amount of the related asset is increased by the same amount as the liability. The asset recorded is depleted over the useful life of the asset. Additions to asset retirement obligations due to the passage of time are recorded as an accretion expense. Actual expenditures incurred are charged against the obligation.

Joint ventures: substantially all of the Company's petroleum and natural gas activities are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

Mining properties and deferred exploration costs: The cost of acquisition of an area of interest and exploration expenditures will be carried forward as an asset on the balance sheet where: it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest or by its sale; or, the exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence of economically recoverable reserves. Should a project or an area of interest be abandoned, the carrying value will be written off in the year in which the decision to abandon the project is made. Where there has been a decision to proceed with development, accumulated expenditures will be amortized over the life of the associated resource once mining operations have commenced. Costs include the cash consideration and the fair market value of the shares issued for the acquisition of mineral exploration properties and related deferred exploration expenditures. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

Stock-based compensation: the Company has a stock option compensation plan which is described in *Note 12*. The Company follows the fair value method to record compensation expense with respect to stock options and warrants granted in exchange for goods and services. This method is applied for all awards made to non-employees and employees. The fair value of each option or warrant granted is estimated on the date of grant and a provision for the costs is provided for as contributed surplus over the term of the option agreement. Compensation expense associated with options issued to employees, consultants, officers and directors of the Company are expensed. The consideration received by the Company on the exercise of share options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur which could result in recoveries of the compensation. Expense related to broker warrants issued are recorded as share issue costs and deducted from share capital.

Share issuance expenses: share issue expenses are recorded as a charge to share capital in the year in which they are incurred.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Future income taxes: the Company uses the liability method of tax allocation to account for income taxes. Future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis. Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities due to a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

Foreign exchange: revenues and expenses denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet dates. All transaction gains and losses are reflected in net earnings.

Comprehensive Income: comprehensive income is the change in shareholder's equity during a period arising from transactions and other events and circumstances from non-owner sources. In accordance with this standard, the Company reports a statement of comprehensive loss and a new category, accumulated other comprehensive income, and has been added to the shareholder's equity section of the balance sheet. The components of this category include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any. Section 3251 establishes standards for the presentation of equity and changes in equity as a result of the new requirements of Section 1530.

Financial Instruments – Disclosure and Presentation: this section establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

Financial instruments: A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets and financial liabilities are recognized on the balance sheet when the Company becomes a party to contractual provisions of the instrument. On initial recognition, all financial instruments must be measured at fair value which is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Subsequent to initial recognition, the fair value of financial instruments is dependent on the purpose for which the financial assets were acquired or issued, their characteristics and the Company's designation of such instruments.

At each reporting date the carrying amounts of financial assets, other than those to be measured at fair value through profit or loss, are assessed to determine whether there is objective, significant evidence of impairment (e.g. a debtor is facing serious financial difficulties, or there is a substantial change in the technological, economic, legal or market environment of the debtor). For equity instruments, a significant or prolonged decline in fair value is objective evidence for a possible impairment. The Company has defined criteria for the significance and duration of a decline in fair value as discussed in the categories below.

The standards require that all financial assets be classified as held-for-trading ("HFT"); held-to-maturity ("HTM"); available-for-sale ("AFS") or loans and receivables ("L&R"). Financial liabilities should be classified as HFT or other than HFT liabilities.

Financial Assets:

Held-for-trading: Financial assets required to be classified as HFT are measured at fair value, with gains, losses and transaction costs recorded in net income for the period in which they arise. A financial instrument is designated as HFT on initial recognition if reliable fair values are available, even if that instrument would not otherwise satisfy the definition of HFT ("fair value option"). Held-for-trading securities are usually held for a short term and are actively traded.

Held-to-maturity: Financial assets that are purchased and have a fixed maturity date and which management has the intention and the ability to hold to maturity are classified as held-to-maturity. These instruments are accounted for at amortized cost using the effective interest rate method and charged to income in the period of amortization. The Company currently does not hold any of these assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Available-for-sale: Financial assets classified as AFS are measured at fair value, except for investments in equity instruments that do not have a quoted market price in an active market, which are measured at cost. Unrealized gains and losses, including the effect of changes in foreign exchange rates, are recognized directly in Other Comprehensive Income, except for impairment losses, which are recognized in net income. Upon de-recognition of the financial asset, the cumulative gains or losses, previously recognized in Accumulated Other Comprehensive Income (“AOCI”) are reclassified to net income. Transaction costs are added to the carrying amount of the financial instruments.

If an available-for-sale financial asset is impaired, the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is reclassified from direct recognition in equity to the income statement. Reversals with respect to equity instruments classified as available-for-sale are not recognized in the income statement. A reversal of an impairment loss on a debt instrument is reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss is recognized in income.

Loans and receivables: L&R financial assets are measured at amortized cost using the effective interest rate method. Interest income calculated using the effective interest rate method is recorded in financing income in the period in which it arises. Transaction costs are added to the carrying amount of the financial asset.

The amount of the impairment loss on loans and receivables is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding expected future credit losses that have not been incurred), discounted at the original effective interest rate of the financial asset. The amount of the impairment loss is recognized in profit or loss. If, in a subsequent reporting period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss. The impairment loss on loans and receivables is recorded using allowance accounts. The decision to account for credit risks using an allowance account or by directly reducing the receivable depends on the estimated probability of the loss of receivables. When receivables are assessed as uncollectible the impaired asset is derecognized.

Financial Liabilities:

HFT liabilities: Financial liabilities are measured at fair value. Gains and losses on liabilities held-for-trading are recognized in earnings. The Company currently does not hold any of these liabilities.

Other than HFT liabilities: Financial liabilities classified as other than HFT are measured at amortized cost using the effective interest method. Interest expense is recorded in financing expense in the period. Transaction costs are added to the carrying amount of the financial liability. Accounts payable, the convertible note and Due to Joint Ventures are classified as “other than HFT liabilities”.

Hedges: this section establishes standards for when and how hedge accounting may be applied. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. The company did not use any hedging in 2010 and 2009.

EIC 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities: In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks.

Goodwill and Intangible assets: Section 3064 Goodwill and Intangible Assets replaces Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. As permitted by Section 3064, the Corporation has early adopted the new standards in the current fiscal year. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The objectives of Section 3064 are to:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Remove material that may be interpreted as permitting the recognition of assets that would not otherwise meet the definition of an asset or the recognition criteria;
- Include guidance to clarify the distinction between assets and expenses;
- Include guidance on the definition of an intangible asset and the recognition of internally generated intangible assets; and
- Withdraw Section 3450 Research and Development Costs, as assets developed as a result of research and development activities would now be included within the scope of Section 3064.

Financial Instruments – Disclosures: this section describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, "Financial Instruments – Presentation", replaced Section 3861, "Financial Instruments – Disclosure and Presentation".

Financial Instruments – Presentation: this section establishes standards for presentation of the financial instruments and non-financial derivatives.

4. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING PRONOUNCEMENTS

Convergence with International Financial Reporting Standards: in 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being evolved and converged with International Financial Reporting Standards ("IFRS") over a transitional period to be complete by 2011. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal year beginning on January 1, 2011.

The company continues to monitor and assess the impact of the convergence of Canadian GAAP to IFRS and will be ready as per the Canada's Accounting Standards Board for its fiscal year beginning January 1, 2011.

5. OIL & GAS PARTICIPATING INTERESTS AND DEFERRED EXPLORATION COSTS

	December 31, 2010	December 31, 2009
	Net	Net
	$	$
Canada	**345,714**	614,709
USA	**-**	2,049,629
	345,714	2,664,338

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

5. OIL & GAS PARTICIPATING INTERESTS AND DEFERRED EXPLORATION COSTS (continued)

Canada

Forest Gate has entered into a number of Joint Venture Agreements with Emerald Bay Energy Inc. to acquire working interests in Alberta properties. As of December 31, 2010, the total cost of the Company's participating interest is $1,179,604 (2009 - $1,280,364) less cumulative depletion expenses of $833,890 (2009 - $665,655) and a write-down of $153,350. The Company's accounts reflect only the proportionate interest in these activities.

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

United States

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

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

As part of the unwinding transaction, a $1,152,694 write down of the oil and gas properties was recognized.

6. MINING PROPERTIES AND DEFERRED EXPLORATION COSTS

	Cost of Claims	**Deferred Exploration Costs**	**December 31, 2010 Net**	December 31, 2009 Net
	$	**$**	**$**	$
Pershing gold property	**252,000**	**37,256**	**289,256**	-

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

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

7. SASKATCHEWAN DIAMOND PROPERTIES

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

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

8. PROPERTY AND EQUIPMENT

	Cost $	Accumulated Depreciation $	December 31, 2010 Net $	December 31, 2009 Net $
Furniture and office equipment	**33,314**	**23,488**	**9,826**	12,282
Computer equipment	**73,725**	**60,158**	**13,567**	19,382
	107,039	**83,646**	**23,393**	31,664

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2010 Net $	December 31, 2009 Net $
Accounts payable - trade	**302,905**	370,436
Amounts due to entity significantly influenced by the company's chief executive officer	**-**	313,242
Tax penalty on flow through	**241,920**	168,224
Current portion due to joint ventures	**61,229**	61,229
	606,054	913,131

10. CONVERTIBLE NOTE

On January 14, 2010, the corporation issued an unsecured convertible note of $675,675 to a lender for proceeds of $625,000. The note bears interest at 10% per annum. The accumulated interest on the convertible note is $64,791 and is payable at maturity. The company is examining its payment options and expects to settle the debt in 2011.

The note is convertible into common shares of the corporation at the lender’s option at a conversion price of $0.125 per common share.

At maturity, the corporation may at its option, either pay cash or issue common shares at the conversion price of $0.125 per common share in exchange for the note.

The fair value of the conversion option associated with the convertible note on the date of issuance was estimated at $57,521. The fair value of the conversion option is recorded as “Equity component of convertible note” under shareholder’s equity. The accretion on the note in the amount of $103,750 for the year (2009 - $nil) has been charged to earnings.

11. ASSET RETIREMENT OBLIGATIONS

The Company is committed to a program of environmental protection at the site of its oil and gas properties. Management believes that it was in compliance with government regulations in 2010. At the time of completion of drilling and testing, the Company identifies obligations related to a liability equal to the present value of expected future asset retirement obligations. The total future ARO was estimated by management based on the Company's net ownership interest in the wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its asset retirement obligations, using the credit adjusted risk-free rate, to be $402,556 as at December 31, 2010. These payments are expected to be made over the next 10 years. The following table reconciles the Company's asset retirement obligation:

For the years ended December 31,	**2010**			2009		
	Continuing Operations	**Discontinued operations**	**Total**	Continuing Operations	Discontinued operations	Total
	$	**$**	**$**	$	$	$
Balance - beginning of year	**74,691**	**328,107**	**402,798**	17,800	300,000	317,800
Additional obligations	**(23,076)**	**-**	**(23,076)**	42,058	-	42,058
Revisions is estimated cash flows	**-**	**-**	**-**	10,685	9,900	20,585
Accretion expenses	**3,558**	**19,276**	**22,834**	4,148	18,207	22,355
Balance - end of year	**55,173**	**347,383**	**402,556**	74,691	328,107	402,798

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

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

12. SHARE CAPITAL

Authorized:

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

12. SHARE CAPITAL (continued)

	Share capital		Warrants		Broker Warrants and Options	Contributed Surplus	Total
	Number	$	Number	$	Number	$	$
Balance-December 31, 2008	**14,232,233**	**15,412,376**	**5,809,601**	**3,891,225**	**1,764,525**	**1,424,254**	**20,727,855**
Equity issued	5,205,000	601,113	-	-	-	-	**601,113**
Subscription receipts issued	5,250,000	866,250	-	-	-	-	**866,250**
Warrants issued	-	-	9,815,000	876,263	-	-	**876,263**
Warrants forfeited	-	-	(3,662,241)	-	-	-	**-**
Broker warrants issued	-	-	-	-	190,000	16,024	**16,024**
Broker warrants forfeited	-	-	-	-	(226,712)	-	**-**
Options issued	-	-	-	-	1,210,000	-	**-**
Options forfeited	-	-	-	-	(627,500)	-	**-**
Non-cash item	-	-	-	-	-	62,140	**62,140**
Stock based compensation	-	-	-	-	-	85,808	**85,808**
Balance -December 31, 2009	**24,687,233**	**16,879,739**	**11,962,360**	**4,767,488**	**2,310,313**	**1,588,226**	**23,235,453**
Equity issued	25,025,950	1,731,203	-	-	-	-	**1,731,203**
Subscriptions receipts cancelled	(4,343,947)	(716,751)	-	-	-	-	**(716,751)**
Subscription receipts exercised	(906,053)	-	-	-	-	-	**-**
Common shares cancelled	(3,596,053)	(593,349)	-	-	-	-	**(593,349)**
Warrants issued	-	-	16,358,139	768,370	-	-	**768,370**
Warrants exercised	722,050	150,456	(722,050)	-	-	-	**150,456**
Warrants forfeited	-	-	(9,447,360)	(791,803)	-	-	**(791,803)**
Broker warrants issued	-	-	-	-	828,061	46,082	**46,082**
Broker warrants exercised	157,550	25,183	-	-	(157,550)	(13,253)	**11,930**
Broker warrants forfeited	-	-	-	-	(225,313)	-	**-**
Options issued	-	-	-	-	3,395,000	-	**-**
Options exercised	150,000	23,250	-	-	(150,000)	(20,400)	**2,850**
Options forfeited	-	-	-	-	(1,135,000)	-	**-**
Debt settlement	5,733,252	711,538	-	-	-	-	**711,538**
Non-cash item	-	-	-	-	-	(3,152)	**(3,152)**
Stock based compensation	-	-	-	-	-	241,831	**241,831**
Balance-December 31, 2010	**47,629,982**	**18,211,269**	**18,151,089**	**4,744,055**	**4,865,511**	**1,839,334**	**24,794,658**

12. SHARE CAPITAL (continued)

Issues during 2010

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

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

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

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

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

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

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

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

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

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

12. SHARE CAPITAL (continued)

Issues during 2010 (continued)

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

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

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

During the year ended December 31, 2010, 722,050 warrants ($150,456) 157,550 broker warrants ($25,183) and 150,000 stock options ($23,250) were exercised into common shares.

Issues during 2009

On July 16, Forest Gate issued 1,016,500 units of shares and warrants at a price of $0.15 per unit, for total gross proceeds of $152,475. Net proceeds, after payment of share issue costs, were credited to share capital for $75,982 and to warrants for $66,073. Share issue costs include $7,073 of cash finder's fee, and $3,347 to agents paid in the form of 47,150 broker warrants.

On September 30, the Company issued 1,118,500 units of share and warrants at a price of $0.15 per unit, for total gross proceeds of $167,775. Net proceeds after payment of share issue cost were credited to share capital for $59,616 and to warrants for $81,650. Share issue costs include $16,778 of cash finder's fee, and $9,731 to agents paid in the form of 111,850 broker warrants.

On October 13, 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, which warrants will expire on the second anniversary of their issuance. Share capital was credited for $1,310,100 and warrants were credited for $700,800. No such subscription receipt or warrant may be converted or exercised by Vanterra if, as a result of that conversion or exercise, Vanterra would hold more than 15% of Forest Gate's outstanding common shares.

On November 18, the Company issued 380,000 units of shares and warrants at a price of $0.15 per unit, for total gross proceeds of $57,000. Net proceeds after payment of share issued costs were credited to share capital for $21,665 and to warrants for $27,740. Share issue costs include $4,650 of cash finder's fee, and $2,945 to agents paid in the form of 31,000 broker warrants.

12. SHARE CAPITAL (continued)

Stock option plan

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

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

		Weighted Average exercise price
Balance - December 31, 2008	1,312,500	1.42
Options granted (*)	1,210,000	0.16
Options forfeited	(627,500)	1.45
Balance - December 31, 2009	1,895,000	0.60
Options granted (*)	3,395,000	0.11
Options forfeited	(1,135,000)	0.64
Options exercised	(150,000)	0.16
Balance - December 31, 2010	**4,005,000**	**0.19**

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

For the years ended December 31,	**2010**	2009
	$	$
Directors and management compensation	**72,525**	60,000
Consultants Compensation	**169,306**	25,808
Charged to earnings	**241,831**	85,808

As at December 31, 2010, the outstanding options, as issued under the stock option plan to directors, officers, employees and consultants for the purchase of 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**	

12. SHARE CAPITAL (continued)

Broker warrants

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

	Number Of Warrants	Weighted Average exercise price
Balance - December 31, 2008	**452,025**	**1.11**
Warrants granted	190,000	0.25
Warrants forfeited	(226,712)	1.26
Balance - December 31, 2009	415,313	0.51
Warrants granted	828,061	0.11
Warrants forfeited	(225,313)	0.75
Warrants exercised	(157,550)	0.15
Balance - December 31, 2010	**860,511**	**0.12**

As at December 31, 2010 the Company had the following broker warrants outstanding:

	Granted	Exercisable	Exercise price	Expiry date
Warrants to buy units of 1 common share	**11,025**	**11,025**	**0.15**	**July 2011**
Warrants to buy units of 1 common share	**5,925**	**5,925**	**0.15**	**September 2011**
Warrants to buy units of 1 common share	**15,500**	**15,500**	**0.25**	**November 2011**
Warrants to buy units of 1 common share	**25,000**	**25,000**	**0.10**	**January 2012**
Warrants to buy units of 1 common share	**64,450**	**64,450**	**0.25**	**February 2012**
Warrants to buy units of 1 common share	**65,000**	**65,000**	**0.25**	**May 2012**
Warrants to buy units of 1 common share	**611,111**	**-**	**0.09**	**October 2012**
Warrants to buy units of 1 common share	**62,500**	**-**	**0.08**	**October 2012**
	860,511	**186,900**	**0.12**	

Share purchase warrants

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

	Number Of Warrants	Weighted Average exercise price
Balance - December 31, 2009	**11,962,360**	**0.40**
Warrants granted	16,358,139	0.21
Warrants forfeited	(9,447,360)	0.44
Warrants exercised	(722,050)	0.21
Balance - December 31, 2010	**18,151,089**	**0.21**

12. SHARE CAPITAL (continued)

Share purchase warrants (continued)

As at December 31, 2010 the Company had the following share purchases warrants outstanding:

Number of Warrants	Exercise Price	Expiry date
451,500	0.20	July 2011
1,103,500	0.25	September 2011
395,500	0.25	November 2011
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
18,151,089		

Fair value

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

	Stock Option issues during 2010		
Number	595,000	100,000	2,700,000
Risk-free interest rate	2.24%	2.24%	1.99%
Expected life (years)	5	5	5
Expected volatility	100%	100%	100%
Expected dividend yield	nil	nil	nil
Weighted average grant date fair value	$0.129	$0.189	$0.066

	Broker warrant issues during 2010				
Number	25,000	64,450	65,000	611,111	62,500
Risk-free interest rate	2.35%	2.28%	2.55%	1.81%	1.81%
Expected life (years)	2	2	2	2	2
Expected volatility	100%	100%	100%	100%	100%
Expected dividend yield	nil	nil	nil	nil	nil
Weighted average grant date fair value	$0.102	$0.075	$0.096	$0.048	$0.050

12. SHARE CAPITAL (continued)

Fair value (continued)

	Warrant issues during 2010				
Number	2,580,000	1,182,479	662,000	6,111,110	625,000
Risk-free interest rate	2.35%	2.28%	2.28%	1.81%	1.81%
Expected life (years)	2	2	2	2	2
Expected volatility	100%	100%	100%	100%	100%
Expected dividend yield	nil	nil	nil	nil	nil
Weighted average grant date fair value	$0.076	$0.075	$0.073	$0.030	$0.037

	Warrant issues during 2010			
Number	940,000	4,100,000	60,713	96,838
Risk-free interest rate	2.34%	2.17%	2.41%	2.49%
Expected life (years)	2	2	2	2
Expected volatility	100%	100%	100%	100%
Expected dividend yield	nil	nil	nil	nil
Weighted average grant date fair value	$0.037	$0.037	$0.498	$0.125

13. NET LOSS FROM DISCONTINUED OPERATIONS

The Company formally adopted a plan to divest in November 2010 of its interest in certain Arizona and Utah oil and gas licenses, Also of its Saskatchewan Diamond Properties and in September 2008 forfeited its entire interest in the Celtic Sea project. The properties were evaluated and management believes the carrying value was impaired. The deferred exploration costs have therefore been written down.

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

		Oil and gas Exploration (Celtic Sea)	**Mining Exploration (Saskatchewan)**	**Total**
For the twelve months ended December 31, 2010				
Write-down of diamond properties		**-**	**-**	**-**
Write-down of oil and gas exploration		**19,276**	**-**	**19,276**
Net loss from discontinued operations in 2010		**19,276**	**-**	**19,276**
For the twelve months ended December 31, 2009				
Write-down of diamond properties	-	-	500,000	500,000
Write-down of oil and gas exploration	-	9,900	-	9,900
Net loss from discontinued operations in 2009	-	9,900	500,000	509,900

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

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

Risk management of financial instruments

The Company is exposed to various risks arising from financial instruments. The following analysis provides a measurement of risks as at December 31, 2010.

Credit risk: the Company's principal financial assets are cash and cash equivalents and accounts receivable. Cash and cash equivalents are held with major Canadian 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, 2010 is represented by the carrying value of the accounts receivable on the balance sheet.

Liquidity risk: the cash and cash equivalents on hand and expected cash generated from operations will allow the Company to meet its planned operating requirements. Financial liabilities all have maturity dates prior to December 31, 2011. 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 resources. 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, 2010.

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

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

Market risk - foreign currency exchange rate risk: foreign currency exchange rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's revenues are denominated in Canadian dollars, realized petroleum and, to a certain extent, natural gas prices are based upon reference prices denominated in US dollars and are therefore impacted by changes in the exchange rate between the Canadian and US dollar. A strengthening of the Canadian dollar in comparison to the US dollar will decrease revenues received by the Company from the sale of its production. Correspondingly, a decrease in the value of the Canadian dollar relative to the US dollar will increase the revenues received. The impact of such exchange rate fluctuations cannot be accurately quantified. The Company did not have any forward exchange rate contracts in place for the year ended December 31, 2010 to reduce its exposure to foreign currency fluctuations. As of year-end, no other financial instruments were denominated in foreign currency.

15. SUPPLEMENTAL DISCLOSURES OF EXPENSES AND CASH FLOW INFORMATION

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

For the years ended December 31,	**2010**	2009
	$	$
Decrease (increase) in:		
Accounts receivable	**(23,938)**	24,855
Prepaid expenses	**(35,425)**	(8,533)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(307,077)**	310,539
	(366,440)	326,861

b) Interest paid and received

Interest received during the year amounts to $750 (December 31, 2009 - $1,995).

c) Non-cash transactions

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

On May 5, 2010, Forest Gate issued 1,504,962 common shares in settlement of a debt of $330,992 (see note 12).

On July 30, 2010, Forest Gate issued 4,228,290 common shares valued at $380,546 for unpaid salaries and consulting fees (see note 12).

On November 26, 2010, Forest Gate completed an unwinding transaction with Vanterra Energy Inc. by transferring it's 70% interest in oil and gas licenses in exchange for equity of Forest Gate (see note 12).

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

16. LOSS PER SHARE

Due to a loss for the fiscal years ended December 31, 2010 and 2009, no incremental shares are included in calculating the dilutive loss per share because the effect would be anti-dilutive. The loss per share has been computed on the assumption that the subscription receipts will convert into common shares. The only restriction on these subscription receipts, relates to the timing of the conversion.

17. RELATED PARTY TRANSACTIONS

General and administrative expenses include $Nil (2009 - $153,592) charged by Blue Note Mining Inc., an entity which was significantly influenced by the company's chief executive officer. These transactions are in the normal course of business and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

18. TAX LOSSES AND OTHER EXPENSES TO CARRY FORWARD

a) Provision for income taxes

The provision for income taxes differs from the combined Canadian federal and provincial statutory rates as follows:

	2010		
	Federal	**Provincial**	**Combined**
Loss before income taxes	(2,327,005)	(2,327,005)	(2,327,005)
Federal income tax rate	18.00%	10.95%	28.95%
Tax effect	(418,861)	(254,807)	(673,668)
Value of stock option granted	13,055	7,941	20,996
Share issue costs	(30,126)	(18,327)	(48,453)
Depreciation of capital assets	1,942	1,181	3,123
Depletion of oil and gas properties	28,254	17,188	45,442
Write-down of oil and gas properties	27,603	16,792	44,395
Other	6,358	3,867	10,225
Change in valuation allowance, tax estimates and rate changes	371,775	226,165	597,940
Income taxes	**-**	**-**	**-**

	2009		
	Federal	**Provincial**	**Combined**
Loss before income taxes	(1,679,415)	(1,679,415)	(1,679,415)
Federal income tax rate	19.00%	10.95%	29.95%
Tax effect	(319,089)	(183,896)	(502,985)
Value of stock option granted	13,389	7,716	21,105
Share issue costs	(72,860)	(41,991)	(114,851)
Depreciation of capital assets	1,862	1,073	2,935
Depletion of oil and gas properties	66,219	38,163	104,382
Loss on deferred oil and gas properties	12,160	7,008	19,168
Provision for doubtful debts	(15,997)	(9,219)	(25,216)
Other	1,243	2,249	3,492
Change in valuation allowance, tax estimates and rate changes	313,073	178,897	491,970
Income taxes	**-**	**-**	**-**

18. TAX LOSSES AND OTHER EXPENSES TO CARRY FORWARD (continued)

b) Future income tax assets and liabilities

The Company has exploration costs, operating losses and other costs which are being carried forward and which can reduce future taxable income. The components of the net future income tax assets (liabilities) are as follows:

	2010		
	Federal	**Provincial**	**Combined**
Share issue costs	54,712	33,283	87,995
Tax cost of mining properties and deferred exploration costs in excess of carrying value	157,444	95,778	253,222
Tax cost of property and equipment in excess of carrying value	2,444	1,486	3,930
Non capital losses carried forward	2,323,695	1,362,233	3,685,928
	2,538,295	1,492,780	4,031,075
Valuation allowance for future tax assets	(2,538,295)	(1,492,780)	(4,031,075)
	-	-	-

	2009		
	Federal	**Provincial**	**Combined**
Share issue costs	67,228	38,745	105,973
Carrying value of mining properties and deferred exploration costs in excess of tax basis	(276,814)	(159,532)	(436,346)
Tax cost of property and equipment in excess of carrying value	3,540	2,040	5,580
Non capital losses carried forward	2,122,110	1,171,360	3,293,470
	1,916,064	1,052,613	2,968,677
Valuation allowance for future tax assets	(1,916,064)	(1,052,613)	(2,968,677)
	-	-	-

18. TAX LOSSES AND OTHER EXPENSES TO CARRY FORWARD (continued)

The Company has the following non capital losses and share issue costs available to reduce future income taxes.

The losses and costs expire as follows:	Expiry date	Federal	Provincial
	2014	641,000	739,000
	2015	1,284,000	1,148,000
	2026	699,000	375,000
	2027	4,697,000	4,239,000
	2028	1,866,000	1,848,000
	2029	1,657,000	1,632,000
	2030	2,065,000	2,065,000
		12,909,000	12,046,000
Share issue costs (from 2009 to 2012)		303,957	303,957

19. CONTINGENT LIABILITIES

Environmental

The Company's exploration activities are subject to various federal and provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing. Environmental consequences are difficult to identify in terms of results, timetable and impact. The Company conducts its operations so as to protect the public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations.

20. 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.

21. SEGMENTED INFORMATION

All revenues and expenses in 2010 were incurred in Canada. Assets held in different countries are detailed in notes 5, 11 and 13.

22. COMMITMENT

On December 23, 2010, Forest Gate announced that it had entered into an agreement to purchase oil and gas assets from a privately-held, Calgary company. Upon closing of the transaction, Forest Gate will own a non-operated 20 percent interest in oil and gas licenses encompassing 19,848 acres in south western Saskatchewan. The remaining 80 percent interest is owned and operated by Trafina Energy Ltd., a publicly-traded oil and gas company based in Calgary. The total consideration for the acquisition is approximately $1.5 million. Forest Gate will issue the vendor 7.98 million shares, assume its bank line of credit in the amount of $350,000 and assume various liabilities of the vendor with its joint venture partner in the amount of $278,000. During the year, Forest Gate paid $213,000 into escrow.

23. SUBSEQUENT EVENT

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

On April 20, 2011, the TSX Venture exchange accepted for filing the documentation relating to the purchase of the Saskatchewan oil and gas assets (note 22).