



This Management's Discussion and Analysis ("MD&A") of financial position and results of operations, as provided by the management of Forest Gate Energy Inc. ("Forest Gate" or the "Company"), should be read in conjunction with the financial statements and related notes thereto for the period ended March 31, 2011. Forest Gate's accounting policies are in accordance with International Financial Reporting Standards ("IFRS"). All dollar amounts are in Canadian dollars unless otherwise indicated.

This MD&A is dated June 30, 2011. 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](http://www.sedar.com).

## **Forward-Looking Statements**

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

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

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

## **Corporate Overview**

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

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

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

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

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

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

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

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

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

In October 2010, Forest Gate entered into a Purchase Agreement to acquire the Pershing gold property located near Val D'Or, Quebec from two private gold exploration companies called Montigua Resources Inc. ("Montigua") and Bermont Resources Inc. ("Bermont"). Pershing is a gold exploration property consisting of 252 contiguous, unpatented mining claims. In consideration for the acquisition of a 100% interest in the claims comprising the Pershing gold property, Forest Gate issued 3,000,000 Forest Gate common shares to Montigua and Bermont. In addition, Montigua and Bermont will hold a 2% net smelter return royalty on the Pershing gold property. One percent (1%) of the royalty can be purchased by Forest Gate at any time following the completion of a pre-feasibility study on the property. Forest Gate also holds a right of first refusal on the sale or reassignment of the remaining 1% royalty. Forest Gate also issued 150,000 common shares as a finder's fee to a consultant upon closing of the transaction.

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

On December 23, Forest Gate reports that it has entered into an agreement to purchase 20% oil and gas assets from a privately-held Calgary company. The total consideration for the acquisition is approximately \$1.5 million. Forest Gate invested \$65,000 already as a non-refundable payment and \$213,000 as a deposit being held in escrow until the official close of the transaction in 2011.

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### Pricing

Crude oil prices improved 18% during the first quarter of 2011 as compared to 2010 as West Texas Intermediate ("WTI") benchmark price averaged US\$93.54 per Bbl in the first three months of 2011, as compared to US\$79.40 per Bbl in 2010. The price of crude oil continued to be volatile, a result of uncertainty around future worldwide economic conditions.

Natural gas prices averaged \$4.07 per Mcf for AECO in the first quarter of 2011 as compared to \$4.16 per Mcf (2% decrease) in 2010. Fluctuating North American supply/demand forecasts along with volatile international natural gas prices, which affect the global flow of liquefied natural gas, continue to cause significant price volatility in North American natural gas prices. Continued uncertainty around North American industrial demand has resulted in a continued high volatile price trends for North American natural gas.

### Results of Operations

For the three months ended March 31, 2011, Forest Gate incurred a net loss from continuing operations of \$282,524 (\$0.0083 per share) compared to \$840,745 (\$0.0314 per share) for the same period in 2010. The net loss from discontinued operations was \$5,678 (\$0.0002 per share) compared to \$4,819 (\$0.0002 per share) in the same period of 2010. The total net loss, after discontinued operations in the first quarter of 2011 was \$288,202 (\$0.0085 per share) and for the same period of 2010 was \$845,564 (\$0.0316 per share).

The net loss from discontinued operations of \$5,678 in the first quarter of 2011 constitutes an accretion of asset retirement obligation (ARO) for its discontinued operations in oil and gas properties. In the first quarter of 2010 the net loss of \$4,819 from discontinued operations includes was also an accretion of asset retirement obligation (ARO) for its discontinued operations in oil and gas properties. The Company has expanded its business into oil and gas exploration and continues evaluating strategic options to sell its Saskatchewan diamond properties.

### Revenues

For the period ended March 31,	Three months	
	2011	2010
	\$	\$
Revenues petroleum and natural gas revenue	125,800	81,605
Royalties	(28,500)	(15,551)
Operating expenses	46,730	28,073

For the three months ended March 31, 2011, Forest Gate reported oil and gas revenue of \$125,800 less royalties of \$28,500 and direct operating expenses of \$46,730, compared to revenue of \$81,605 less royalties of \$15,551 and direct operating expenses of \$28,073 for the three months ended March 31, 2010.

Higher oil prices added to higher production volumes for the first quarter of 2011, which accounted for higher natural gas production and direct operating expenses in 2011.

### 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 \$671,723 in the first quarter of 2011 compared to \$589,014 in the same period of 2010:

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For the three month period ended March 31,	2011 \$	2010 \$
<b>Revenues</b>		
Petroleum and natural gas revenue	125,800	81,605
Royalties	(28,500)	(15,551)
Interest and other income	373	31
	<b>97,673</b>	<b>66,085</b>
<b>Expenses</b>		
Operating expenses	46,730	28,073
Salaries and levies	77,731	87,245
Value of stock option granted	66,000	66,105
Professional and consulting fees	172,120	111,976
Corporate marketing and business development	92,327	68,303
Financial charges	16,560	18,379
Amortization of discount on convertible note	-	10,388
Depletion	146,988	65,373
Depreciation of property and equipment	12,354	2,424
General and administration expenses	40,913	130,748
	<b>671,723</b>	<b>589,014</b>
<b>Loss before write-down, income taxes and discontinued operations</b>	<b>574,050</b>	<b>522,929</b>
Write-down of oil and gas lease	-	317,816
<b>Net loss from continuing operations before income taxes</b>	<b>574,050</b>	<b>840,745</b>

The increase in total expenses relates mainly to the depletion of \$146,988 (2010 - \$65,373) and to the professional and consulting fees of \$172,120 (2010 - \$111,976).

## Exploration and Evaluation

As of March 31, 2011, total Exploration and evaluation assets, net of depletion and write-offs, were \$2,182,487 compared to \$443,256 as at December 31, 2010. The increase is the result of Joint Venture Agreements with Emerald Bay Energy Inc. to acquire working interests in Alberta properties.

	March 31, 2011 Net \$	December 31, 2010 Net \$
Canada	671,460	443,256

No general and administrative expenses have been capitalized to property and participating interest. 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 requiring a write-down. The Company's accounts reflect only the proportionate interest in these activities.

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%)

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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.

### **United States**

Forest Gate has 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 will expire on the second anniversary of their issuance.

On November 29, 2010 the Company reports that it has completed a 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 surrender for 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.

### **Producing oil and gas assets and mining properties**

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 \$1,179,625 (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.

On February 18, 2011 Forest Gate had entered into an agreement to purchase oil and gas assets from a privately-held, Calgary company. Forest Gate owns a non-operated 20 percent interest in oil and gas licenses encompassing 19,848 acres in south western Saskatchewan. The remaining 80 percent interest is owned and operated by Trafina Energy Ltd., a publicly-traded oil and gas company based in Calgary. The total consideration for the acquisition is \$1,662,196. Forest Gate had 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 \$434,396.

The Company's reserves in Canada were evaluated by AJM Petroleum Consultants ("AJM") as at December 31, 2010. Net reserves are the total of the Company's working interest reserves after deducting the amounts attributable to royalties owned by others.

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Unit value of net reserves by production group	Oil Net	Gas Net	BOE Net	NPV 10%	Unit Value
	Mbbl	MMcf	boe	M\$	\$/boe
Proved developed producing	1.3	85.7	15,549.2	222.1	14.3
Probable additional	1.7	21.0	5,168.6	114.0	22.1
Proved plus probable additional	3.0	106.7	20,717.8	336.1	16.2

### 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 March 31, 2011, total mining properties and deferred exploration costs are \$500,000 (December 31, 2010 - \$500,000) 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.

### Liquidity, Financing and Capital Resources

Cash and cash equivalents as at March 31, 2011 totalled \$95,683 when compared to \$346,399 at March 31, 2010 (including \$123,000 restricted cash).

Cash flows generated in the operating activities were \$140,606 for the three months ended March 31, 2011 and the cash flows used in the operation activities were \$281,332 for the same period in 2010:

<b>Cash provided by (used in) operating activities</b>	<b>2011</b>	<b>2010</b>
Net loss from continuing operations	(282,524)	(840,745)
<i>Non-cash items:</i>		
Amortization of discount on convertible note	-	10,388
Accretion of asset retirement obligation	2,473	4,006
Depletion	146,988	65,373
Depreciation of property and equipment	12,354	2,424
Future income taxes recovered	(291,526)	-
Write-down of oil and gas properties	-	317,816
Value of stock option granted	66,000	66,105
Net changes in non-cash components of operating working capital	486,841	93,301
	<b>140,606</b>	<b>(281,332)</b>

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The cash flows from financing activities were \$390,000 when compared to \$1,595,517 in 2010:

<b>Cash provided by (used in) financing activities</b>	<b>2011</b>	<b>2010</b>
Proceeds from the issue of equity	<b>40,000</b>	970,517
Convertible note	-	625,000
Line of credit	<b>350,000</b>	-
	<b>390,000</b>	1,595,517

The cash flows used in investing activities were \$831,914 when compared to \$1,053,049 in 2010:

<b>Cash flows from (used) investing activities</b>	<b>2011</b>	<b>2010</b>
Acquisitions	-	(2,518)
Exploration and evaluation assets	<b>(831,914)</b>	(1,050,531)
	<b>(831,914)</b>	(1,053,049)

### Issue of Equity

Net proceeds from the issues of equity amounted to \$40,000 during the three months of 2011 (\$970,517 in the year 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.

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

On February 24, 2011, Forest Gate issued 7,980,000 common shares at a price of \$0.11 per share in consideration for the acquisition of participation of 20% of oil and gas assets located in south western Saskatchewan. The remaining 80% interest is owned and operated by Trafina Energy Ltd., a publicly-traded oil and gas company based in Calgary, Alberta.

On March 18, 2011, Forest Gate cancelled 344,827 common shares that were granted on January 2010 to a Denver based company with regards to the potential acquisition of various oil and gas licenses in Utah. The option was cancelled and the value of the shares for \$50,000 was reversed into capital stock.

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### Share Capital

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

The weighted average number of shares issued and outstanding as at March 31, 2011 is 33,992,256 compared to 26,802,871 as at March 31, 2010. As of March 31, 2011 there were 55,265,155 shares issued and outstanding compared to 47,629,982 at December 31, 2010.

As of the date of this report there are 59,281,064 shares issued and outstanding.

### Disclosure Controls, Procedures and Internal Controls

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

As of March 31, 2011 we believe that our internal control systems at Forest Gate are sufficient to execute our business plan and to provide meaningful results upon which to manage our business. No changes were made in our internal control systems during the period that have materially affected our financial reporting and controls.

### Summary of Significant of Accounting Policies

#### Financial instruments

The Company determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates this designation at year end. All financial instruments are recognized initially at fair value. Transaction costs are included in the initial carrying amount of each financial instrument except for instruments under the fair value through profit and loss category which are expensed as incurred. Measurement in subsequent periods depends on its classification. Financial instruments are classified as either: fair value through profit or loss; loans and receivables; available for sale; held to maturity or financial liabilities measured at amortized cost as defined by IAS 39.

Financial instruments classified as fair value through profit or loss are measured at their fair values at each reporting period with the change in fair value recognized in net income (loss). Loans and receivables, held to maturity and financial liabilities measured at amortized cost are all measured at amortized cost less any impairment using the effective interest method. Amortization of any discounts or premiums is recognized in finance expense. The Company's cash and cash equivalents are classified as loans and receivables and consist of cash and all investments that have a maturity of three months or less. Financial assets classified as available for sale are measured at fair value with changes in fair value recognized in other comprehensive income (loss). When available for sale items are derecognized or impaired the amounts previously recorded in other comprehensive income are recognized in net income (loss).

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced and/or substantially modified, the difference in the respective carrying amounts is recognized in net income (loss).

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Impairments are recognized in net income (loss) as they occur.



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### Exploration and Evaluation

Exploration and evaluation ("E&E") costs are capitalized for projects after the Company has acquired the legal right to explore but prior to their technical feasibility and commercial viability being confirmed, generally determined as the establishment of proved or probable reserves. These costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, including remuneration of production personnel and supervisory management, the projected costs of retiring the assets, and any activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources.

Once technical feasibility and commercial viability are confirmed the E&E asset is then reclassified to producing oil and gas assets and tested for impairment. For purposes of impairment testing, E&E assets are allocated to the appropriate cash-generating units based on geographic proximity. Expired lease costs are expensed as part of depletion and depreciation expense as they occur and costs incurred prior to the legal right to explore are charged to net income (loss).

### 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:

	<b>Rates</b>	<b>Methods</b>
Furniture and office equipment	20%	Diminishing balance
Computer equipment	30%	Diminishing balance

### Producing oil and gas assets

Producing oil and gas assets ("O&G") includes costs directly attributable to oil and natural gas exploration and development that are not E&E and costs for other tangible goods including office equipment and other. O&G is recorded at cost less accumulated depletion, depreciation, and impairment losses net of recoveries. Gains and losses on disposal of oil and natural gas properties are recognized in net income (loss). The carrying amount of a replaced asset is derecognized when replaced.

The provision for depletion for oil and natural gas assets is calculated for each major area using the unit-of-production method based on the area's production for the period divided by the Company's estimated total proved and probable oil and natural gas reserve volumes before royalties for that area. Production and reserves of natural gas and associated liquids are converted at the energy equivalent ratio of six thousand cubic feet of natural gas to one barrel of oil. Estimates of future development costs for developing the proved and probable reserves are included in each area's depletion base.

At each reporting period the Company assesses whether there are indicators of impairment for its O&G. If indicators exist, the Company determines if the recoverable amount of the asset or cash generating unit ("CGU") is greater than its carrying amount. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used geographical proximity, geological similarities, analysis of shared infrastructure, commodity type, assessment of exposure to market risks and materiality to define its CGUs.

If the carrying amount exceeds the recoverable amount, the asset or CGU is recorded at its recoverable amount with the reduction recognized in net income (loss) in depletion expense. The recoverable amount is the greater of the value in use or fair value less costs to sell. Fair value is the amount the asset could be sold for in an arm's length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. The fair value less costs to sell considers the continued development of a property and market transactions in a valuation model. The Company uses the present value of the cash generating unit's estimated future cash flows from both proved and probable reserves in its fair value model. These calculations are

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corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

Impairments are reversed in subsequent periods when there has been an increase in the recoverable amount of a previously impaired asset or CGU and these reversals are recognized in net income (loss). The recovery is limited to the original carrying amount less depletion and depreciation that would have been recorded had the asset not been impaired.

### **Mining Deferred exploration costs**

Development expenditure incurred is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure includes costs directly attributable to the construction of a mine and related infrastructure. Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non current assets as "Exploration and evaluation". Mine development assets are reclassified as "producing mining assets" at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management. No depreciation is recognised in respect of mine development assets until they are reclassified as "producing mining assets".

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Mine production assets and certain mining equipment, where economic benefits from the asset are consumed in a pattern which is linked to the production level, are depreciated using a unit of production method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves. Subsequently these assets are measured at cost less accumulated depreciation and impairment.

Capitalised mine development expenditure is, upon commencement of production, reclassified to "producing mining assets", depreciated using a unit of production method based on the estimated economically recoverable reserves to which they relate or are written-off if the property is abandoned.

### **General provisions and decommissioning liabilities**

#### **i) General provisions**

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The present value of expected future cash outflows is recognized as a liability and the increase to the liability due to the passage of time is recorded as a finance expense.

#### **ii) Decommissioning liabilities**

Decommissioning liabilities are present obligations where the Company is required to retire assets or restore sites where assets are located and includes restoring well and facility sites and decommissioning plants and oil batteries. When a liability is recorded, the carrying amount of the related asset is increased by the same amount.

The amount recognized represents management's estimate of the present value of the estimated future expenditures to abandon and reclaim the Company's net ownership in wells and facilities determined in accordance with local conditions and requirements as well as an estimate of the future timing of the costs to be incurred. These costs are subsequently depreciated as part of the costs of the item of O&G. Any changes in the

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estimated timing of the decommissioning or decommissioning cost estimates are accounted for prospectively by recording an adjustment to the provision, and a corresponding adjustment to O&G.

The Company uses a credit adjusted discount rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount of the decommissioning provision is included as a finance cost. The Company recognizes the deferred tax asset regarding the temporary difference on the decommissioning liability and the corresponding deferred tax liability regarding the temporary difference on a decommissioning asset.

### **Deferred stripping costs**

Stripping (i.e. overburden and other waste removal) costs incurred in the development of a mine before commercial production commences are capitalised as part of the cost of constructing the mine and are written-off to the income statement over the period during when the related economic benefits are realised. This period may be the life of the operation, or another appropriate basis, depending on the particular circumstances existing at each mine.

The Company defers stripping costs incurred subsequently, during the production stage of its operations, for those operations where this is the most appropriate basis for matching the costs against the related economic benefits. Where stripping costs do not fluctuate significantly over the life of the mine, these costs are deferred in inventory and are written off to the income statement in the following year, this being the period over which economic benefits relating to the stripping activity are realised.

For other mine operations it may be more appropriate to defer these stripping costs in "producing mining assets", and charge these costs to operating profit on the basis of the average life of the mine stripping ratio. The average stripping ratio is calculated as the number of cubic metres of waste material removed per tonne of ore mined. The average life of the mine ratio is revised annually in the light of additional knowledge and change in estimates.

### **Joint ventures**

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

### **Stock-based compensation**

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. 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. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Expense related to broker warrants issued are recorded as share issue costs and deducted from share capital.

### **Flow through common shares**

Proceeds received upon the issue of common shares that transfer the exploratory 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.

# Forest Gate Energy Inc.

## Management's Discussion and Analysis

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For the three month period ended March 31, 2011

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### Deferred financing costs

These costs are 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.

### 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.

### Future income taxes

#### i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

#### ii) Deferred income tax

The Company follows the liability method for calculating deferred income taxes. Differences between the amounts reported in the financial statements and the tax bases are applied to tax rates in effect to calculate the deferred tax liability. The effect of any change in income tax rates is recognized in the current period income. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Discounting of deferred tax assets and liabilities is not permitted. Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes related to the same taxable entity and the same taxation authority. Deferred tax is provided in full for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except when the temporary differences arises from the initial recognition of goodwill, or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

### Revenue recognition

Revenue associated with oil and gas sales is recognized when title passes from the Company to its customers. 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.

### Risks and uncertainties

The Company is exposed to various risks arising from financial instruments. The following analysis provides a measurement of risks as at March 31, 2011.

# Forest Gate Energy Inc.

## Management's Discussion and Analysis

For the three month period ended March 31, 2011

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

**Liquidity risk:** the cash and cash equivalents on hand and expected cash generated from operations will allow the Company to meet its planned operating requirements. Financial liabilities all have maturity dates prior to March 31, 2012. Additional funds will be required to meet the Company's planned capital expenditures.

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

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

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

**Market risk – 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.

## Accounting changes and new pronouncements

### *IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 9 is not expected to have a significant impact on the financial statements.

### *IFRS 11 Joint Arrangements*

IFRS 11 *Joint Arrangements* will apply to interests in joint arrangements where there is joint control. IFRS 11 would require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement would no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. In addition, the option to account for joint ventures, previously called jointly controlled entities, using proportionate consolidation would be removed, and equity accounting would be required. Venturers would transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not yet assessed the impact of the new standard on the financial statements.

# Forest Gate Energy Inc.

## Management's Discussion and Analysis

For the three month period ended March 31, 2011

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### *IFRS 12 Disclosure of Interests in Other Entities*

The IASB has issued IFRS 12 *Disclosure of Interests in Other Entities*, which includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. This standard is effective for annual periods beginning on or after January 1, 2013. Entities will be permitted to apply any of the disclosure requirements in IFRS 12 before the effective date. The Company has not yet assessed the impact of the new standard on the financial statements.

### *IFRS 13 Fair Value Measurements*

IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. The key features of IFRS 13 include: a single framework for measuring fair value while requiring enhanced disclosures when fair value is applied, fair value would be defined as the 'exit price', and concepts of 'highest and best use' and 'valuation premise' would be relevant only for non-financial assets and liabilities. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not yet assessed the impact of the new standard on the financial statements.

### *IAS 27 Separate Financial Statements*

As a result of the issue of the new consolidation suite of standards, IAS 27 *Separate Financial Statements* has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not yet assessed the impact of the new standard on the financial statements.

### *IAS 28 Investments in Associates and Joint Ventures*

As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Company has not yet assessed the impact of the new standard on the consolidated financial statements.

### **Off-Balance Sheet Arrangements**

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

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

Signed: "Michael Judson"

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

June 30, 2011  
Montreal, Quebec