Forest Gate Energy Inc.

Interim Financial Statements

March 31, 2010

(Unaudited)

Contents

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended March 31, 2010.

Forest Gate Energy Inc.
Balance Sheet (unaudited)

At	**March 31, 2010**	December 31, 2009 (Audited)
	$	$
Assets		
Current assets		
Cash	**223,399**	85,263
Restricted Cash *[note 4]*	**123,000**	-
Accounts receivable	**17,912**	10,139
Discount on Convertible Note	**40,287**	-
Prepaid expenses	**20,000**	20,000
	424,598	115,402
Oil & gas participating interests and deferred exploration costs *[note 5]*	**3,227,561**	2,664,338
Saskatchewan Diamond Properties *[note 6]*	**500,000**	500,000
Property and equipment *[note 7]*	**31,758**	31,664
	4,183,917	3,311,404
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *[note 8]*	**1,014,205**	913,131
Convertible note *[note 9]*	**675,675**	-
	1,689,880	913,131
Long term liabilities		
Asset retirement obligations *[note 10]*	**411,623**	402,798
Due to Joint Venturers	**122,455**	122,455
	2,223,958	1,438,384
Shareholders' equity *[note 11]*		
Share capital	**17,775,741**	16,879,739
Warrants	**4,852,492**	4,767,488
Contributed surplus	**1,643,842**	1,588,226
Deficit	**(22,312,116)**	(21,362,433)
	1,959,959	1,873,020
	4,183,917	3,311,404

Contingent liabilities and subsequent events *[notes 17 and 20]*

Approved on behalf of the board:

Signed “Michael C. Judson” ______ *Director*

Signed “Jean Mayer” ______ *Director*

See accompanying notes to the financial statements.

Forest Gate Energy Inc.
Statements of Operations (unaudited)

	Three months ended March 31,	
	2010	2009
	$	$
Revenues		
Petroleum & natural gas revenue	**81,605**	49,910
Royalties	**(15,551)**	(7,588)
Interest & other income *[note 14]*	**31**	1,586
	66,085	43,908
Expenses		
Operating Expenses	**28,073**	35,734
Salaries and levies	**87,245**	106,461
Value of stock option granted *[note 11(b)]*	**66,105**	18,810
Professional & consulting fees	**111,976**	37,588
General and administration expenses	**130,748**	63,072
Corporate marketing & business development	**68,303**	17,803
Financial charges	**14,373**	62
Amortization of discount on convertible note	**10,388**	-
Accretion of asset retirement obligation	**4,006**	1,563
Depletion	**71,401**	31,654
Depreciation of property & equipment	**2,424**	3,349
	595,042	316,096
Loss before write-down, income taxes and discontinued operations	**528,957**	272,188
Write-down of properties & deferred exploration costs *[note 11]*	**415,907**	(225)
Loss before income taxes	**944,864**	271,966
Future income taxes current (recovered)	**-**	
Net loss from continuing operations	**944,864**	271,966
Net loss from discontinued operations *[note 12]*	**4,819**	**-**
Net loss	**949,683**	271,966
Deficit at the beginning of period	**21,362,433**	19,173,118
Deficit at the end of period	**22,312,116**	19,445,084
Basic and diluted loss per share *[note 15]*		
continuing operations	**$0.03525**	$0.0191
discontinued operations	**$0.00018**	$0.0000
Basic and diluted loss per share	**$0.03543**	$0.0191
Weighted average number of shares outstanding	**26,802,871**	14,232,233

See accompanying notes to the financial statements.

Forest Gate Energy Inc.
Statements of Cash Flows (unaudited)

	Three months ended March 31,	
	2010	2009
	$	$
Cash flows from (used in) operating activities		
Net loss from continuing operations	**(944,864)**	(271,963)
Non-cash items:		
Amortization of discount on convertible note	**10,388**	-
Accretion of Asset Retirement Obligation	**4,006**	1,563
Depletion	**71,401**	31,654
Depreciation of property and equipment	**2,424**	3,349
Write-down of amount owing to shareholders	**-**	62,141
Write-down of properties and deferred exploration costs	**415,907**	-
Stock based compensation *[note 11]*	**66,105**	18,810
Net changes in non-cash working capital items *[note 14]*	**93,301**	(66,845)
	(281,332)	(221,291)
Cash flows from (used in) financing activities		
Proceeds from the issue of equity *[note 11]*	**970,517**	-
Convertible note *[note 9]*	**625,000**	-
	1,595,517	-
Cash flows from (used in) investing activities		
Acquisition of property and equipment	**(2,518)**	-
Oil and gas participating interests and deferred exploration costs	**(1,050,531)**	(76,814)
	(1,053,049)	(76,814)
Net increase (decrease) in cash and cash equivalents of continuing operations	**261,136**	(298,105)
Cash and cash equivalents - beginning of Period	**85,263**	631,749
Cash and cash equivalents - end of Period	**346,399**	**333,644**
Represented by:		
Cash	**223,399**	333,644
Restricted Cash	**123,000**	-
	346,399	333,644

See accompanying notes to the financial statements.

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 publicly traded on the TSX Venture Exchange under the symbol "FGE". Forest Gate is an international oil exploration and production company. At a special meeting held on June 23, 2009, shareholders approved changing the company's name to Forest Gate Energy Inc. from Forest Gate Resources Inc.

The Company's operations consist of the exploration and production of oil and gas reserve properties, either directly, through joint ventures or with working interest partners. Recovery of deferred exploration costs and reserve properties depend on the existence of economically recoverable reserves and the Company's ability to obtain financing for its operations and future profitable commercial production.

The Company has put its diamond mining properties in Saskatchewan up for sale, as Forest Gate is no longer a mining exploration company, but an international oil and gas exploration and production company. Management believes that the carried amount of these assets reflects fair market value of properties and can be realized by way of total disposal.

(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.

"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 13.

Recent accounting pronouncements

"Convergence with International Financial Reporting Standards"

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

The company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

"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 its financial statements.

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. RESTRICTED CASH

The Company announced an equity financing in March 2010 which closed after March 31, 2010. The funds were held in escrow pending the closing of the financing.

5. 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**	**March 31, 2010 Net**	December 31, 2009 Net (audited)
	$	**$**	**$**	$
Canada	**543,310**	**-**	**543,310**	614,709
US	**-**	**2,684,251**	**2,684,251**	2,049,629
	543,310	**2,684,251**	**3,227,561**	2,664,338

6. SASKATCHEWAN MINING PROPERTIES

	Cost of Claims	Deferred exploration costs	Impairment	March 31, 2010 Net	December 31, 2009 Net (audited)
	$	$	$	$	$
Saskatchewan					
EastSide	**69,792**	**554,307**	**(312,050)**	**312,049**	312,049
WestSide	**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.

7. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	March 31, 2010 Net	December 31, 2009 Net (audited)
	$	$	$	$
Furniture and office equipment	**33,314**	**21,800**	**11,514**	12,281
Computer equipment	**73,725**	**53,481**	**20,244**	19,382
Leasehold improvements	**7,020**	**7,020**	**-**	-
	114,059	**82,301**	**31,758**	31,663

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2010	December 31, 2009 (audited)
	$	$
Accounts payable - trade	**672,395**	538,660
Amounts due to entity significantly influenced by the company's chief executive officer	**300,992**	313,242
Current portion due to Joint Ventures	**40,818**	61,229
	1,014,205	913,131

9. 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.

10. 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 $411,623 as at March 31, 2010 based on the future liability and incorporated 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:

	March 31, 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 in estimated cash flows	-	-	-	10,685	9,900	20,585
Accretion expenses	**4,006**	**4,819**	**8,825**	4,148	18,207	22,355
Balance - end of period	**78,697**	**332,926**	**411,623**	74,691	328,107	402,798

11. 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 and Options**	**Contributed Surplus**	**Total**
	Number	**$**	**Number**	**$**	**Number**	**$**	**$**
Balance - December 31, 2009	**24 687 233**	**16 879 739**	**11 962 360**	**4 767 488**	**2 310 313**	**1 588 226**	**23 235 453**
Common shares issued	7 019 415	598 573	-	-	-	-	59 8 573
Subscription receipts	-	-	-	-	-	-	-
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
non-cash item	-	-	-	-	-	-	-
Stock-based compensation charged to operations	-	-	-	-	-	40 803	40 803
Balance - March 31, 2010	**34 440 173**	**17 775 741**	**14 903 139**	**4 852 492**	**2 705 017**	**1 643 842**	**24 272 075**

11. 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.

(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 Company is authorized to issue a maximum of 1,943,723 common shares.

11. SHARE CAPITAL (continued)

(b) Stock option plan (continued)

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

	March 31, 2010		March 31, 2009	
		Weighted Average		Weighted Average
	Granted	**Exercise Price**	Granted	Exercise Price
Balance - December 31, 2009	**1,895,000**	**1.42**	1,312,500	1.42
Options granted (*)	**595,000**	**0.16**	717,500	1.00
Options Exercised	**(112,500)**	**0.16**	(261,510)	1.30
Balance - March 31, 2010	**2,377,500**		1,312,500	

(*) 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:

	Three months ended March 31,	
	2010	**2009**
	$	$
Directors and management compensation	**58 450**	12 793
Consultants compensation	**7 655**	6 017
Charged to Income	**66 105**	18 810

As at March 31, 2010, the outstanding options, as issued under the stock option plan to directors, officers, employees and consultants for the purchase of one common share per option, are as follows:

(b) Stock option plan

Granted	**Exercisable**	**Weighted Average Exercise Price $**	**Expiry date**
20,000	**20,000**	**0.95**	**April 2010**
140,000	**140,000**	**2.50**	**July 2010**
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 2013**
405,000	**303,750**	**1.00**	**December 2013**
1,097,500	**227,500**	**0.16**	**October 15, 2014**
595,000	**148,750**	**0.16**	**February 12, 2015**
2,377,500	**960,000**	**0.51**	

11. SHARE CAPITAL (continued)

(c) Broker warrants (continued)

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

As at March 31, 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	**183,336**	**183,336**	**0.70**	**May 2010**
Warrants to buy units of 1 common share	**22,281**	**22,281**	**0.70**	**June 2010**
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**	**-**	**0.10**	**January 2012**
Warrants to buy units of 1 common share	**64,450**	**-**	**0.25**	**February 2012**
	327,517	**238,067**	**0.52**	

(d) Share purchase warrants

The Company has, as at March 31, 2010, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price $	Expiry date
1,875,160	**1.00**	**June 2010**
466,500	**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**
14,903,139		

12. 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 Company formally adopted a plan to divest of its mining operations and focus on oil and gas exploration and operation. As of December 31, 2007 the mining division was classified as a discontinued operation. The following table presents summarized financial information related to discontinued operations:

For the three months ended March 31, 2010	**Oil and gas Exploration** Celtic Sea	**Mining Exploration** (Saskatchewan)	**Total**
Write-off of diamond properties (net of future income taxes)	-	-	-
Write-down of Celtic Sea (net of future income taxes)	4,819		4,819
Net loss from discontinued operations (net of future income taxes)	4,819	-	4,819
Cash and cash equivalents provided from discontinued operations	-	-	-

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

Fair value

The Company's financial instruments consist of cash and cash equivalent, accounts receivable and accounts payable and accrued liabilities. 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 March 31, 2010.

Credit risk

The Company's principal financial assets are cash and cash equivalents and accounts receivable. Cash and cash equivalents are held with major 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, 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.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 March 31, 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.

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 March 31, 2010 to reduce its exposure to foreign currency fluctuations. As of year-end, no other financial instruments were denominated in foreign currency.

14. SUPPLEMENTAL DISCLOSURES OF EXPENSES AND CASH FLOW INFORMATION

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

	Three months ended March 31,	
	2010	2009
	$	$
Accounts receivable	**(7 773)**	(40 946)
Prepaid expenses	**0**	5 734
Increase (decrease) in:		
Accounts payable and accrued liabilities	**101 074**	(31 633)
	93 301	(66 845)

b) Interest paid and received

Interest received during the three months ended March 31, 2010 amounts to $31 (March 31, 2009 - $1,586).

15. 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.

16. COMMITMENTS

The Company has no long term lease contract for premises.

17. 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.

18. 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.

19. RELATED PARTY TRANSACTIONS

During the quarter, the Company purchased and paid for services for a sum of $26,524 (2008 - $nil) from an entity controlled by the 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.

20. SUBSEQUENT EVENTS

On May 6, 2010, Forest Gate issued 1,324,000 units ("Unit") at a price of $0.25 per Unit, for total gross proceeds of $331,000. Each Unit consists of one common share ("Share") and one half common share purchase warrant allowing the holder to subscribe for one Share at a price of $0.40 for a period of two years from the subscription date ("Warrant"). The Units are subject to a four-month hold period. The Company paid $16,250 in commissions and finder's fees, and issued 65,000 broker Warrants in connection with this private placement.

Subject to TSXV approval, the Company has agreed to issue 1,504,962 common shares to Blue Note Mining Inc. ("Blue Note") at a deemed price of $0.20 each. These shares will be issued in settlement of a debt of $300,992 reflected in the Company's financial statements as at March 31, 2010. The debt results from Blue Note's payment of various invoices on the Company's behalf. The common shares issued to Blue Note will be subject to a four-month hold period. Blue Note is an entity significantly influenced by the Company’s chief executive officer.