Forest Gate Energy Inc.

(formerly Forest Gate Resources Inc.)

Financial Statements

December 31, 2009

Contents

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AUDITORS' REPORT

To the Shareholders of
Forest Gate Energy Inc.

We have audited the balance sheets of **Forest Gate Energy Inc. (formerly Forest Gate Resources Inc.)** as at December 31, 2009 and 2008 and the statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for years then ended in accordance with Canadian generally accepted accounting principles.

Horwath Leebosh Appel, LLP [1]

Montreal, Quebec
April 23, 2010

[1] Chartered accountant auditor permit no. 15046

Forest Gate Energy Inc.
Balance Sheet

At December 31,	2009 $	2008 $
Assets		
Current assets		
Cash	**85,263**	631,749
Accounts receivable	**10,139**	34,994
Prepaid expenses	**20,000**	11,467
	115,402	678,210
Oil & gas participating interests and deferred exploration costs *[note 5]*	**2,664,338**	758,566
Saskatchewan Diamond Properties *[note 6]*	**500,000**	1,000,000
Property and equipment *[note 7]*	**31,664**	38,353
	3,311,404	2,475,129
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *[note 8]*	**913,131**	602,592
Long term liabilities		
Asset retirement obligations *[note 9]*	**402,798**	317,800
Due to joint ventures *[note 5]*	**122,455**	-
	1,438,384	920,392
Shareholders' equity *[note 10]*		
Share capital and Subscription receipts	**16,879,739**	15,412,376
Warrants	**4,767,488**	3,891,225
Contributed surplus	**1,588,226**	1,424,254
Deficit	**(21,362,433)**	(19,173,118)
	1,873,020	1,554,737
	3,311,404	2,475,129

Contingent liabilities and subsequent events *[notes 17 and 22]*

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.
Statement of Operations

For the years ended December 31,	**2009**	2008
	$	$
Revenues		
Petroleum & natural gas revenue	**276,647**	336,281
Royalties	**(48,057)**	(63,288)
Interest & other income *[note 13 (b)]*	**1,995**	18,612
	230,585	291,605
Expenses		
Operating Expenses	**315,461**	101,068
Salaries and levies	**188,056**	453,386
Value of stock option granted *[note 10 (c)]*	**85,808**	44,655
Professional & consulting fees	**272,714**	510,522
General and administration expenses	**277,318**	487,067
Corporate marketing & business development	**321,820**	249,570
Financial charges	**4,145**	14,570
Accretion of asset retirement obligation	**22,355**	-
Depletion	**348,521**	317,134
Depreciation of property & equipment	**9,802**	13,396
	1,846,000	2,191,368
Loss before write-down, income taxes and discontinued operations	**1,615,415**	1,899,763
Write-down of oil and gas lease	**64,000**	-
Loss before income taxes and discontinued operations	**1,679,415**	1,899,763
Future income taxes current (recovered)	**-**	(63,186)
Net loss from continuing operations	**1,679,415**	1,836,577
Net loss from discontinued operations *[note 11]*	**509,900**	8,507,553
Net loss	**2,189,315**	10,344,130
Deficit at the beginning of year	**19,173,118**	8,828,988
Deficit at the end of year	**21,362,433**	19,173,118
Basic and diluted loss per share *[note 14]*		
continuing operations	**$0.10029**	$0.13800
discontinued operations	**$0.03045**	$0.63930
Basic and diluted loss per share	**$0.13074**	$0.77730
Weighted average number of shares outstanding	**16,745,313**	13,308,129

See accompanying notes to the financial statements.

Forest Gate Energy Inc.
Statements of Cash Flows

For the years ended December 31,	2009 $	2008 $
Cash flows from (used in) operating activities		
Net loss from continuing operations	**(1,679,415)**	(1,836,577)
Non-cash items:		
Future income taxes current (recovered)		(63,186)
Accretion of Asset Retirement Obligation	**22,355**	-
Depletion	**348,521**	317,134
Depreciation of property and equipment	**9,802**	13,396
Write-down of amount owing to shareholders	**62,140**	62,141
Stock based compensation *[note 10]*	**85,808**	44,655
Net changes in non-cash working capital items *[note 13]*	**326,861**	271,915
	(823,928)	(1,190,522)
Cash flows from (used in) financing activities		
Proceeds from the issue of equity *[note 10]*	**348,749**	1,632,628
Increase in due to joint ventures	**122,455**	-
	471,204	1,632,628
Cash flows from (used in) investing activities		
Acquisition of property and equipment	**(3,113)**	-
Oil and gas participating interests and deferred exploration costs (net of increase in asset retirement obligation)	**(190,649)**	(664,907)
	(193,762)	(664,907)
Net increase (decrease) in cash and cash equivalents of continuing operations	**(546,486)**	(222,801)
Cash and cash equivalents provided by discontinued operations	**-**	(37,987)
Cash and cash equivalents - beginning of year	**631,749**	892,537
Cash and cash equivalents - end of year	**85,263**	631,749
Represented by:		
Cash with financial institutions	**85,263**	631,749

See accompanying notes to the financial statements.

1. DESCRIPTION OF OPERATIONS

Description of operations

Forest Gate Energy Inc. ("Forest Gate" or the "Company") is incorporated under the Canada Business Corporations Act and is publicly traded on the TSX Venture Exchange under the symbol "FGE". Forest Gate is an international oil exploration and production company. At a special meeting held on June 23, 2009, shareholders approved changing the 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 is reviewing its alternatives for its diamond mining properties in Saskatchewan, 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.

2. BASIS OF PRESENTATION

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below in the next section.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash and cash equivalents: the Company considers currency on hand and demand deposits with financial institutions to be cash. The Company considers all highly liquid investments with an insignificant risk and purchased with a maturity of three months or less to be cash equivalents.

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

	Rates	Methods
Furniture and office equipment	20%	Diminishing balance
Computer equipment	30%	Diminishing balance
Leasehold improvements	Over the term of the lease	Straight-line

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

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

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

Oil and gas participating interest and deferred exploration costs:

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Uncertainty: the amounts recorded for depletion and depreciation of oil and natural gas properties and equipment, the provision for asset retirement obligations, the provision for income taxes, and the ceiling test calculations are based on estimates of proven reserves, production rates, oil and natural gas prices, future costs, future prices and other relevant assumptions. Accruals for royalties and costs are prepared based on estimates when actual amounts are not yet known. Stock based compensation amounts are determined using certain assumptions (see *Note 10*). By their nature, these estimates and assumptions are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

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

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

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

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

Stock-based compensation: the Company has a stock option compensation plan which is described in *Note 10*. The Company follows the fair value method to record compensation expense with respect to stock options and warrants granted in exchange for goods and services. This method is applied for all awards made to non-employees and employees. The fair value of each option or warrant granted is estimated on the date of grant and a provision for the costs is provided for as contributed surplus over the term of the option agreement. Compensation expense associated with options issued to employees, consultants, officers and directors of the Company are expensed. The consideration received by the Company on the exercise of share options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur which could result in recoveries of the compensation.

Expense related to broker warrants issued are recorded as share issue costs and deducted from share capital.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Assets:

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

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

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

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

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

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

Financial Liabilities:

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

Other than HFT liabilities: Financial liabilities classified as other than HFT are measured at amortized cost using the effective interest method. Interest expense is recorded in financing expense in the period. Transaction costs are added to the carrying amount of the financial liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Standards of financial statement presentation: the Canadian Institute of Chartered Accountants has amended section 1400, "General Standards of Financial statement Presentation", which is effective for interim periods beginning on or after October 1, 2008, to include requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of this new section is discussed in Note 2 of these notes to the financial statements.

4. 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 11 of the annual financial statements as of December 31, 2009.

4. CHANGES IN ACCOUNTING POLICIES (continued)

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.

5. OIL & GAS PARTICIPATING INTERESTS AND DEFERRED EXPLORATION COSTS

For the year ended

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

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

Canada

Forest Gate has entered into a number of Joint Venture Agreements with Emerald Bay Energy Inc. to acquire working interests in Alberta properties. As of December 31, 2009, the total cost of the Company's participating interest is $1,280,364 less depletion expenses of $665,655. The Company's accounts reflect only the proportionate interest in these activities. The Company opted not to renew its lease for the Bakken property, and has written off the related costs.

Pursuant to its agreement with Emerald Bay Energy, the Company and its joint venture partners committed to drill an offset well at Ferrybank, Alberta. Forest Gate later opted not to fund its participation and will be carried on the first $91,900 of costs. Accordingly, under the penalty clause in the agreement, the joint venture partners will be reimbursed 300% of these costs. Thereafter Forest Gate will earn its 41.3% working interest in the second Ferrybank well. Forest Gate estimates that one third of the penalty will be paid in 2010 with the remainder thereafter.

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

U.S.

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. As of December 31, 2009, the total cost of the Company's U.S. interest was $2,049,628.

6. SASKATCHEWAN DIAMOND PROPERTIES

	Cost of Claims $	Deferred exploration costs $	Impairment $	December 31, 2009 Net $	December 31, 2008 Net $
Saskatchewan					
EastSide	**69,792**	**554,307**	**(312,050)**	**312,049**	624,099
WestSide	**330,517**	**45,384**	**(187,950)**	**187,951**	375,901
	400,309	**599,691**	**(500,000)**	**500,000**	1,000,000

Forest Gate continues to own its Saskatchewan diamond properties, which includes the East Side and West Side properties at the Fort a la Corne kimberlite field. The Company is reviewing its alternatives for these mining properties. Given the current state of the capital markets, Management believes it to be prudent to further write-down the carrying amount of these assets to reflect the fair market value of the properties that would be realized on disposal.

7. PROPERTY AND EQUIPMENT

For the years ended December 31,	Cost $	Accumulated Depreciation $	2009 Net $	2008 Net $
Furniture and office equipment	**33,314**	**21,033**	**12,281**	14,114
Computer equipment	**71,207**	**51,825**	**19,382**	24,239
Leasehold improvements	**7,020**	**7,020**	**-**	-
	111,541	**79,878**	**31,664**	38,353

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	**December 31, 2009 $**	December 31, 2008 $
Accounts payable - trade	**538,660**	280,926
Amount due to shareholders	**-**	62,140
Amount due to entity significantly influenced by the company's chief executive officer	**313,242**	259,526
Current portion due to joint ventures	**61,229**	-
	913,131	602,592

9. ASSET RETIREMENT OBLIGATIONS

The Company is committed to a program of environmental protection at its oil and gas properties. Management believes that it was in compliance with government regulations in 2009. At the time of completion of drilling and testing, the Company identifies obligations related to a liability equal to the present value of expected future asset retirement obligations. The total future ARO was estimated by management based on the Company's net ownership interest in the wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its asset retirement obligations, using the credit adjusted risk-free rate, to be $402,798 as at December 31, 2009. These payments are expected to be made over the next 10 years. The following table reconciles the Company's asset retirement obligation:

For the years ended December 31,	**2009**			2008		
	Continuing Operations $	**Discontinued Operations $**	**Total $**	Continuing Operations $	Discontinued Operations $	Total $
Balance - beginning of year	**17,800**	**300,000**	**317,800**	-	-	-
Additional obligations	**42,058**	**-**	**42,058**	17,800	300,000	317,800
Revisions in estimated cash flows	**10,685**	**9,900**	**20,585**	-	-	-
Accretion expenses	**4,148**	**18,207**	**22,355**	-	-	-
Balance - end of year	**74,691**	**328,107**	**402,798**	17,800	300,000	317,800

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

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

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. Prior years numbers have been restated 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, 2007	**11,904,857**	**14,863,460**	**3,662,241**	**2,968,885**	**1,083,222**	**1,219,272**	**19,051,617**
Equity issued	2,327,376	612,102	-	-	-	-	612,102
Warrants issued	-	-	2,147,360	922,340	-	-	922,340
Warrants forfeited	-	-	-	-	-	-	-
Broker warrants issued	-	-	-	-	225,314	98,186	98,186
Broker warrants forfeited	-	-	-	-	-	-	-
Options forfeited	-	-	-	-	(261,510)	-	-
Options issued	-	-	-	-	717,500	-	-
Non-cash item	-	-	-	-	-	.62,141	62,141
Stock-based compensation	-	-	-	-	-	-	-
charged to operations	-	-	-	-	-	44,655	44,655
Future income taxes on flow	-	-	-	-	-	-	-
through expenses renounced	-	(63,186)	-	-	-	-	(63,186)
Balance - December 31, 2008	**14,232,233**	**15,412,376**	**5,809,601**	**3,891,225**	**1,764,525**	**1,424,254**	**20,727,855**
Equity issued	5,205,000	601,113	-	-	-	-	601,113
Subscription receipts issued	5,250,000	866,250	-	-	-	-	866,250
Warrants issued	-		9,815,000	876,263	-	-	876,263
Warrants forfeited	-	-	(3,662,241)	-	-	-	-
Broker warrants issued (*)	-	-	-	-	190,000	16,024	16,024
Broker warrants forfeited	-	-	-	-	(226,712)	-	-
Options forfeited	-	-	-	-	(627,500)	-	-
Options issued	-	-	-	-	1,210,000	-	-
Non-cash item	-	-	-	-	-	62,140	62,140
Stock-based compensation charged to operations	-	-	-	-	-	85,808	85,808
Balance - December 31, 2009	**24,687,233**	**16,879,739**	**11,962,360**	**4,767,488**	**2,310,313**	**1,588,226**	**23,235,453**

(*) subscription receipts are included in share capital, due the fact that the only restriction on these subscription receipts relates to the timing of the conversion.

(a) Issues during 2009

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

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

10. SHARE CAPITAL (continued)

ii) Quarter ended September 30, 2009

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

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

iii) Quarter ended December 31, 2009

- On October 13, Forest Gate acquired a 70% equity interest in all Arizona oil and gas licenses belonging to Vanterra. In consideration, Forest Gate issued to Vanterra 2,690,000 Forest Gate common shares, 5,250,000 subscription receipts convertible into Forest Gate common shares without any additional consideration and 7,300,000 warrants at an exercise price of $0.25 per share, which warrants will expire on the second anniversary of their issuance. Share capital was credited for $1,310,100 and warrants were credited for $700,800. No such subscription receipt or warrant may be converted or exercised by Vanterra if, as a result of that conversion or exercise, Vanterra would hold more than 15% of Forest Gate's outstanding common shares.

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

(b) Issues during 2008

i) Quarter ended March 31, 2008

- The Company closed a private placement of 2,712,000 shares at $0.13 per share. The issue generated total gross proceeds of $352,560 and net proceeds credited to share capital of $194,871 and $122,040 in the form of 2,712,000 warrants after payment of share issue costs. Share issue costs include $25,605 of cash finder's fee and $10,044 to agents paid in the form of 196,960 broker warrants.

ii) Quarter ended June 30, 2008

- The Company closed the first tranche of a private placement on June 3, 2008 of 18,333,651 shares consisting of 2,222,221 flow-through units at $0.09 per unit and 16,111,430 units at $0.07 per share. The issue generated total gross proceeds of $1,327,800 and net proceeds credited to share capital of $344,977 and $723,347 in the form of 17,222,541 warrants after payment of share issue costs. Share issue costs include $182,474 of cash finder's fee and $77,001 to agents paid in the form of 1,833,365 broker warrants.

- The Company closed the second tranche of the private placement on June 27, 2008 of 2,228,112 shares consisting of 1,378,112 flow-through units at $0.09 per unit and 850,000 units at $0.07 per share. The issue generated total gross proceeds of $183,530 and net proceeds credited to share capital of $72,254 and $76,953 in the form of 1,539,056 warrants after payment of share issue costs. Share issue costs include $23,182 of cash finder's fee and $11,141 to agents paid in the form of 222,811 broker warrants.

iii) Quarter ended September 30 and December 31, 2008

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

10. SHARE CAPITAL (continued)

(c) Stock option plan

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

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

For the years ended December 31,	**2009**		2008	
	Granted	**Weighted Average Exercise Price**	Granted	Weighted Average Exercise Price
Balance - December 31, 2008	**1,312,500**	**1.42**	856,510	1.80
Options granted (*)	**1,210,000**	**0.16**	717,500	1.00
Options forfeited	**(627,500)**	**1.45**	(261,510)	1.30
Balance - December 31, 2009	**1,895,000**	**0.60**	1,312,500	1.42

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

For the years ended December 31,	**2009**	**2008**
	$	$
Directors and management compensation	**60,000**	90,315
Consultants compensation	**25,808**	(45,661)
Charged to Income	**85,808**	44,654

As at December 31, 2009, 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**
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	**15,000**	**1.00**	**August 2013**
405,000	**303,750**	**1.00**	**December 2013**
1,210,000	**302,500**	**0.16**	**October 15, 2014**
1,895,000	**881,250**	**0.60**	

10. SHARE CAPITAL (continued)

(d) Broker warrants

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

Balance - December 31, 2008	**452,025**	**1.11**
Granted	**190,000**	**0.25**
Expired	**(226,712)**	**1.26**
Balance - December 31, 2009	**415,313**	**0.51**

As at December 31, 2009 the Company had the following broker warrants outstanding:

	Granted	Exercisable	Weighted Average Exercise Price $	Expiry date
Warrants to buy units of 1 common share	**19,696**	**19,696**	**1.30**	**February 2010**
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	**47,150**	**47,150**	**0.20**	**July 2011**
Warrants to buy units of 1 common share	**111,850**	**111,850**	**0.25**	**September 2011**
Warrants to buy units of 1 common share	**31,000**	**31,000**	**0.15**	**November 2011**
	415,313	**415,313**	**0.51**	

(e) Share purchase warrants

The Company has, as at December 31, 2009, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price $	Expiry date
271,200	**1.70**	**February 2010**
1,876,160	**1.00**	**June 2010**
1,016,500	**0.20**	**July 2011**
1,118,500	**0.25**	**September 2011**
7,300,000	**0.25**	**October 2011**
380,000	**0.25**	**November 2011**
11,962,360		

10. SHARE CAPITAL (continued)

(f) Fair value

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

	Broker warrant issues during 2009		
Number	47,150	111,850	31,000
Risk-free interest rate	2.41%	2.32%	2.30%
Expected life (years)	2	2	2
Expected volatility	126%	126%	126%
Expected dividend yield	nil	nil	nil
Weighted average grant date fair value	$0.071	$0.087	$0.095

	Warrant issues during 2009			
Number	1,016,500	1,118,500	380,000	7,300,000
Risk-free interest rate	2.41%	2.32%	2.30%	2.60%
Expected life (years)	2	2	2	2
Expected volatility	126%	126%	126%	126%
Expected dividend yield	nil	nil	nil	nil
Weighted average grant date fair value	$0.065	$0.073	$0.095	$0.096

	Stock Option issues during 2009
Number	1,210,000
Risk-free interest rate	2.61%
Expected life (years)	5
Expected volatility	126%
Expected dividend yield	nil
Weighted average grant date fair value	$0.136

11. NET LOSS FROM DISCONTINUED OPERATIONS

The Company formally adopted a plan to divest of its mining operations and focus on oil and gas exploration. The properties were evaluated and management believes the carrying value was impaired. The deferred exploration costs have therefore been written down.

The company, in September 2008 also forfeited its entire interest in the Celtic Sea project.

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

For the twelve months ended December 31, 2009	Saskatchewan Properties $	Celtic Seas $	Total
Write-down of diamond properties	500,000	-	500,000
Write-down of Celtic Sea	-	9,900	9,900
Net loss from discontinued operations	500,000	9,900	509,900

For the twelve months ended December 31, 2008	Saskatchewan Properties $	Celtic Seas $	Total
Write-down of diamond properties	2,121,207	-	2,121,207
Write-down of Celtic Sea	-	6,386,346	6,386,346
Net loss from discontinued operations	2,121,207	6,386,346	8,507,553

12. 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 December 31, 2009.

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 December 31, 2009 is represented by the carrying value of the accounts receivable on the balance sheet.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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, 2009.

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 year ended December 31, 2009.

b) *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.

c) *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.

d) *Foreign currency exchange rate risk*

Foreign currency exchange rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's revenues are denominated in Canadian dollars, realized petroleum and, to a certain extent, natural gas prices are based upon reference prices denominated in US dollars and are therefore impacted by changes in the exchange rate between the Canadian and US dollar. A strengthening of the Canadian dollar in comparison to the US dollar will decrease revenues received by the Company from the sale of its production. Correspondingly, a decrease in the value of the Canadian dollar relative to the US dollar will increase the revenues received. The impact of such exchange rate fluctuations cannot be accurately quantified. The Company did not have any forward exchange rate contracts in place for the year ended December 31, 2009 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

For the years ended December 31,	**2009** **$**	2008 $
Decrease (increase) in:		
Accounts receivable	**24,855**	(10,240)
Prepaid expenses	**(8,533)**	(547)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**310,539**	262,222
	326,861	271,915

b) Interest paid and received

Interest received during the year amounts to $1,995 (December 31, 2008 - $18,612).

c) Non-monetary transactions

Forest Gate acquired a 70% equity interest in all Arizona oil and gas licenses belonging to Vanterra. In consideration, Forest Gate issued to Vanterra 2,690,000 Forest Gate common shares, 5,250,000 subscription receipts convertible into Forest Gate common shares without any additional consideration and 7,300,000 warrants at an exercise price of $0.25 per share, which warrants will expire on the second anniversary of their issuance. This transaction was valued at $2,010,900, based on an estimate of the consideration paid.

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

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.

The loss per share has been computed on the assumption that the subscription receipts will convert into common shares. The only restriction on these subscription receipts, relates to the timing of the conversion.

15. RELATED PARTY TRANSACTIONS

General and administrative expenses include $153,592 (2008 - $150,127) charged by an entity which was significantly influenced by the company's chief executive officer.

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

16. TAX LOSSES AND OTHER EXPENSES TO CARRY FORWARD

a) Provision for income taxes

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

	2009		
	Federal	**Provincial total**	**Combined**
Loss before income taxes	**(1,679,415)**	**(1,679,415)**	**(1,679,415)**
Federal income tax rate	**19.00%**	**10.95%**	**29.95%**
Tax effect	**(319,089)**	**(183,896)**	**(502,985)**
Value of stock option granted	**13,389**	**7,716**	**21,106**
Share issue costs	**(72,860)**	**(41,991)**	**(114,851)**
Depreciation of capital assets	**1,862**	**1,073**	**2,936**
Depletion of oil and gas properties	**66,219**	**38,163**	**104,382**
Write-down of mining properties	**-**	**-**	**-**
Loss on deferred oil and gas properties	**12,160**	**7,008**	**19,168**
Provision for doubtful debts	**(15,997)**	**(9,219)**	**(25,216)**
Other	**1,242**	**2,248**	**3,490**
Benefit of losses not previously recognized			**-**
Change in valuation allowance, tax estimates and rate changes	**313,073**	**178,897**	**491,971**
Income taxes	**-**	**-**	**-**

Year ended December 31,	2008		
	Federal	**Provincial**	**Combined**
Loss before income taxes and discontinued operations	(1,899,763)	(1,899,763)	(1,899,763)
Income tax rate	19.50%	11.40%	30.90%
Tax effect	(370,454)	(216,573)	(587,027)
Value of stock option granted	17,612	10,296	27,908
Share issue costs	(75,570)	(44,179)	(119,749)
Depreciation of capital assets	2,612	1,527	4,139
Depletion of oil and Gas properties	61,841	36,153	97,994
Write-down of mining properties	(45,989)	(26,886)	(72,875)
Provision for doubtful accounts	18,844	11,017	29,861
Other	(1,210)	(708)	(1,918)
Change in valuation allowance, tax estimates and rate changes	329,128	229,353	558,481
Income taxes	(63,186)	-	(63,186)

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

b) Future income tax assets and liabilities

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

	2009		
	Federal	**Provincial**	**Combined**
Share issue costs	**67,228**	**38,745**	**105,973**
Carrying value of mining properties and deferred exploration costs in excess of tax basis	**(276,814)**	**(159,532)**	**(436,346)**
Tax cost of property and equipment in excess of carrying value	**3,540**	**2,040**	**5,579**
Non capital losses carried forward	**2,122,110**	**1,171,360**	**3,293,470**
	1,916,064	**1,052,612**	**2,968,676**
Valuation allowance for future tax assets	**(1,916,064)**	**(1,052,612)**	**(2,968,676)**
	-	**-**	**-**

Year ended December 31,	2008		
	Federal	Provincial	Combined
Share issue costs	135,811	79,397	215,208
Carrying value of mining properties and deferred exploration costs in excess of tax basis	(54,059)	(31,604)	(85,663)
Tax cost of property and equipment in excess of carrying value	6,204	3,627	9,831
Non capital losses carried forward	1,853,475	1,001,718	2,855,193
	1,941,431	1,053,138	2,994,569
Valuation allowance for future tax assets	(1,941,431)	(1,053,138)	(2,994,569)
	-	-	-

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

b) Future income tax assets and liabilities (continued)

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

The losses and costs expire as follows:

	Expiry date	Federal	Provincial
	2010	325,000	320,000
	2014	641,000	739,000
	2015	1,284,000	1,148,000
	2026	699,000	375,000
	2027	4,697,000	4,239,000
	2028	1,866,000	1,848,000
	2029	1,657,000	1,632,000
		11,169,000	10,301,000
Share issue costs (deductible from 2010 to 2014)		353,833	353,833

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. With the decline in commodity prices, especially for natural gas, the Company's revenues have declined, decreasing its cashflow from operations available to meet its obligations.

19. SEGMENTED INFORMATION

All revenues and expenses in 2009 were incurred in Canada. Assets held in different countries are detailed in notes 5 and 11.

20. COMPREHENSIVE INCOME

In 2009 and 2008, the company did not have any comprehensive income to report.

21. COMPARATIVE FIGURES

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

22. SUBSEQUENT EVENTS

i) On January 15, 2010, Forest Gate completed a non-brokered private placement and has 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 allowing the holder to subscribe for one share at a price of $0.20 for a period of two years from the subscription date. The Company paid $2,500 in commissions and finder's fees, and issued 25,000 broker warrants in connection with this private placement, in accordance with the rules and regulations of the TSXV.

Additionally, the Company issued a convertible debenture to Jones, Gable & Company Limited 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. 25% of the net proceeds in excess of $500,000 of any future financing will be used to redeem this debenture.

ii) On February 18, 2010, Forest Gate completed a non-brokered private placement, and issued 2,364,960 units at a price of $0.13 per unit, for total gross proceeds of $307,444. Each unit consists of one common share and one half common share purchase warrant allowing the holder to subscribe for one Share at a price of $0.25 for a period of two years from the subscription date. The Company paid $8,378.50 in commissions and finder's fees, and issued 64,450 broker Warrants in connection with this private placement, in accordance with the rules and regulations of the TSXV.

iii) On January 19, 2010 the company acquired oil licenses in Crescent Junction, Grand County, Utah for US$390,000. On March 22, 2010, Forest Gate abandoned its first well on its Crescent Junction property in Grand County, Utah following production testing that recovered oil at non-commercial rates.

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