



Forest Gate Energy Inc.
Interim Financial Statements
September 30, 2010
(Unaudited)

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UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 – Continuous Disclosure Obligations adopted by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended September 30, 2010.

Forest Gate Energy Inc.

Balance Sheet (unaudited)

At	September 30, 2010	December 31, 2009 (audited)
	\$	\$
Assets		
<i>Current assets</i>		
Cash	51,939	85,263
Accounts receivable	17,894	10,139
Discount on convertible note	19,511	-
Prepaid expenses	37,268	20,000
	126,612	115,402
Oil & Gas participating interests and deferred exploration costs (note 4)	3,188,610	2,664,338
Saskatchewan diamond properties (note 5)	500,000	500,000
Property and equipment (note 6)	25,138	31,664
	3,840,360	3,311,404
Liabilities		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities (note 7)	787,730	913,131
Convertible note (note 8)	723,342	-
	1,511,072	913,131
Asset retirement obligations (note 9)	429,273	402,798
Due to Joint Ventures	122,455	122,455
	2,062,800	1,438,384
Shareholders' Equity (note 10)		
Share capital	18,741,332	16,879,739
Warrants	4,715,413	4,767,488
Contributed surplus	1,707,006	1,588,226
	25,163,751	23,235,453
Deficit	(23,386,191)	(21,362,433)
	1,777,560	1,873,020
	3,840,360	3,311,404

Contingent liabilities and subsequent events [notes 16 and 19]

Approved on behalf of the board:

Signed "Michael C. Judson" Director

Signed "Nicholas Powell" Director

See accompanying notes to the financial statements.

Forest Gate Energy Inc.

Statements of Operations (unaudited)

Period ended September 30,	Three months		Nine months	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenues				
Petroleum and natural gas revenue	68,721	67,086	207,165	199,177
Royalties	(11,397)	(12,385)	(30,719)	(33,617)
Interest and other income	208	49	239	1,931
	57,532	54,750	176,685	167,491
Expenses				
Operating expenses	24,176	27,301	76,789	99,944
Salaries and levies	351,853	20,510	467,200	169,430
Value of stock option granted (note 9)	10,614	5,061	127,299	28,405
Professional and consulting fees	166,592	77,592	331,298	184,899
General and administration expenses	120,658	83,946	287,683	222,261
Corporate marketing and business development	22,075	32,429	173,530	257,599
Financial charges	19,859	133	51,123	3,996
Amortization of discount on convertible note	20,776	-	31,164	-
Accretion of asset retirement obligation	4,006	1,715	12,018	4,995
Depletion	65,765	32,597	202,931	101,998
Depreciation of property and equipment	4,195	3,349	9,044	10,047
	810,569	284,633	1,770,079	1,083,574
Loss before write-down, income taxes and discontinued operations	753,037	229,883	1,593,394	916,083
Write-down of mining properties and deferred exploration costs (note 10)	-	-	415,907	-
Net loss from continuing operations	753,037	229,883	2,009,301	916,083
Net loss from discontinued operations	4,819	-	14,457	(293)
Net loss	757,856	229,883	2,023,758	915,790
Deficit at the beginning of period	22,628,335	19,859,025	21,362,433	19,173,118
Deficit at the end of period	23,386,191	20,088,908	23,386,191	20,088,908
Basic and diluted loss per share (note 13)				
continuing operations	0.027 \$	0.015 \$	0.070 \$	0.063 \$
discontinued operations	0.000 \$	0.000 \$	0.001 \$	(0.000 \$)
Basic and diluted loss per share	0.027 \$	0.015 \$	0.071 \$	0.063 \$
Weighted average number of shares outstanding (note 9)	28,308,740	15,071,951	28,682,132	14,515,215

See accompanying notes to the financial statements.

Forest Gate Energy Inc.

Statements of Cash Flows (unaudited)

Period ended September 30,	Three months		Nine months	
	2010	2009	2010	2009
	\$	\$	\$	\$
Cash flows from(used in) operating activities				
Net loss from continuing operations	(753,037)	(229,883)	(2,009,301)	(916,083)
<i>Non-cash items:</i>				
Expenses paid through issuance of shares	380,546	-	380,546	-
Amortization of discount on convertible note	20,776	-	31,164	-
Interest on convertible note	30,775	-	47,667	-
Accretion of asset retirement obligation	4,006	1,715	12,018	4,995
Depletion	65,765	32,597	202,931	101,998
Contributed surplus adjustment	-	-	(167,776)	-
Depreciation of property and equipment	4,195	3,349	9,044	10,047
Write-down of amount owing to shareholders	-	-	-	62,140
Write-down of properties and deferred exploration costs	-	-	415,907	293
Stock based compensation (note 10b)	10,614	5,061	127,299	28,405
Net changes in non-cash components of operating working capital (note 13)	125,296	75,193	(150,424)	107,980
	(111,064)	(111,968)	(1,100,925)	(600,225)
Cash flows from (used) financing activities				
Proceeds from the issue of equity (note 10)	-	296,925	1,287,237	296,925
Debt settlement paid through issuance of shares	-	-	300,992	-
Convertible note (note 8)	-	-	625,000	-
	-	296,925	2,213,229	296,925
Cash flows from (used) investing activities				
Acquisition of property and equipment	-	-	(2,518)	-
Oil and gas participating interest and deferred exploration costs	(29,396)	(2,198)	(1,143,110)	(87,004)
	(29,396)	(2,198)	(1,145,628)	(87,004)
Net Increase (decrease) in cash and cash equivalents of continuing operations	(140,460)	182,759	(33,324)	(390,304)
Cash and cash equivalents, beginning of the period	192,399	58,686	85,263	631,749
Cash and cash equivalents, end of period	51,939	241,445	51,939	241,445
Represented by:				
Cash	51,939	241,445	51,939	241,445
Restricted cash	-	-	-	-
	51,939	241,445	51,939	241,445

See accompanying notes to the financial statements.

Forest Gate Energy Inc.

Notes to the Financial Statements (unaudited)

September 30, 2010

1. DESCRIPTION OF OPERATIONS AND BASIS OF PRESENTATION

(a) Description of operations

Forest Gate Energy Inc. ("Forest Gate" or the "Company") 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.

(b) Going Concern Disclosure

These 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.

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

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

(c) Basis of presentation

These unaudited financial statements of the Company are prepared in accordance with Canadian generally accepted accounting procedures ("GAAP") for presentation of interim financial information and in the opinion of management, all adjustments necessary to present fairly the results of operations have been included. All disclosures required for annual financial statements have not been included in these financial statements and therefore these interim statements should be read in conjunction with the Company's 2009 annual audited financial statements. These financial statements use the same accounting policies and methods used in the preparation of the Company's 2009 annual audited financial statements except for changes in accounting policies described in note 2. Interim results may not necessarily be indicative of results for the year.

(d) Comparative financial statements

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

2. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING 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. The adoption of EIC-174 had no significant impact on the Company's financial statements.

Forest Gate Energy Inc.

Notes to the Financial Statements (unaudited)

September 30, 2010

2. CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING PRONOUNCEMENTS (continued)

"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 quoted prices in active markets that are either directly or indirectly observable;

Level 3: valuation techniques with significant unobservable market inputs.

The effects of the application of these new standards are disclosed in note 12.

3. NEW ACCOUNTING PRONOUNCEMENTS

(a) 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". Section 1582 provides the Canadian equivalent to "International Financial Reporting Standard IFRS 3 Business Combinations". These sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact of these new sections on its consolidated financial statements presentation. In the event that the Company would have a business combination prior to January 1, 2011, the Company would adopt Section 1582 in the year of acquisition, and also 1601 and 1602, prospectively as permitted by the new accounting standards.

(b) Convergence with International Financial Reporting Standards:

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

As the International Accounting Standards Board currently, and expectedly, has projects underway that should result in new pronouncements that continue to evolve IFRS, and as this Canadian convergence initiative is in an early stage as of the date of these financial statements, it is premature to currently assess the impact of the Canadian initiative on the Company.

4. OIL AND GAS PARTICIPATING INTERESTS AND DEFERRED EXPLORATION COSTS

The Company's accounts reflect only the proportionate interest in these activities.

	Participating interest \$	Oil & gas Properties \$	September 30, 2010 Net \$	December 31, 2009 Net (audited) \$
Canada	486,029	-	486,029	614,709
USA	-	2,702,581	2,702,581	2,049,629
	486,029	2,702,581	3,188,610	2,664,338

Forest Gate Energy Inc.

Notes to the Financial Statements (unaudited)

September 30, 2010

5. SASKATCHEWAN DIAMOND PROPERTIES

	Cost of Claims \$	Deferred Costs \$	Impairment \$	September 30, 2010 Net \$	December 31, 2009 Net (audited) \$
East Side	69,792	554,307	(312,050)	312,049	312,049
West Side	330,517	45,384	(187,950)	187,951	187,951
	400,309	599,691	(500,000)	500,000	500,000

Forest Gate continues to own its Saskatchewan diamond properties, which includes the East Side and West Side properties at the Fort a la Corne kimberlite field.

6. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Depreciation \$	September 30, 2010 Net \$	December 31, 2009 Net (audited) \$
Furniture and office equipment	33,314	23,335	9,979	12,282
Computer equipment	73,725	58,566	15,159	19,382
	107,039	81,901	25,138	31,664

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2010 Net \$	December 31, 2009 Net (audited) \$
Accounts payable - trade	746,912	538,660
Amounts due to entity significantly influenced by the Company's CEO	-	313,242
Current portion due to Joint Ventures	40,818	61,229
	787,730	913,131

8. CONVERTIBLE NOTE

On January 15, 2010, the Company issued a convertible note for a principal amount of \$675,675 and net proceeds of \$625,000 at an interest rate of 10% per annum. The note is convertible into Forest Gate common shares at a conversion price of \$0.125. Any outstanding principal amount together with accrued but unpaid interest are payable by the Company one year from closing date in equity or cash at the Company's discretion. 25% of the net proceeds in excess of \$500,000 of any future financing will be used to redeem this note. The accumulated interest on the convertible note is \$47,667.

9. ASSET RETIREMENT OBLIGATIONS

At the time completion of drilling and testing, the Company identified obligations related to oil and gas properties and records a liability equal to the present value of expected future assets retirement obligations. The total future ARO was estimated by management based on the Company's net ownership interest in the wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its ARO to be \$429,273 as at September 30, 2010 using the Company's credit-adjusted risk-free interest rate. These payments are expected to be made over the next nine years. The following table reconciles the Company's asset retirement obligation:

Forest Gate Energy Inc.

Notes to the Financial Statements (unaudited)

September 30, 2010

9. ASSET RETIREMENT OBLIGATIONS (continued)

	September 30, 2010			December 31, 2009		
	Continuing Operations	Discontinued operations	Total	Continuing Operations	Discontinued operations	Total
	\$	\$	\$	\$	\$	\$
Balance - beginning of period	74,691	328,107	402,798	17,800	300,000	317,800
Additional obligations	-	-	-	42,058	-	42,058
Revisions is estimated cash flows	-	-	-	10,685	9,900	20,585
Accretion expenses	12,018	14,457	26,475	4,148	18,207	22,355
	86,709	342,564	429,273	74,691	328,107	402,798

10. 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.

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

	Share capital		Warrants		Broker warrants & Options	Contributed Surplus	TOTAL
	Number	\$	Number	\$	Number	\$	\$
December 31, 2009	24,687,233	16,879,739	11,962,360	4,767,488	2,310,313	1,588,226	23,235,453
Common shares issued	7,019,415	598,573					598,573
Warrants issued			3,762,479	207,044			207,044
Warrants forfeited/exercised	2,733,525	297,429	(821,700)	(122,040)	(19,696)		175,389
Broker warrants issued					89,450	6,949	6,949
Broker warrants forfeited					(157,550)		-
Options forfeited					(112,500)	(17,438)	(17,438)
Options issued					595,000	25,302	25,302
Stock based compensation						40,803	40,803
March 31, 2010	34,440,173	17,775,741	14,903,139	4,852,492	2,705,017	1,643,842	24,272,075
Common shares issued	1,324,000	278,340					278,340
Debt settlement	1,504,962	300,992					300,992
Warrants issued			662,000	36,410			36,410
Warrants forfeited/exercised	52,500	5,713	(1,927,660)	(173,489)			(167,776)
Options forfeited					(20,000)	(3,100)	(3,100)
Broker warrants issued					65,000	5,070	5,070
Broker warrants forfeited					(205,617)		-
Stock based compensation						50,580	50,580
June 30, 2010	37,321,635	18,360,786	13,637,479	4,715,413	2,544,400	1,696,392	24,772,591
Debt settlement	4,228,290	380,546					380,546
Options forfeited					(140,000)	(21,700)	(21,700)
Stock based compensation						32,314	32,314
September 30, 2010	41,549,925	18,741,332	13,637,479	4,715,413	2,404,400	1,707,006	25,163,751

Forest Gate Energy Inc.

Notes to the Financial Statements (unaudited)

September 30, 2010

10. SHARE CAPITAL (continued)

(a) Issues during 2010

Three Months ended March 31, 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 ("Unit") consists of one common share ("Share") and one half common share purchase warrant ("Warrant") and net proceeds credited to share capital of \$382,900 after payment of share issue costs. Share issue costs include \$2,500 of cash finder's fee, a stock based compensation of \$129,000 in the form of 2,580,000 warrants and \$1,600 to agents paid in the form of 25,000 broker warrants.

On January 15, 2010, the Company issued a convertible debenture for a principal amount of \$675,675 and net proceeds of \$625,000 at an interest rate of 10% per annum. The debenture is convertible into Forest Gate common shares at a conversion price of \$0.125. Any outstanding principal amount together with accrued but unpaid interest are payable by the Company one year from closing date in equity or cash at the Company's discretion.

On February 18, 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 ("Unit") consists of one common share ("Share") and one half common share purchase warrant ("Warrant") and net proceeds credited to share capital of \$215,673 after payment of share issue costs. Share issue costs include \$8,379 of cash finder's fee, a stock based compensation of \$78,044 in the form of 1,182,480 warrants and \$5,349 to agents paid in the form of 64,450 broker warrants.

During the quarter warrants, broker warrants and options were exercised for total proceeds of \$175,389.

Three Months ended June 30, 2010

On May 5, 2010, Forest Gate issued 1,324,000 Units at a price of \$0.25 per Unit, for total gross proceeds of \$331,000. Each Unit ("Unit") consists of one common share ("Share") and one half common share purchase warrant ("Warrant") and net proceeds credited to share capital of \$314,750 after payment of share issue costs. Share issue costs include \$16,250 of cash finder's fee, a stock based compensation of \$36,410 in the form of 662,000 warrants and \$5,070 to agents paid in the form of 65,000 broker warrants.

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

During the quarter warrants were forfeited and options were exercised for a total decrease in share capital of \$167,776.

Three Months ended September 30, 2010

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

Forest Gate Energy Inc.

Notes to the Financial Statements (unaudited)

September 30, 2010

10. SHARE CAPITAL (continued)

(b) Stock option plan

The Company has a stock option plan authorizing the Board of Directors to grant options to directors, officers, employees and consultants to acquire common shares of the Company at a price computed by reference to the closing market price of the shares of the Company on the business day before the Company notifies the stock exchanges of the grant of the option. The number of shares which may be granted to any one person shall not exceed 5% (2% for consultants) over a 12 month period. The options will vest from the date of the grant to 18 months and expire within 5 years, as determined by the board, with exceptions to death, employment, etc.

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

	September 30, 2010		September 30, 2009	
	Granted	Weighted Average exercise price	Granted	Weighted Average exercise price
December 31	1,895,000	1.42	1,312,500	1.40
Options granted (*)	595,000	0.16	-	
Options exercised	(112,500)	0.16	-	
Options forfeited	-		(200,000)	1.00
March 31	2,377,500		1,112,500	
Options forfeited	(20,000)	0.95	(417,500)	1.64
June 30	2,357,500		695,000	
Options forfeited	(140,000)	0.95	-	1.64
June 30	2,217,500		277,500	

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

Period ended September 30,	Three months ended		Nine months ended	
	2010	2009	2010	2009
	\$	\$	\$	\$
Directors and management compensation	28,702	5,061	131,597	22,389
Consultants Compensation	3,613	-	17,402	6,016
Charged to income	32,314	5,061	148,999	28,405

Forest Gate Energy Inc.

Notes to the Financial Statements (unaudited)

September 30, 2010

10. SHARE CAPITAL (continued)

(b) Stock option plan

As at September 30, 2010, the outstanding options, as issued under the stock option plan to directors, officers, employees and consultants for the purchase of one common share per option, are as follows:

Granted	Exercisable	Weighted Average exercise price	Expiry date
30,000	30,000	1.30	June 2012
20,000	20,000	1.50	August 2012
50,000	50,000	1.60	November 2012
20,000	20,000	1.00	August 2012
405,000	405,000	1.00	December 2013
1,097,500	1,097,500	0.16	October 2014
595,000	595,000	0.16	February 2015
2,217,500	2,217,500	0.38	

(c) Broker warrants

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

As at September 30, 2010 the Company had the following broker warrants outstanding:

	Granted	Exercisable	Weighted Average exercise price	Expiry date
Warrants to buy units of 1 common share	11,025	11,025	0.20	July 2011
Warrants to buy units of 1 common share	5,925	5,925	0.15	September 2011
Warrants to buy units of 1 common share	15,500	15,500	0.15	November 2011
Warrants to buy units of 1 common share	25,000	25,000	0.10	January 2012
Warrants to buy units of 1 common share	64,450	64,450	0.25	February 2012
Warrants to buy units of 1 common share	65,000	65,000	0.40	May 2012
	186,900	186,900	0.27	

Forest Gate Energy Inc.

Notes to the Financial Statements (unaudited)

September 30, 2010

10. SHARE CAPITAL (continued)

(d) Share purchase warrants

The Company has, as at September 30, 2010, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of Warrants	Exercise Price	Expiry date
414,000	0.20	July 2011
1,103,500	0.25	September 2011
7,300,000	0.25	October 2011
395,500	0.25	November 2011
2,580,000	0.20	January 2012
1,182,479	0.25	February 2012
662,000	0.25	May 2012
13,637,479		

11. DISCONTINUED OPERATIONS

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.

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

For the three months ended September 30, 2010	Oil and gas Exploration (Celtic Sea)	Mining Exploration (Saskatchewan)
Write-down of diamond properties (net of future income taxes)	-	-
Write-down of Celtic Sea (net of future income taxes)	4,819	-
Cash and cash equivalents provided from discontinued operations	-	-
For the nine months ended September 30, 2010	Oil and gas Exploration (Celtic Sea)	Mining Exploration (Saskatchewan)
Write-down of diamond properties (net of future income taxes)	-	-
Write-down of Celtic Sea (net of future income taxes)	14,457	-
Cash and cash equivalents provided from discontinued operations	-	-

Forest Gate Energy Inc.

Notes to the Financial Statements (unaudited)

September 30, 2010

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

Fair value

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

Risk management of financial instruments

The Company is exposed to various risks arising from financial instruments. The following analysis provides a measurement of risks as at September 30, 2010.

Credit risk

The Company's principal financial assets are cash and cash equivalents and accounts receivable. Cash and cash equivalents are held with major 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 September 30, 2010 is represented by the carrying value of accounts receivable on the balance sheet.

Liquidity risk

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

Additional funds will be required to meet the Company's planned capital expenditures.

Market risk

a) 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 September 30, 2010.

b) Market sensitivity analysis

Due to the fact that the Company is at a very early stage of production, it is not possible to do a market sensitivity analysis on the earnings

Forest Gate Energy Inc.

Notes to the Financial Statements (unaudited)

September 30, 2010

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

c) Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's revenues are denominated in Canadian dollars, realized petroleum and, to a certain extent, natural gas prices are based upon reference prices denominated in US dollars and are therefore impacted by changes in the exchange rate between the Canadian and US dollar. A strengthening of the Canadian dollar in comparison to the US dollar will decrease revenues received by the Company from the sale of its production. Correspondingly, a decrease in the value of the Canadian dollar relative to the US dollar will increase the revenues received. The impact of such exchange rate fluctuations cannot be accurately quantified. The Company did not have any forward exchange rate contracts in place for the period ended September 30, 2010 to reduce its exposure to foreign currency fluctuations. As of year-end, no other financial instruments were denominated in foreign currency.

13. SUPPLEMENTAL DISCLOSURES OF EXPENSES AND CASH FLOW INFORMATION

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

	Three months ended		Nine months ended	
	2010	2009	2010	2009
	\$	\$	\$	\$
Accounts receivable	11,553	37,612	(7,755)	(57,245)
Prepaid expenses	(10,327)	(2,214)	(17,268)	8,462
Accounts payable and accrued liabilities	124,070	39,795	(125,401)	156,763
	125,296	75,193	(150,424)	107,980

b) Interest paid and received

Interest received during the nine months ended September 30, 2010 amounts to \$239 (September 30, 2009 - \$1,931).

14. LOSS PER SHARE

Due to an expected loss for the entire current period, no incremental shares are included in calculating the dilutive loss per share because the effect would be anti-dilutive.

15. COMMITMENTS

The Company has no long term lease contract for premises.

16. CONTINGENT LIABILITIES

Environmental

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

Forest Gate Energy Inc.

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17. CAPITAL DISCLOSURE

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. There are no externally imposed capital requirements. The Company manages the capital structure and makes adjustments depending on economic conditions.

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

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

18. RELATED PARTY TRANSACTIONS

For the nine months ended September 30, 2010, the Company purchased and paid for services for a sum of \$26,524 (2009 - \$nil) from an entity controlled by the former President and Chief Operating Officer.

These transactions are in the normal course of business and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

19. SUBSEQUENT EVENTS

a) Vanterra Energy

In July 2010, Forest Gate reported that it had reached an agreement with Vanterra Energy Inc. ("Vanterra") of Denver Colorado, whereby Vanterra will 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.

Following the receipt of the conditional acceptance of the TSX Venture Exchange, in November 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.

b) Pershing Gold Property

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 will 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.

Forest Gate Energy Inc.

Notes to the Financial Statements (unaudited)

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19. SUBSEQUENT EVENTS (continued)

c) Private Placement

On October 28, 2010, the Company reported that it has completed a non-brokered private placement by issuing an aggregate of 6,111,110 flow-through units at a price of \$0.09 per unit and 625,000 hard dollar units at a price of \$0.08 per unit to three partnerships associated with the Mineral Fields Group of Toronto, Ontario, for gross proceeds of \$600,000.

Each flow-through unit consists of one flow-through common share and one non-flow-through common share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of Forest Gate at a price of \$0.20 until October 27, 2012. The hard dollar unit consists of one common share and one common share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of Forest Gate at a price of \$0.15 until October 27, 2012.

In connection with the closing of the private placement, Forest Gate paid a cash finder's fee to Limited Market Dealer Inc. of \$30,000, representing 5% of the gross proceeds raised in the private placement. Forest Gate also issued compensation options to Limited Market Dealer Inc. to purchase up to 611,111 units and up to 62,500 hard dollar units of Forest Gate, representing 10 % of the number of "flow-through" units and hard dollar units, respectively, sold in the private placement. The compensation options are exercisable at a price of \$0.09 per unit and at a price of \$0.08 per hard dollar unit, until October 27, 2012. The units to be issued under the compensation options will have the same terms as the respective units issued in the private placement, except that none of the shares will be flow-through shares.