Forest Gate Resources Inc.

Quarterly Financial Statements

March 31, 2008

(Unaudited)

Contents

Forest Gate Resources Inc.
Balance Sheet (Unaudited)

At	**March 31, 2008**	December 31, 2007
		(Audited)
	$	$
Assets		
Current assets		
Cash	**663 952**	892 537
Accounts receivable	**194 068**	106 136
Prepaid expenses	**5 708**	10 920
	863 728	1 009 593
Oil and gas participating interest and deferred exploration costs *[note 4]*	**6 788 235**	6 479 339
Assets of business held for sale *[note 5]*	**3 083 220**	3 083 220
Property and equipment *[note 6]*	**48 400**	51 749
	10 783 583	10 623 901
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**731 837**	401 272
Shareholders' equity *[note 7]*		
Share capital	**14 896 352**	14 863 460
Warrants	**3 090 925**	2 968 885
Contributed surplus	**1 284 047**	1 219 272
	19 271 324	19 051 617
Deficit	**(9 219 578)**	(8 828 988)
	10 051 746	10 222 629
	10 783 583	10 623 901

Contingent liabilities and subsequent events *[notes 15 and 17]*

Approved on behalf of the board:

Signed "Michael C. Judson" *Director*

Signed "Peter D. Watson" *Director*

See accompanying notes to financial statements

Statements of Operations (Unaudited)

Period ended	Three months ended March 31	
	2008	2007
	$	$
Revenues		
Interest income *[note 9]*	**4 199**	31 094
Expenses		
Salaries and levies	**127 987**	143 153
Value of stock option granted *[note 7 (b)]*	**54 731**	86 560
Professional and consulting fees	**147 245**	160 585
General and administration expenses	**102 028**	131 007
Registration and filing fees	**25 630**	18 131
Corporate marketing and business development	**86 105**	228 752
Investor relations	**2 018**	16 337
Financial charges	**270**	2 742
Depreciation of property and equipment	**3 349**	4 825
	549 363	792 092
Loss before write-down, income taxes and discontinued operations	**545 164**	760 998
Loss on short term investments	**-**	50 961
Write-down of mining properties and deferred exploration costs *[note 5]*	**-**	26 599
Loss before income taxes and discontinued operations	**545 164**	838 558
Future income taxes recovered	**(161 979)**	(266 387)
Net loss from continuing operations	**383 185**	572 171
Net loss from discontinued operations	**7 405**	-
Net loss	**390 590**	572 171
Deficit at the beginning of period	**8 828 988**	6 442 825
Deficit at the end of period	**9 219 578**	7 014 996
Basic and diluted loss per share *[note 10]*		
continuing operations	**$0.00319**	$0.00719
discontinued operations	**$0.00006**	$0.00000
Weighted average number of shares outstanding	**120 002 240**	79 586 157

See accompanying notes to financial statements

Statements of Cash Flows (Unaudited)

Period ended	Three months ended March 31	
	2008	2007
	$	$
Cash provided from (used for) continuing operating activities		
Net loss from continuing operations	**(383 185)**	(572 171)
Non-cash items:		
Write-down of mining properties and deferred exploration costs	**-**	26 599
Future income taxes recovered *[note 14]*	**(161 979)**	(266 387)
Depreciation of property and equipment	**3 349**	4 825
Unrealized loss on short term investments	**-**	(50 961)
Value of stock option granted	**54 731**	86 560
Net changes in non-cash components of operating working capital *[note 9]*	**247 845**	927 609
	(239 239)	156 074
Cash provided from (used for) continuing financing activities		
Proceeds from the issue of equity *[note 7]*	**326 955**	-
	326 955	-
Cash provided from (used for) continuing investing activities		
Acquisition of property and equipment	**-**	(7 024)
Proceeds from sale of short-term investments	**-**	488 811
Oil and gas participating interest and deferred exploration costs *[note 4]*	**(308 896)**	(1 899 676)
Mining properties and deferred exploration costs	**-**	(37 161)
	(308 896)	(1 455 050)
Net increase in cash and cash equivalents of continuing operations	**(221 180)**	(1 298 976)
Cash and cash equivalents provided by discontinued operations *[note 5]*	**(7 405)**	-
Cash and cash equivalents - beginning of period	**892 537**	3 173 739
Cash and cash equivalents - end of period	**663 952**	1 874 763
Represented by:		
Cash with financial institutions	**663 952**	1 874 763

See accompanying notes to financial statements

1. NATURE OF BUSINESS

Forest Gate Resources 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 “FGT”. Forest Gate is a Canadian based international oil exploration and production company.

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, the Company’s ability to obtain financing for its operations and future profitable commercial production.

The Company is currently evaluating selling options for its diamond mining properties in Saskatchewan. Forest Gate is no longer a mining exploration company but an international oil and gas exploration and production company. The mining properties and deferred exploration costs are shown and presented as an asset of business held for sale. 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. 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
- Assets of business held for sale
- Stock based compensation

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.

Comparative financial statements: certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

Revenue recognition: 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

…continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 by 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.

Ceiling tests: in following the full cost method, an impairment loss is recognized when the carrying amount of the oil and gas properties of a cost centre is not recoverable and exceeds its fair value. The carrying amounts are assessed to be unrecoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market value of unproved properties and the cost of major development projects are less than the carrying amount of the cost centre. In determining the amount of impairment, the carrying amount of oil and gas properties capitalized in a cost centre is compared to the fair value of the associated proved and probable reserves and the lower of cost and market value of any unproved properties which are subject to a separate test for impairment.

In determining the fair value of the proved and probable reserves, the Company uses cash flows based upon the oil and gas prices as quote in the futures market. These cash flows are then discounted using a risk-free interest rate. In the carrying value of the oil and gas properties is in excess of its fair value, the excess is charged against earnings. All of the Company’s oil and gas activities are conducted jointly with other participants. The Company’s accounts reflect only the Company’s proportionate interest in these activities.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. As at March 31, 2008 the mining properties and deferred exploration costs are presented as “assets of business held for sale”.

Share issuance expenses: share issue expenses are recorded as an increase of the deficit in the year in which they are incurred.

Stock-based compensation: the Company has a stock option compensation plan which is described in Note 7. 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 while compensation expense related to broker warrants issued are recorded as share issue costs and deducted from share capital. 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.

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.

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Company adopted the following CICA (“Canadian Institute of Chartered Accountants”) (“CICA”) accounting standards which were effective for interim periods beginning on or after October 1, 2006:

Section 1506, “Accounting Changes”: this section revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively, unless doing so is impracticable, changes in estimates to be recorded prospectively and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosure about the effects of changes in accounting policies, estimates and errors on the financial statements. These revised standards are effective for interim and annual financial statements relating to fiscal periods ending on or after January 1, 2007. Management has determined that the adoption of this standard will not require any adjustment of opening retained earnings.

Section 1530, “Comprehensive Income”, and Section 3251, “Equity”: comprehensive income is the change in shareholder’s equity during a period arising from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, the Company now reports a statement of comprehensive loss and a new category, accumulated other comprehensive income, has been added to the shareholder’s equity section of the balance sheet. The components of this new category will include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any. Section 3251 establishes standards for the presentation of equity and changes in equity as a result of the new requirements of Section 1530. Adopting this section on January 1, 2007, did not result in any components to be recognized in comprehensive income for the financial statements ended March 31, 2008.

Section 3861, “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.

Section 3855, “Financial Instruments, Recognition and Measurement”: this section establishes standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives. The new standard lays out how financial instruments are to be recognized depending on their classification. Depending on financial instruments classification, changes in subsequent measurements are recognized in net income or comprehensive income. The Company has implemented the following classification:

- Cash and cash equivalents are classified as “Financial Assets Held for Trading”. These financial assets are marked-to-market through net income at each period end.
- Accounts receivable are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost.
- Accounts payable are classified as “Other Financial Liabilities”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost.

Section 3865, “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. Adopting this section on January 1, 2007 did not have any effect on the financial statements ended March 31, 2008.

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3. CHANGES IN ACCOUNTING POLICIES (continued)

The Company assessed that the impact of these following CICA (“Canadian Institute of Chartered Accountants”) accounting standards which were effective for interim periods beginning on or after October 1, 2007 are not significant as they related to note disclosure:

Section 1535, “Capital Disclosures”: this section establishes standards for disclosing information about an entity’s capital and how it is managed. It describes the disclosure requirements of the entity’s objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

Section 3862, “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”, will replace Section 3861, “Financial Instruments – Disclosure and Presentation”.

Section 3863, “Financial Instruments – Presentation”: this section establishes standards for presentation of the financial instruments and non-financial derivatives.

Section 1400, “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 will not have an impact on the financial statements.

Section 3064, “Goodwill and intangible assets”: in February 2008, the Canadian Institute of Chartered Accountants issued section 3064, “Goodwill and Intangible Assets”, effective for fiscal year beginning after October 1, 2008. This section which replace “Goodwill and Other Intangible Assets”, section 3062, and “Research and Development Costs”, section 3450, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. In addition, section 1000, “Financial Statement Concepts” was amended to clarify the criteria for recognition of an asset. The Company has not yet determined the impact of adopting this accounting standard.

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.

Canadian GAAP will be converged with IFRS through a combination of two methods as current joint-convergence projects of the United States’ Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will adopted by Canada’s Accounting Standards Board and may be introduced in Canada before the complete changeover to IFRS; the standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the complete changeover to IFRS.

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

4. OIL & GAS PARTICIPATING INTEREST AND DEFERRED EXPLORATION COSTS

	Participating Interest	**Deferred exploration costs**	**March 31, 2008 Net**	December 31, 2007 Net (Audited)
	$	**$**	**$**	$
Ireland - Celtic Sea	**612 000**	**5 474 346**	**6 086 346**	6 086 346
Canada - Alberta	**-**	**701 889**	**701 889**	392 993
	612 000	**6 176 235**	**6 788 235**	6 479 339

a) Ireland - Celtic Sea

In February 2007, the Company entered into an Agreement to acquire a 15% working interest in off-shore international oil & gas prospect in the Celtic Sea located off the south coast of Ireland. The working interest was held by a private Calgary based company called Arriba Capital Corporation Inc. The operator is Providence Resources P.L.C. with headquarters in Dublin, Ireland. Providence is involved in petroleum exploration licenses in Ireland, UK, West Africa and the Gulf of Mexico. In September 2007, the Company reported that it has forfeited 7.5% of its 15% interest in the Celtic Sea joint venture, due to defaulting on a cash call.

Under the terms of the Agreement and after regulatory approval, the Company paid 3,600,000 common shares of Forest Gate ($0.17 per share) to Arriba principals and entered into consulting agreements and granted one million options to them. As part of the Agreement, the Company paid 586,104 Euros ($902,249) for outstanding cash calls on work already performed.

As of March 31, 2008, total exploration costs are $5,474,346 including the outstanding cash calls of $902,249 on work already performed. The Company's accounts reflect only the proportionate interest in these activities.

b) Canada - Alberta

In October 2007, Forest Gate entered into a Joint Venture Agreement ("JVA") with Emerald Bay Energy Inc. ("Emerald Bay") to acquire a working interest in an Alberta property, which potentially hosts natural gas in coalbed methane. Leases have been acquired by the consortium for the drilling of four coalbed methane (CBM) test wells in the Nevis area, located in Central Alberta. The project operator is Emerald Bay, headquarters in Calgary, Alberta, with land holdings and operations in Alberta and South Texas. Forest Gate holds a 10% interest in the four Nevis wells.

In December 2007, Forest Gate reported the drilling of a single well on a potential oil and gas target at Ferrybank, Alberta, with partner Emerald Bay. This represented the second JVA signed in 2007 with Emerald Bay. Forest Gate holds a 37.5% interest in the Ferrybank well.

In March 2008, Forest Gate entered into a third JVA with Emerald Bay to acquire a 38% working interest in the Kelsey exploration gas well in Alberta.

As of March 31, 2008, the total cost of exploration costs is $701,889. The Company will cover its participating interest share of all future commitments. The Company's accounts reflect only the proportionate interest in these activities.

5. ASSETS OF BUSINESS HELD FOR SALE

	Cost of Claims	Deferred exploration costs	tax credits and government assistance	March 31, 2008 Net	December 31, 2007 Net (Audited)
	$	$	$	$	$
Saskatchewan					
East Side	**215 689**	**1 823 608**	**117 778**	**1 921 519**	1 921 519
West Side	**1 021 444**	**140 257**	**-**	**1 161 701**	1 161 701
	1 237 133	**1 963 865**	**117 778**	**3 083 220**	3 083 220

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. A total write-down for South Side property has been recorded on December 31, 2006. The mining properties and deferred exploration costs are shown and presented as an asset of business held for sale as at March 31, 2008. Management believes that the carried amount of these assets reflects fair market value of properties and can be realized by way of total disposal.

The Company has written-down certain of its mining properties and deferred exploration costs for a total amount of $2,471,862 at December 31, 2006 based on the decision taken to defer further exploration work on these properties.

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 discontinue mining operations:

	March 31, 2008 Net	December 31, 2007 Net (Audited)
	$	$
Net loss from discontinued operations	**7 405**	603 803
Cash and cash equivalents provided by discontinued operations	**7 405**	493 914
Assets of business held for sale	**3 083 220**	3 083 220

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	March 31, 2008 Net	December 31, 2007 Net (Audited)
	$	$	$	$
Furniture and office equipment	**36 232**	**16 007**	**20 225**	21 290
Computer equipment	**65 176**	**37 001**	**28 175**	30 459
Leasehold improvements	**7 020**	**7 020**	**-**	-
	108 428	**60 028**	**48 400**	51 749

7. SHARE CAPITAL

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	**119 048 570**	**14 863 460**	**36 622 413**	**2 968 885**	**10 832 217**	**1 219 272**	**19 051 617**
Equity issued	2 712 000	194 871					194 871
Warrants issued			2 712 000	122 040			122 040
Broker warrants issued					196 960	10 044	10 044
Stock-based compensation charged to operations						54 731	54 731
Future income taxes on flow through expenses renounced		(161 979)					(161 979)
Balance - March 31, 2008	**121 760 570**	**14 896 352**	**39 334 413**	**3 090 925**	**11 029 177**	**1 284 047**	**19 271 324**

(a) Shares issued during the quarter ended March 31, 2008

i. The Company has recorded an additional share issue cost of $161,979 to account for the future tax cost of the exploration costs it has renounced on the flow-through shares issued. The amount has been charged to share capital.

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

(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 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 to death, employment, etc. The Company is authorized to issue a maximum of 15,298,500 common shares. This is an increase from the previous maximum of 12,321,000 after board approval was obtained in June 2006.

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7. 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, 2008		March 31, 2007	
	Granted	**Weighted Average Exercise Price $**	Granted	Weighted Average Exercise Price $
Balance - December 31, 2007	**8 565 100**	**0.18**	4 815 100	0.22
Options granted under the stock option plan (*)	**-**	**0.00**	1 500 000	0.18
Balance - March 31, 2008	**8 565 100**	**0.18**	6 315 100	0.21

(*) An amount of $54,731 (March 31, 2007 - $86,560) was recorded as stock-based compensation and credited to contributed surplus for options vesting in the current year and issued either in the current or prior year. An amount of $27,098 (March 31, 2007 - $37,521) relates to management compensation and the balance consists of compensation to consultants.

As at March 31, 2008, 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**
790 100	**790 100**	**0.15**	**March 2008**
75 000	**75 000**	**0.15**	**June 2009**
25 000	**25 000**	**0.17**	**September 2009**
2 375 000	**2 375 000**	**0.25**	**July 2010**
200 000	**150 000**	**0.16**	**November 2011**
500 000	**375 000**	**0.19**	**January 2012**
1 000 000	**600 000**	**0.17**	**March 2012**
2 200 000	**1 100 000**	**0.13**	**June 2012**
400 000	**200 000**	**0.15**	**August 2012**
500 000	**125 000**	**0.16**	**November 2012**
500 000	**125 000**	**0.15**	**December 2012**
8 565 100	**5 940 100**	**0.18**	

…continued

7. SHARE CAPITAL (continued)

(c) Broker warrants

During the quarter ended March 31, 2008, the activity and information concerning outstanding and exercisable broker warrants is as follows:

	Number	Weighted Average Exercise Price $
Balance - December 31, 2006	**2 201 536**	**0.29**
Granted	**2 267 117**	**0.13**
Forfeited	**(2 201 536)**	**0.29**
Balance - December 31, 2007	**2 267 117**	**0.13**
Granted	**196 960**	**0.13**
Balance - March 31, 2008	**2 464 077**	**0.13**

As at March 31, 2008 the Company had the following broker warrants outstanding:

	Granted	Exercisable	Weighted Average Exercise Price $	Expiry date
Warrants to buy units of 1 common share	**675 600**	**675 600**	**0.12**	**July 2009**
Warrants to buy units of 1 common share	**240 000**	**240 000**	**0.12**	**August 2009**
Warrants to buy units of 1 common share	**338 960**	**338 960**	**0.13**	**September 2009**
Warrants to buy units of 1 common share	**1 012 557**	**1 012 557**	**0.13**	**October 2009**
Warrants to buy units of 1 common share	**196 960**	**-**	**0.13**	**February 2010**
	2 464 077	**2 267 117**	**0.13**	

…continued

7. SHARE CAPITAL (continued)

(d) Share purchase warrants

The Company has, as at March 31, 2008, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price $	Expiry date
10 244 999	**0.15**	**July 2009**
3 300 000	**0.15**	**August 2009**
4 692 000	**0.17**	**September 2009**
18 385 414	**0.17**	**October 2009**
2 712 000	**0.17**	**February 2010**
39 334 413		

(e) 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 2008
Number	**196 960**
Risk-free interest rate	**3.21%**
Expected life (years)	**2**
Expected volatility	**108%**
Expected dividend yield	**nil**
Weighted average grant date fair value	**$0.051**

	Warrant issues during 2008
Number	**2 712 000**
Risk-free interest rate	**3.21%**
Expected life (years)	**2**
Expected volatility	**108%**
Expected dividend yield	**nil**
Weighted average grant date fair value	**$0.045**

There were no stock options issued during this period 2008.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

Financial instruments are classified on a basis consistent with the audited financial statements as at December 31, 2007.

Fair value
The Company's financial instruments consist of cash and cash equivalent, accounts and sundry receivables and accounts payable. Cash and cash equivalents are presented at fair value. The carrying value of all other financial instruments approximates their fair value due to their short-term nature.

Risk management of financial instruments

The Company's exposed to various risks arising from financial instruments. The following analysis provides a measurement of risks as at March 31, 2008.

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. The maximum exposure to credit risk as at March 31, 2008 is represented by the carrying value of accounts receivable on the balance sheet.

The Company believes that the credit risk for accounts receivable is limited due to the following reasons:

- 100% of accounts receivable are not considered overdue;
- the Company has not recorded any bad debts to date;
- the customer base consists of one established creditor;
- the Company is at the development stage and does not have trade receivables.

Liquidity risk
The cash and cash equivalents on hand and expected cash generated from operations will allow the Company to meet its planned operating and capital requirements and other contractual obligations. Financial liabilities all have maturity dates prior to December 31, 2008.

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 Corporation'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 Corporation's operations and development opportunities, and significantly erode shareholder value.

…continued

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Risk management of financial instruments (continued)

Market risk (continued)
b) Foreign currency exchange risk

There is no foreign currency accounts receivable or accounts payable at March 31, 2008.

c) Market sensitivity analysis (after income taxes)

Due to the fact that the Company is at the development stage it is not possible to do a market sensitivity analysis on the earnings.

9. SUPPLEMENTAL DISCLOSURES OF EXPENSES AND CASH FLOW INFORMATION

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

	March 31, 2008 $	March 31, 2007 $
Decrease (increase) in:		
Accounts receivable	**(87 932)**	**(107 076)**
Prepaid expenses	**5 212**	**8 603**
Tax credits and government assistance receivable	**-**	**(21 000)**
Increase in:		
Accounts payable and accrued liabilities	**330 565**	**1 047 082**
	247 845	**927 609**

b) Interest paid and received

Interest paid during the period amounts to $0 (March 31, 2007 - $0) and interest received during the period amounts to $4,199 (March 31, 2007 - $30,739).

c) Non-monetary transactions

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.

10. 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.

11. COMMITMENTS

The Company has no long term lease for premises.

12. RELATED PARTY TRANSACTION

Some of the Company's officers are also shareholders of the Company. Transactions with these officers were carried out in the normal course of business and measured at the exchange amount, that is, the amount established and agreed upon by the parties.

Operations

During the period, the Company incurred $0 (March 31, 2007 - $30,000) of consulting fees and professional services with officers.

13. SEGMENTED INFORMATION

The Company has two reportable segments in three geographic locations; Canada, for mining exploration (discontinued operations) and Ireland and Canada, for oil & gas exploration. The significant aspects of these operating segments are presented below. The accounting policies of each segment are the same as those described in the summary of significant accounting policies in note 2. The following table presents information on the Company's operations based on its reportable segments for the three months ended March 31, 2008:

For the three months ended March 31, 2008	**Oil and gas Exploration**	**Mining Exploration**	**Corporate**	**Consolidated**
Revenues	**-**	**-**	**4 199**	**4 199**
Expenses				
Salaries and levies	95 991	-	31 996	127 987
Value of stock option granted	-	-	54 731	54 731
Professional and consulting fees	135 022	-	12 223	147 245
General and administration expenses	6 834	7 405	95 194	109 433
Registration and filling fees	-	-	25 630	25 630
Corporate marketing and business development	52 586	-	33 519	86 105
Investor relations	2 018	-	-	2 018
Financial charges	-	-	270	270
Depreciation of capital assets	-	-	3 349	3 349
	292 451	**7 405**	**256 912**	**556 768**
Loss before income taxes	**292 451**	**7 405**	**252 713**	**552 569**
Total Assets	**6 799 729**	**3 083 220**	**900 634**	**10 783 583**

14. 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:

	March 31, 2008		
	Federal	**Provincial**	**Combined**
Loss before income taxes	**(552 569)**	**(552 569)**	**(552 569)**
Federal income tax rate	**19.50%**	**11.40%**	**30.90%**
Tax effect	**(107 751)**	**(62 993)**	**(170 744)**
Value of stock option granted	**10 673**	**6 239**	**16 912**
Share issue costs	**(67 549)**	**(39 490)**	**(107 039)**
Depreciation of capital assets	**653**	**382**	**1 035**
Write-down of short-term investments, mining properties and deferred exploration costs	**1 444**	**844**	**2 288**
Recapture of mining exploration expenses	**-**	**-**	**-**
Restriction on resource losses	**-**	**-**	**-**
Other	**551**	**323**	**874**
Benefit of losses not previously recognized	**-**	**-**	**-**
Change in valuation allowance, tax estimates and rate changes	**-**	**94 695**	**94 695**
Income taxes	**(161 979)**	**-**	**(161 979)**

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) as at March 31, 2008 were as follows:

	March 31, 2008		
	Federal	**Provincial**	**Combined**
Share issue costs *[see note i]*	**97 010**	**56 714**	**153 724**
Carrying value of mining properties and deferred exploration costs in excess of tax basis	**(428 350)**	**268 308**	**(160 042)**
Tax cost of property and equipment in excess of carrying value	**4 475**	**2 616**	**7 091**
Non capital losses carried forward *[see note i]*	**1 228 890**	**689 244**	**1 918 134**
	902 025	**1 016 882**	**1 918 907**
Valuation allowance for future tax assets	**(902 025)**	**(1 016 882)**	**(1 918 907)**
	-	**-**	**-**

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

…continued

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

b) Future income tax assets and liabilities (continued)

The losses and costs expire as follows:

	2008	
Expiry date	**Federal**	**Provincial**
2008	**117 000**	**117 000**
2009	**84 000**	**84 000**
2010	**325 000**	**320 000**
2014	**641 000**	**739 000**
2015	**1 284 000**	**1 148 000**
2026	**591 000**	**382 000**
2027	**2 430 000**	**2 426 000**
2028	**830 000**	**830 000**
	6 302 000	**6 046 000**
Share issue costs (from 2008 to 2011)	**497 487**	**497 487**
Less: losses and share issue costs recognized due to exploration costs renounced to investors	**(5 280 225)**	**(50 000)**
	1 519 262	**6 493 487**

c) Exploration costs renunciations

The future income tax liability takes into account the effect of tax deduction renunciations made in favour of investors, relating to exploration expenses in connection with the flow-through investment. The effect of this renunciation is to be recognized in the year the renunciation is filed with the tax authorities. The liability is offset by the losses recognized in the financial statements.

15. CONTINGENT LIABILITIES

a) 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 environment and believes its operations are materially in compliance with all applicable laws and regulations.

b) Flow-through share issues

The Company is partially financed through the issuance of flow-through shares, requiring that the Company spend the proceeds for qualified exploration expenses. Moreover, tax rules regarding flow-through investments set deadlines for carrying out the exploration work, subject to penalties if the conditions are not respected. Although the Company is committed to taking all the necessary measures, refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

…continued

15. CONTINGENT LIABILITIES (continued)

b) Flow-through share issues (continued)

In 2007, the Company received nothing from flow-through share issues. After year-end, but effective December 31, 2007, the Company has renounced all of its tax deductions relating to flow-through investments (see note 14). In order to meet its obligation under flow-through share program, the Company must spend $835,371 in Canadian exploration by December 31, 2008 in addition to the exploration expenses it has incurred to date.

16. GOVERNMENT GRANTS

During 2007, the Company earned tax credits and government assistance for mineral exploration costs amounting to $0 ($878,226 in 2006), which were reduced against mining properties and deferred exploration costs (note 5).

17. SUBSEQUENT EVENTS

In April 2008, Forest Gate announced that it has increased its participating interest with Emerald Bay in the oil producing Ferrybank well in Alberta from 37.5% to 47.5%.

In May 2008, Forest Gate announced that it will be undertaking a brokered private placement with Northern Securities Inc. to raise $1,000,000 in Flow-Through Units and $750,000 in Units, with a bought deal commitment provided by Northern Financial Corporation. Each Flow-Through Unit, priced at $0.10, will consist of one common share and one half of a common share purchase warrant. Each such whole warrant will be exercisable into one common share for a period of two years from closing at an exercise price of $0.13 per share. Each Unit, priced at $0.08, will consist of one common share and one common share purchase warrant. Each such warrant will be exercisable into one common share for a period of two years from closing at an exercise price of $0.11 per share. The Company will pay Northern Securities Inc. a cash finder's fee of 8% of the aggregate gross proceeds of the offering, a work fee of $20,000 and issue broker warrants equal to 10% of the number of Units and Flow-Through Units sold pursuant to the offering. Each broker warrant will be exercisable into one Unit at the issue price at any time prior to the date that is 24 months from closing. Forest Gate intends to utilize the proceeds for general working capital purposes and ongoing projects in Canada.