



Letter from the Chairman

April 2010

Dear Fellow Shareholder,

We have substantially transformed your oil company in the last year. We recruited a highly skilled group of managers and directors. We also acquired two highly compelling land packages in the south-western United States. Last fall, Don Vandergrift was appointed President and Chief Operating Officer and director. His long-time colleague and noted geophysicist, Dr. Easton Wren, was also appointed to the board. Don, a petroleum engineer, has extensive operations experience in the international oil industry.

Forest Gate acquired 121,000 gross acres (30,500 net) in Iron County, southern Utah. This significant land package came with a geological and geophysical data set that the vendor had spent 15 years compiling. It suggests a minimum of 20 targets as a starting point for exploration. The data Forest Gate has seen suggests that Iron County will provide the company with exploration and potential production projects for many years. The reserve potential at Iron County is such that a large oil company could be built upon it.

Forest Gate also acquired a 10,000 acre land package in Arizona which may host as much as 800 million barrels of oil - making it one of the largest on-shore plays of its kind.

In 2009, we have put into place the elements for the making of a large and prosperous independent E&P company. We are very excited about our prospects.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Judson".

Michael Judson
Chairman and Chief Executive Officer

Forest Gate Energy Inc.

Management's Discussion and Analysis

For the year ended December 31, 2009

This Management's Discussion and Analysis ("MD&A") of financial position and results of operations, as provided by the management of Forest Gate Energy Inc. ("Forest Gate" or the "Company"), should be read in conjunction with the financial statements and related notes thereto for the years ended December 31, 2009 and 2008. Forest Gate's accounting policies are in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts are in Canadian dollars unless otherwise indicated.

This MD&A is dated April 29, 2010. The Company's shares trade under the symbol FGE on the TSX Venture Exchange. These documents and additional information about Forest Gate are available on SEDAR at www.sedar.com.

Forward-Looking Statements

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

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

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

Corporate Overview

Forest Gate is an international oil and gas exploration and production company that seeks to create shareholder value through the exploration and development of high-impact projects worldwide. The Company is focusing on its Utah oil prospects, while pursuing, on a selective basis, international projects. The Company also holds various participating interests in oil and gas exploration and production projects in Canada and the US, including hydrocarbon production in Alberta and a large oil prospect in Arizona.

Historically, the Company has worked in mineral exploration and, with the identification of new opportunities, changed its strategic orientation towards oil and gas exploration and production. In February 2007, Forest Gate entered into an agreement to acquire a working interest in two licenses in an offshore international oil and gas prospect in the Celtic Sea located off the south coast of Ireland.

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

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

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

In October 2009, Forest Gate acquired a 70% equity interest in all Arizona oil and gas licenses belonging to Vanterra Energy Inc. In consideration for the 70% equity interest in the licenses, the Company issued to Vanterra 2,690,000 Forest Gate common shares, 5,250,000 subscription receipts convertible into Forest Gate common shares without any additional consideration and 7,300,000 warrants at an exercise price of \$0.25 per share, which warrants will expire on the second anniversary of their issuance. (No such subscription receipt or warrant may be converted or exercised by Vanterra if, as a result of that conversion or exercise, Vanterra would hold more than 15% of Forest Gate's outstanding common shares.) Forest Gate undertook to pay 100% of the cost to drill, case and complete the initial exploratory well on the lands covered by the licenses. Facilities and tie-in costs of this well and all subsequent development costs on the lands would be paid 70% by the Company and 30% by Vanterra. The Company and Vanterra have until December 31, 2010 to drill the initial well.

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

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

On April 6, 2010, Forest Gate Energy Inc. acquired a working interest in a recompletion oil well, also located in Grand County, Utah. Forest Gate will earn a 25% working interest in a suspended producing oil well by covering 100% of the recompletion cost. The 1,081-acre lease also includes production equipment such as a pump jack and storage tanks. Forest Gate will receive 50% of the oil and gas revenue until it recoups 100% of the recompletion cost, estimated at \$380,000.

Forest Gate forfeited its interest in the Celtic Sea project in September 2008 as it had not paid its share of the full amount of the outstanding balance to the Operator within the specified period of time. As of that date, participating interest amounted to \$612,000 and total exploration costs amounted to \$6,018,434 including the outstanding cash calls of \$544,090. The Company's accounts reflected only the 7.5% proportionate interest in these activities.

Pricing

Crude oil prices decreased 38% in 2009 as compared to 2008 as West Texas Intermediate ("WTI") benchmark price averaged US\$61.80 per Bbl in 2009, as compared to US\$99.75 per Bbl in 2008. The price of crude oil continued to be volatile, a result of uncertainty around future worldwide economic conditions. Natural gas prices averaged \$3.95 per Mcf for AECO monthly in 2009 as compared to \$8.15 per Mcf (52% decline) in 2008. Fluctuating North American supply/demand forecasts along with volatile international natural gas prices, which affect the global flow of liquefied

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natural gas, continue to cause significant price volatility in North American natural gas prices. Continued uncertainty around North American industrial demand has resulted in a continued negative price trend for North American natural gas.

Results of Operations

For the year ended December 31, 2009, Forest Gate incurred a net loss from continuing operations of \$1,679,415 (\$0.10029 per share) and in 2008 \$1,836,577 (\$0.1380 per share).

The net loss from discontinued operations was \$509,900 (\$0.03045 per share) and in 2008 was \$8,507,553 (\$0.6393 per share).

The total net loss, after discontinued operations in 2009 was \$2,189,315 (\$0.13074 per share) and in 2008 was \$10,344,130 (\$0.7773 per share).

For the years ended December 31,	Twelve months	
	2009	2008
	\$	\$
Revenues		
Petroleum & natural gas revenue	276,647	336,281
Royalties	(48,057)	(63,288)
Interest & other income [note 13]	1,995	18,612
	230,585	291,605
Expenses		
Operating Expenses	315,461	101,068
Salaries and levies	188,056	453,386
Value of stock option granted [note 9 (b)]	85,808	44,655
Professional & consulting fees	272,714	510,522
General and administration expenses	277,318	487,067
Corporate marketing & business development	321,820	249,570
Financial charges	4,145	14,570
Accretion of asset retirement obligation	22,355	-
Depletion	348,521	317,134
Depreciation of property & equipment	9,802	13,396
	1,846,000	2,191,369
Loss before write-down, income taxes and discontinued corporation	1,615,415	1,899,763
Write-down of mining properties and deferred exploration costs	64,000	-
Loss before income taxes	1,679,415	1,899,763
Future income taxes recovered	-	(63,186)
Net loss from continuing operations	1,679,415	1,836,577
Net loss from discontinued operations	509,900	8,507,553
Net loss	2,189,315	10,344,130

In 2009, Forest Gate reported oil and gas revenue of \$276,647 less royalties of \$48,057 and operating expenses of \$315,461 compared to revenue of \$336,281 less royalty of \$63,288 and operating expenses of \$101,068 for the year ended December 31, 2008. Higher natural gas production was more than offset by lower prices. The Kelsey gas well came on stream in 2009, accounting for higher operating expenses.

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The net loss in 2009 includes a further write-down (\$500,000) in the carrying value of the Saskatchewan diamond properties and \$9,900 for the Celtic Sea project. In 2008, net loss included the write-off of the Celtic Sea project (\$6,386,346) and the reduction in the carrying value of the Saskatchewan diamond properties (\$2,121,207). The Company has expanded its business into oil and gas exploration and continues evaluating strategic options to sell its Saskatchewan diamond properties.

An amount for future income taxes recovery of \$nil has been recorded during 2009 (2008 \$63,186 recorded). The Company has recorded a share issue cost to account for the future tax cost of the exploration expenses it has renounced on the flow-through shares issued. This amount has been charged to share capital.

Expenses

Expenses consist primarily of petroleum extraction costs, depletion, salaries, professional and consulting fees, general and administration fees and expenses relating to the business development of the Company.

Forest Gate incurred total expenses from continuing operations of \$1,846,000 in 2009 compared to \$2,191,368 in 2008. The decrease in total expenses relates mainly to the reduction in salaries expense to \$188,056 (2008 - \$453,386) as staffing levels and salary levels were further reduced. The value of stock options granted of \$85,808 (2008 - \$44,655) rose due in part to a change in the value of options granted to the expanded number of directors on the Board of Directors. Professional and consultant fees of \$272,714 (2008 - \$510,522) declined due to lower corporate financing activities. General and administration expenses of \$277,318 (2008 - \$487,067) declined largely due to one-time nature of 2008's tax reassessment. Corporate marketing and business development of \$321,820 (2008 - \$249,570) rose due to expenses associated with the aborted Texas acquisition. Accretion of asset retirement obligation amounted to \$22,355 (2008 - \$nil) reflecting additional wells, higher estimated costs and shorter reserve life estimates. Depletion of \$348,521 (2008 - \$317,134) increased due to shorter production life estimates due to lower oil & gas price assumptions.

Selected Quarterly Information

For the quarter ended December 31, 2009, the Company earned revenues of \$63,094 (2008 - \$44,898) mainly from oil and gas production.

The increase in total expenses relates to the initiation of additional oil and gas activities in 2009 including expenses for operations of \$215,517 due to the \$183,666 expense related to Ferrybank 11-23's penalty (2008 - \$ 26,999). Salaries of \$18,126 (2008 - \$94,678) declined as staffing levels were reduced. The value of stock options granted was \$57,402 (2008 - a recovery (\$71,260) declined due in part to a change in the value of options granted to consultants). Professional and consultant fees of \$87,818 (2008 - \$ 133,715) declined due to lower consulting partially offset by higher legal fees. General and administration expenses of \$55,057 declined (2008 - \$279,932) in 2008 due mainly to a tax reassessment in 2008. Corporate marketing and business development of \$64,220 (2008 - \$30,162) rose due to increased travel related to new US properties. Accretion of asset retirement obligation amounted to \$27,260 (2008 - \$nil) reflecting additional wells, higher estimated costs and shorter reserve life estimates. Depletion of \$305,603 (2008 - \$317,134 for the full year) was charged to the fourth quarter. Loss from discontinued operations amounted to \$500,000 (2008 - \$317,104). The Company incurred a net loss of \$1,273,526 compared to a net loss of \$1,052,649 for the same quarter last year.

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Oil and Gas Properties & Participating Interest

Forest Gate owns a number of oil and gas participating interests and properties in Canada and the U.S. As of December 31, 2009, the total participating interests and deferred exploration and development costs in oil and gas exploration, net of depletion and write-offs, were \$2,664,338 compared to \$758,566 as at December 31, 2008. The increase is the result of the Vanterra transaction.

For the year ended	Participating Interest	Oil & gas properties	December 31, 2009 Net	December 31, 2008 Net
	\$	\$	\$	\$
Canada	614,709	-	614,709	758,566
US	-	2,049,629	2,049,629	-
	614,709	2,049,629	2,664,338	758,566

No general and administrative expenses have been capitalized to property and equipment.

The Company applied a ceiling test to its petroleum and natural gas assets at December 31, 2009 and determined that there was no impairment of costs requiring a write-down.

The Company's reserves were evaluated by AJM Petroleum Consultants ("AJM") as at December 31, 2009. Gross reserves are the total of the Company's working interest share before deduction of royalties owned by others. Net reserves are the total of the Company's working interest reserves after deducting the amounts attributable to royalties owned by others.

	Gross Reserves			Net Reserves		
	Light and Medium Crude Oil Mbbls	Natural Gas Mmcf	Oil Equivalent Mbbl	Light and Medium Crude Oil Mbbls	Natural Gas Mmcf	Oil Equivalent Mbbl
Proved Developed Producing	1.0	118.6	20.8	0.7	100.5	17.5
Probable	0.5	22.4	4.2	0.3	18.5	3.3
Total Proved plus Probable	1.5	141.0	25.0	1.0	119.0	20.8

Canada

In 2007, Forest Gate entered into a joint venture agreement with Emerald Bay, to acquire working interests in the Nevis area, located in Central Alberta, which hosts natural gas as coal bed methane. A second joint venture agreement with Emerald Bay was entered into to drill a well at Ferrybank, Alberta.

In February 2008, Forest Gate announced that crude oil was discovered at Ferrybank, and also announced that the four Nevis methane wells had begun producing natural gas.

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In March 2008, Forest Gate entered into a third joint venture agreement with Emerald Bay to acquire a 38% working interest in the Kelsey exploration well in Alberta. Drilling at Kelsey, Alberta was successful and this gas well was tied-in in April 2009.

In January 2009, Forest Gate Resources reported that it has acquired a license targeting Bakken Formation hydrocarbons in South Eastern Saskatchewan. The Company opted to let this license lapse in early 2010.

Pursuant to its agreement with Emerald Bay Energy, the Company and its joint venture partners committed to drill an offset well at Ferrybank, Alberta. Forest Gate later opted not to fund its participation and will be carried on the first \$91,900 of costs. Forest Gate has agreed to the penalty clause, whereby the joint venture partners will be reimbursed first from production up to such time as they have recouped 200% of their investment. Thereafter Forest Gate will earn its 41.3% working interest in this second Ferrybank well.

U.S.

In October 2009, Forest Gate acquired a 70% equity interest in all Arizona oil and gas licenses belonging to Vanterra Energy Inc. Forest Gate are targeting oil in Grand County and in Iron County, Utah as well as in the Sacramento Valley Neogene Sub-Basin of Arizona.

Ireland

On September 4, 2008 Forest Gate announced that it forfeited its entire interest in the Celtic Sea project as it had not paid its share of the full amount of the outstanding balance to the Operator within the specified period of time. As of that date, participating interest amounted to \$612,000 and total exploration costs amounted to \$6,018,434 including the outstanding cash calls of \$544,090. The Company's accounts reflected only the 7.5% proportionate interest in these activities.

Other Properties

The Company decided in 2007 to expand its business into oil and gas exploration. The Company formally adopted a plan to divest its mineral exploration properties and focus on oil and gas exploration and operations. Management believes that the carried amount of these assets can be realized by way of total disposal.

Saskatchewan Diamond Properties

Forest Gate also owns a 100% interest in the East Side, West Side and South Side diamond exploration properties located in the Fort a la Corne area, 50 km northeast of Prince Albert, Saskatchewan. Fort a la Corne is host to the largest diamondiferous kimberlite pipes in the world. As of December 31, 2009, total mining properties and deferred exploration costs were written down to \$500,000 (December 31, 2008 - \$1,000,000) and are recorded under "Saskatchewan diamond properties". The Company did not incur any expenses during the year for these discontinued operations.

The total investment thus far in Saskatchewan is \$4,125,982 of which \$500,000 are now shown as "Saskatchewan Diamond Properties" (\$1,921,519 had been invested on the East Side Property and \$1,161,701 on the West Side Property, and \$1,042,762 on the South Side Property). While management believes that the carried amount of these assets in Saskatchewan can be realized through disposition, a complete write-down for the South Side Property investment was recorded at the end of fiscal year 2006 and additional write-downs of the East Side and West Side properties were recorded in the 2008 and in 2009. This is considered to be appropriate given the strategic re-orientation to direct current resources to oil and gas exploration and production.

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Liquidity, Financing and Capital Resources

Cash and cash equivalents as at December 31, 2009 totalled \$85,263 compared to \$631,749 at December 31, 2008.

Issue of Equity

Net proceeds from the issues of Equity amounted to \$348,749 during the year.

(a) Issues during 2009

i) Quarter ended March 31, and June 30, 2009

- The Company did not issue additional share capital during the first or second quarter.

ii) Quarter ended September 30, 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.

iii) Quarter ended December 31, 2009

- 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.

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(b) Issues during 2008

i) Quarter ended March 31, 2008

- The Company closed a private placement of 2,712,000 shares at \$0.13 per share. The issue generated total gross proceeds of \$352,560 and net proceeds credited to share capital of \$194,871 after payment of share issue costs. Share issue costs include \$25,605 of cash finder's fee, and \$10,044 to agents paid in the form of 196,960 broker warrants.

ii) Quarter ended June 30, 2008

- The Company closed the first tranche of a private placement on June 3, 2008 of 18,333,651 shares consisting of 2,222,221 flow-through units at \$0.09 per unit and 16,111,430 units at \$0.07 per share. The issue generated total gross proceeds of \$1,327,800 and net proceeds credited to share capital of \$344,977 and \$723,347 in the form of 17,223,541 warrants after payment of share issue costs. Share issue costs include \$182,474 of cash finder's fee, and \$77,001 to agents paid in the form of 1,833,365 broker warrants.
- The Company closed the second tranche of the private placement on June 27, 2008 of 2,228,112 shares consisting of 1,378,112 flow-through units at \$0.09 per unit and 850,000 units at \$0.07 per share. The issue generated total gross proceeds of \$183,530 and net proceeds credited to share capital of \$72,254 and \$576,953 in the form of 1,534,056 warrants after payment of share issue costs. Share issue costs include \$23,182 of cash finder's fee, and \$11,141 to agents paid in the form of 222,811 broker warrants.

iii) Quarters ended September 30, and December 31, 2008

- The Company did not issue additional share capital during the third or fourth quarter.

Share Capital

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

The weighted average number of shares issued and outstanding (including subscription receipts) as at December 31, 2009 is 16,745,313 compared to 13,308,129 as at December 31, 2009. As of December 31, 2009 there were 24,687,233 shares issued and outstanding compared to 11,904,857 at December 31, 2008.

Disclosure Controls, Procedures and Internal Controls

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

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As of December 31, 2009 we believe that our internal control systems at Forest Gate are sufficient to execute our business plan and to provide meaningful results upon which to manage our business. No changes were made in our internal control systems during the fiscal year that have materially affected our financial reporting and controls.

Summary of Significant of Accounting Policies

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("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:

- Oil and gas participating interest and deferred exploration costs
- Saskatchewan diamond properties
- Asset retirement obligations
- Stock based compensation
- Warrants

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
Leasehold improvements	Over the term of the lease	Straight-line

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

Deferred acquisition costs: costs related to the future acquisition of mining properties and oil and gas properties are deferred until the acquisition is finalized and expensed if the acquisition does not occur. The deferred costs consist primarily of legal and due diligence fees.

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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, 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. 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.

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 quote 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.

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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 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 mining properties and deferred exploration costs are recorded at cost, less tax credits and government assistance, which may not reflect present or future values. Costs of exploration and related property and equipment on existing projects are deferred until production commences. Mining properties and deferred exploration costs are amortized over the estimated economic life of the project if successful and written off or down to its estimated net realizable value if a project is unsuccessful or is economically unfeasible. Option payments received are applied against the related mining properties and deferred exploration costs.

Stock-based compensation: the Company has a stock option compensation plan which is described in Note 10 of the annual financial statements. 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.

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.

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

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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.

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 new standard, the Company now reports a statement of comprehensive loss and a new category, accumulated other comprehensive income, has been added to the shareholder's equity section of the balance sheet. The components of this new category will 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.

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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.

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 2009.

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".

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

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 adoption of this new section is discussed in note 2 of the notes to the financial statements.

Risks and uncertainties

Going Concern Disclosure: The Company's financial statements have been prepared using Canadian generally accepted accounting principles (Canadian 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. The recoverability of capitalized costs in relation to its oil and gas developments is dependent on the ability of the company to successfully operate the wells. The company's ability to continue as a going concern 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. The 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.

Exploration and development: the business of exploring for developing and producing oil and gas involves a high degree of risk. Oil and gas reserves may never be found or, if discovered, may not result in production at reasonable costs or profitability.

Dependence: oil 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.

Environmental: the Company's oil and gas participating projects are subject to environmental regulations in the jurisdictions in which they operate. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the projects in which the Company holds interests which are presently unknown to the Company and which have been caused by previous or existing partners or operators of the projects or by illegal mining activities.

Liquidity: substantial expenditures are required for exploration programs and the development of reserves. In the absence of sufficient cash flow from operations, the Company relies on capital markets to fund its exploration and evaluation activities. Capital market conditions and other unforeseeable events may impact the Company's ability to finance and develop its projects. The business of exploring, developing and producing is also capital intensive and, to the extent that cash flows from operation activities and external sources become limited or unavailable, the ability of Forest Gate and of its operating partners to meet their respective financial obligations which are necessary to maintain their interests in the underlying projects could be impaired.

Foreign currency exchange rate: the Company's operations and financial results are exposed to currency fluctuations as the commodity prices it receives are based on the US dollar. The Company does not currently engage in any hedging activities to mitigate its foreign exchange risk. Material changes in the value of the Canadian dollar vis-à-vis any of the other currencies relevant to the Company's business could have a material impact on its financial statements.

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Governmental: government approvals and permits are generally required in connection with the Company's operations. To the extent such approvals are required and not obtained; the Company may be delayed or prohibited from proceeding with planned exploration or development of projects. Although the governments of the various countries or provinces in which Forest Gate operates have been stable recently, there is no assurance that political and economic conditions will remain stable.

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, 2009.

ACCOUNTING CHANGES AND NEW PRONOUNCEMENTS

"Credit Risk and the Fair Value of Financial Assets and Financial Liabilities",

On January 1, 2009, the Company adopted Emerging Issues Committee ("EIC") EIC-173 which provides guidance on how to take into account its own credit risk and counterparty credit risk in determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of EIC-173 had no significant impact on the Company's financial statements.

"Mining Exploration Costs",

On January 1, 2009, the Company adopted EIC-174 which clarifies guidance related to capitalization of exploration costs and impairment of capitalized costs. During the period ended December 31, 2009, the Company had indicated that a significant adverse change in the business climate incurred and therefore the carrying amount of long-lived asset may not be recoverable and that a test for impairment is required. The adoption of EIC-174 had no significant impact on the financial statements.

"Financial instruments – Disclosures"

In May 2009, the CICA amended Section 3862, "Financial Instruments" – Disclosures, to improve disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require that all financial instruments recognized at fair value on the Balance Sheet must be classified in three fair value hierarchy levels, which are as follow:

Level 1: valuation based on quoted prices observed in active markets for identical assets or liabilities;

Level 2: valuation techniques based on inputs other than quote prices in active markets that are either directly or indirectly observable;

Level 3: valuation techniques with significant unobservable market inputs.

The results of the application of these new standards are included in note 11 of the annual financial statements as of December 31, 2009.

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New Accounting Standards Issued

"Business combinations, Consolidated financial statements and Non-controlling interests"

In January 2009, the Accounting Standards Board issued 3 new accounting standards: Section 1582 "Business Combinations"; Section 1601 "Consolidated Financial Statements"; and Section 1602 "Non-Controlling Interests". These new sections harmonize significant aspects of Canadian accounting standards with the International Financial Reporting Standards ("IFRS") that will be mandated for entities with fiscal years beginning on or after January 1, 2011. The Company does not expect the adoption of these standards to have a significant impact on their financial statements.

International financial reporting standards conversion plan

Canada's Accounting Standards Board (AcSB) confirmed that effective January 1, 2011, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) will replace current Canadian GAAP for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. Financial reporting under IFRS differs from Canadian GAAP in many respects, some of which are significant. IFRS on the date of adoption may differ from current IFRS due to new IFRS standards and pronouncements issued before the changeover date that may cause the Company to select different accounting policy choices and/or IFRS 1 exemptions.

To comply with the Canadian Securities Administrators (CSA) Staff Notice 52-320, "Disclosure of Expected Changes in Accounting Policies Relating to Changeover to IFRS", we have structured our IFRS conversion plan to incorporate six key elements, specifically: i) accounting policies and financial statement preparation, including choices among policies permitted under IFRS, and implementation decisions such as whether certain changes will be applied retrospectively or prospectively; ii) information technology and data systems; iii) internal control over financial reporting; iv) disclosure controls and procedures including investor relations and external communications plans; v) training requirements and communications and vi) business activities, such as foreign currency activities, as well as other matters that may be influenced by Canadian GAAP measures.

In 2009, we identified the differences between IFRS and our current accounting policies and we continue to assess the impact of these differences as well as the various accounting policy alternatives offered pursuant to IFRS.

The table that follows provides a summary of the key elements, their status and the timing of the IFRS changeover plan. At this time, we cannot quantify the impact, which may be material, which the future adoption of IFRS will have on our financial statements. Additional information will be provided as we move towards the changeover date.

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Key Elements and Timing of Changeover Plan to IFRS (as required by CSA Staff Notice 52-320)

	SELECTED KEY ACTIVITIES	MILESTONES/DEADLINES	PROGRESS TO DATE
Accounting policies and financial statement preparation	Identify differences between IFRS and Canadian GAAP	Assessment and quantification of the significant effects of the changeover to be completed by approximately the third quarter of 2010	Completed the IFRS diagnostic phase in the first quarter of 2009, which involved a high-level review of the major differences between IFRS and Canadian GAAP.
	Select IFRS 1 accounting policy choices		
	Select ongoing IFRS policies	Final selection of accounting policy choices by the changeover date	In-depth analysis of issues and accounting policy choices is currently underway
	Quantify the effects of IFRS 1 disclosures for 2010 financial statements		
	Prepare financial statements and related note disclosures to comply with IFRS		Further changes to IFRS are being monitored
Information technology and data systems	Identify and address IFRS differences that require changes to financial systems	Changes to significant systems and parallel record-keeping completed in time for the third quarter of 2010	Currently reviewing options to address process changes to parallel record-keeping during 2010
	Evaluate and select methods to address need for parallel record-keeping of IFRS and Canadian GAAP during 2010 for comparatives and budget and planning purposes in 2011		No significant system impacts have been identified
Internal control over financial reporting (ICFR)	Revise existing internal control processes and procedures to address significant changes to existing accounting policies and practices, including the need for parallel record-keeping during 2010	Changes completed by the third quarter of 2010	Designing solutions to address IFRS differences to permit implementation of necessary internal controls
	Design and implement internal controls with respect to one-time changeover adjustments and related communications	Conduct management evaluation of new or revised controls throughout 2010	
		Update the Chief Executive Officer/Chief Financial Officer certification process by the fourth quarter of 2010	

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	SELECTED KEY ACTIVITIES	MILESTONES/DEADLINES	PROGRESS TO DATE
Disclosure controls and procedures (DC&P)	For changes to accounting policies and practices identified, assess the DC&P design and effectiveness implications	Consistent with ICFR deadlines. See ICFR above	MD&A disclosures have begun
Training and Communication	Provide training to project team members, affected employees and management	Timely training provided to align with work under changeover – training completed by mid-2010	Training for project team members and resources directly engaged in the changeover is occurring throughout the project
	Communicate progress of changeover plan to internal and external stakeholders	Timely communication of effects of changeover with Audit Committee of the Board of Directors on a regular basis up to changeover in 2011	Updates are provided to the Audit Committee and are ongoing on a regular basis
Business activities	Identify impact of changeover on contractual arrangements, including collaboration and supplier agreements, financial covenants and employee compensation plans	Changes completed by the third quarter of 2010	Currently reviewing contracts for embedded derivatives and other potential IFRS impacts
	Make any required changes to arrangements and plans		No material impacts have been identified to date

Off-Balance Sheet Arrangements

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

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

Signed: "Michael Judson"

Michael Judson
Chairman and Chief Executive Officer
Forest Gate Energy Inc.
April 29, 2010,
Montreal, Quebec