

**Forest Gate Resources Inc.**  
**Quarterly Financial Statements**  
**June 30, 2007**  
**(Unaudited)**

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# Forest Gate Resources Inc.

## Balance Sheets

At	June 30, 2007 (unaudited) \$	December 31, 2006 (audited) \$
<b>Assets</b>		
<i>Current assets</i>		
Cash	629 422	3 173 739
Investments, at fair value	100	437 950
Accounts receivable	179 710	236 881
Tax credits and government assistance receivable [notes 5 and 16]	870 708	849 708
Prepaid expenses	947	116 850
	<b>1 680 887</b>	4 815 128
Oil & gas participating interest and deferred exploration costs [note 4]	2 511 676	-
Mining properties and deferred exploration costs [note 5]	3 069 486	3 042 149
Capital assets [note 6]	61 399	64 026
	<b>7 323 448</b>	7 921 303
<b>Liabilities</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities [note 12]	512 884	363 230
Future income taxes [note 14]	42 145	-
<b>Shareholders' equity [note 7]</b>		
Share capital	13 648 979	13 424 737
Warrants	297 000	297 000
Contributed surplus	469 643	279 161
	<b>14 415 622</b>	14 000 898
Deficit	(7 647 203)	(6 442 825)
	<b>6 768 419</b>	7 558 073
	<b>7 323 448</b>	7 921 303

Approved on behalf of the board:

Signed "Michael Judson" Director

Signed "Peter Watson" Director

# Forest Gate Resources Inc.

## Statements of Operations (unaudited)

Period ended June 30,	Three months ended		Six months ended	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Revenues</b>				
Interest income <i>[note 9]</i>	4 230	43 882	35 324	93 626
<b>Expenses</b>				
Salaries and levies	162 241	90 771	305 394	190 846
Stock-based compensation <i>[note 7 (b)]</i>	103 922	77 582	190 482	186 767
Professional and consulting fees	98 056	61 017	258 641	87 826
General and administration expenses	95 781	46 682	212 979	171 975
Corporate marketing and business development	118 742	90 548	395 771	160 470
Financial charges <i>[note 9]</i>	5 642	7 680	8 384	8 069
Depreciation <i>[note 6]</i>	4 826	4 127	9 651	8 342
	589 210	378 407	1 381 302	814 295
<b>Loss before write-downs and income taxes</b>	<b>584 980</b>	<b>334 525</b>	<b>1 345 978</b>	<b>720 669</b>
Loss on investments	-	-	50 961	-
Write-down of mining properties and deferred exploration costs <i>[note 5]</i>	126 453	-	153 052	-
<b>Loss before income taxes</b>	<b>711 433</b>	<b>334 525</b>	<b>1 549 991</b>	<b>720 669</b>
Future income taxes recovered	(79 226)	-	(345 613)	(976 610)
<b>Net loss (earnings) and comprehensive loss (earnings) for the period</b>	<b>632 207</b>	<b>334 525</b>	<b>1 204 378</b>	<b>(255 941)</b>
Deficit at the beginning of period	7 014 996	2 464 856	6 442 825	3 055 322
Deficit at the end of period	7 647 203	2 799 381	7 647 203	2 799 381
Basic loss (earnings) per share and diluted loss (earnings) per share <i>[note 10]</i>	\$0.00767	\$0.00452	\$0.01486	\$(0.00349)
Weighted average number of shares outstanding	82 426 157	74 014 480	81 014 002	73 352 264

# Forest Gate Resources Inc.

## Statements of Cash Flows (unaudited)

Period ended June 30,	Three months ended		Six months ended	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Cash flows from (used in) operating activities</b>				
Net earnings (loss)	(632 207)	(334 525)	(1 204 378)	255 941
<i>Non-cash items:</i>				
Write-down of mining properties and deferred exploration costs	126 453	-	153 052	-
Future income taxes recovered [note 14]	(79 226)	-	(345 613)	(976 610)
Depreciation	4 826	4 127	9 651	8 342
Loss on investments	-	-	(50 961)	-
Stock-based compensation [note 7]	103 922	77 582	190 482	186 767
Net change in non-cash working capital items [note 9]	(625 881)	(124 761)	301 728	531 902
	(1 102 113)	(377 577)	(946 039)	6 342
<b>Cash flows from (used in) financing activities</b>				
Proceeds from the issue of equity [note 7]	-	944 293	-	1 165 483
Deferred financing costs	-	(35 142)	-	(45 689)
	-	909 151	-	1 119 794
<b>Cash flows from (used in) investing activities</b>				
Deferred acquisition costs	-	(9 014)	-	(10 554)
Acquisitions of capital assets	-	-	(7 024)	(5 305)
Short-term investments, net variation	-	-	488 811	280 000
Oil & gas participating interest and deferred exploration costs	-	-	(1 899 676)	-
Mining properties and deferred exploration costs	(143 228)	(310 349)	(180 389)	(1 169 784)
	(143 228)	(319 363)	(1 598 278)	(905 643)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1 245 341)</b>	<b>212 211</b>	<b>(2 544 317)</b>	<b>220 493</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>1 874 763</b>	<b>413 025</b>	<b>3 173 739</b>	<b>404 743</b>
<b>Cash and cash equivalents, end of period</b>	<b>629 422</b>	<b>625 236</b>	<b>629 422</b>	<b>625 236</b>
<b>Represented by:</b>				
Cash with financial institutions	629 422	625 236	629 422	625 236

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

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For the three and six months ended June 30, 2007

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### 1. NATURE OF BUSINESS

Forest Gate Resources Inc. ("Forest Gate" or the "Company") is incorporated by the Canada Business Corporations Act and is publicly traded on the TSX Venture Exchange under the symbol FGT. The Company's operations consist of the exploration of 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 ore reserves, the Company's ability to obtain financing for its operations and future profitable commercial production.

Forest Gate is an international oil & gas exploration company. It is currently evaluating strategic options for its mining properties including further exploration, sale of properties and exploitation partnerships. As no final decision in this regard has been made by management, the mining properties and deferred exploration costs continue to be shown and presented as in prior years. Management believes that the carried amount of these assets can be realized through exploitation and operation or by way of opportunities with other participants in the industry.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The financial information as at June 30, 2007 is not audited. However, in the opinion of the management, all adjustments necessary to present fairly the results of these periods have been included. The adjustments made were of a normal recurring nature. Interim results may not necessarily be indicative of results anticipated for the year.

These interim financial statements are prepared in accordance with generally accepted accounting principles in Canada for the presentation of interim financial information. All disclosures required for annual financial statements have not been included in the financial statements and therefore should be read in conjunction with the Company's most recent annual financial statements. These financial statements use the same accounting policies and methods in the preparation of the Company's most recent annual financial statements.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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. The interim financial statements have, in management's opinion, been properly prepared using careful judgement within reasonable limits of materiality and within the framework of the accounting policies summarized in the most recent annual audited financial statements.

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

### 3. CHANGES IN ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants ("CICA") has issued the following new Handbook Sections which were effective for interim periods beginning on or after January 1, 2007:

**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 quarterly financial statements ended June 30, 2007.

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

For the three and six months ended June 30, 2007

### 3. CHANGES IN ACCOUNTING POLICIES (continued)

**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 June 30, 2007.

**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 and short term investments 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.

### 4. OIL & GAS PARTICIPATING INTEREST AND DEFERRED EXPLORATION COSTS

	Participating Interest \$	Deferred Exploration costs \$	June 30, 2007 Net \$	December 31, 2006 Net (audited) \$
Celtic Sea	612 000	1 899 676	2 511 676	-
	<b>612 000</b>	<b>1 899 676</b>	<b>2 511 676</b>	-

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.

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. The first 2007 cash call for 640,650 Euros (\$997,427) was paid on April 4, 2007 and the Company will cover his 15% participating interest share of all future commitments including this summer drilling program. The Company's accounts reflect only the Company's proportionate interest in these activities.

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

For the three and six months ended June 30, 2007

### 5. MINING PROPERTIES AND DEFERRED EXPLORATION COSTS

	Cost of Claims \$	Deferred exploration costs \$	Write-down of abandoned property \$	Cumulative tax credits & government assistance \$	June 30, 2007 Net \$	December 31, 2006 Net (audited) \$
Saskatchewan						
East Side	215 689	1 809 874	-	117 778	1 907 785	1 884 455
South Side	5 714	1 036 425	1 042 139	-	-	-
West Side	1 021 444	140 257	-	-	1 161 701	1 157 694
Quebec						
Portage	266 236	2 187 247	1 582 775	870 708	-	-
	<b>1 509 083</b>	<b>5 173 803</b>	<b>2 624 914</b>	<b>988 486</b>	<b>3 069 486</b>	<b>3 042 149</b>

Costs incurred during the period are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2007 \$	2006 \$	2007 \$	2006 \$
Cost of claims	-	(275)	-	10 599
Drilling for samples and lab analysis	83 489	167 140	87 889	800 382
Engineering	-	785	-	785
Surveys	-	13 980	-	100 437
Consulting	38 902	42 600	64 816	131 245
Travel	-	4 792	370	5 298
Equipment, other rentals and other costs	20 837	24 536	25 798	30 964
Exploration	-	11 714	-	11 714
Personnel	-	45 077	1 516	78 360
	<b>143 228</b>	<b>310 624</b>	<b>180 389</b>	<b>1 159 185</b>
<b>Total before grants</b>	<b>143 228</b>	<b>310 349</b>	<b>180 389</b>	<b>1 169 784</b>
Tax credits and government assistance	-	-	-	-
<b>Total</b>	<b>143 228</b>	<b>310 349</b>	<b>180 389</b>	<b>1 169 784</b>
Disposal of claims and deferred exploration costs	(126 453)	-	(153 052)	-
Net variation	<b>16 775</b>	<b>310 349</b>	<b>27 337</b>	<b>1 169 784</b>

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

For the three and six months ended June 30, 2007

### 5. MINING PROPERTIES AND DEFERRED EXPLORATION COSTS (continued)

In July 2005, the Company signed an option agreement with Majescor Resources to earn up to 55% undivided recorded and beneficial interest in Majescor's Portage property located north of Quebec's Otish Mountains. Under the terms of the agreement, Forest Gate must invest \$5 million over five years to earn a 50% working interest and can earn an additional 5% by funding a 200-tonne bulk sample from a kimberlite body. A formal joint venture between the two companies will be entered into when the Company has earned its 50% working interest. On May 7, 2007 the Company announced that it has terminated its agreement with Majescor, thereby relinquishing its participation in exploring the Portage property in Quebec. As at June 30, 2007, the Company has invested a total of \$2,453,483 on the Portage property or \$1,582,775 net of tax credits and government assistance. As of June 30, 2007 all investments in Portage property have been written-down.

This strategy is consistent with Forest Gate's recent expansion in international oil & gas exploration. The Company continues to exploit its 100% owned 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 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. Additional write-downs were taken during 2007, \$26,599 during first quarter ended March 31 and \$126,453 in second quarter ended June 30. The total cumulative write-down as of June 30, 2007 is \$2,624,914.

### 6. CAPITAL ASSETS

	Cost	Accumulated Depreciation	June 30, 2007 Net	December 31, 2006 Net (audited)
	\$	\$	\$	\$
Furniture and office equipment	36 232	12 498	23 734	22 703
Computer equipment	65 176	28 571	36 605	39 202
Leasehold improvements	7 019	5 959	1 060	2 121
	<b>108 427</b>	<b>47 028</b>	<b>61 399</b>	<b>64 026</b>



# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

For the three and six months ended June 30, 2007

### 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	Total
	Number	\$	Number	\$	Number	\$	\$	\$
<b>Balance - December 31, 2006</b>	<b>78 826 157</b>	<b>13 424 737</b>	<b>12 168 067</b>	<b>297 000</b>	<b>7 016 636</b>	<b>0</b>	<b>279 161</b>	<b>14 000 898</b>
Equity issued	3 600 000	612 000						612 000
Warrants forfeited			(10 668 067)					
Broker warrants and broker unit warrants forfeited					(1 872 048)			
Options issued and Stock-based compensation charged to operations					1 500 000		86 560	86 560
Future income taxes on flow through expenses renounced		(387 758)						(387 758)
<b>Balance - March 31, 2007</b>	<b>82 426 157</b>	<b>13 648 979</b>	<b>1 500 000</b>	<b>297 000</b>	<b>6 644 588</b>	<b>0</b>	<b>365 721</b>	<b>14 311 700</b>
Options forfeited					(800 000)			
Options issued and Stock-based compensation charged to operations					2 200 000		103 922	103 922
Future income taxes on flow through expenses renounced								
<b>Balance - June 30, 2007</b>	<b>82 426 157</b>	<b>13 648 979</b>	<b>1 500 000</b>	<b>297 000</b>	<b>8 044 588</b>	<b>0</b>	<b>469 643</b>	<b>14 415 622</b>

#### (a) 2007 equity issues

##### *i) Quarter ended March 31, 2007*

- The Company completed its acquisition of the 15% working interest in off-shore international oil & gas prospect in the Celtic Sea. As consideration paid on the transaction, the Company issued 3,600,000 common shares for a value of \$612,000. The fair value of the common shares was based on the fair market value prevailing at the negotiation date. Each common shares issued with this transaction has a fair value of \$0.17.
- The Company has recorded an additional share issue cost of \$387,758 to account for the future tax cost of the exploration costs it has renounced in March 2007 on the flow-through shares issued in 2006. The amount has been charged to share capital.

##### *ii) Quarter ended June 30, 2007*

- There was no equity issues during the second quarter ended June 30, 2007

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# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

For the three and six months ended June 30, 2007

### 7. SHARE CAPITAL (continued)

#### (b) Stock option plan

The Company has a stock option plan authorizing the Board of Directors to grant options to directors, officers, employees and consultants to acquire common shares of the Company at a price computed by reference to the closing market price of the shares of the Company on the business day before the Company notifies the stock exchanges of the grant of the option. The number of shares which may be granted to any one person shall not exceed 5% (2% for consultants) over a twelve month period. The options will vest from the date of the grant to 24 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.

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

	2007		2006	
	Granted	Weighted average Exercise Price \$	Granted	Weighted average Exercise Price \$
<b>Balance - December 31</b>	<b>4 815 100</b>	<b>0.22</b>	4 715 500	0.22
Options granted (*)	1 500 000	0.18	-	-
Options exercised	-	-	(100 400)	0.15
<b>Balance - March 31</b>	<b>6 315 100</b>	<b>0.21</b>	4 615 100	0.22
Options granted (*)	2 200 000	0.13	-	-
Options forfeited	(800 000)	0.27	-	-
<b>Balance - June 30</b>	<b>7 715 100</b>	<b>0.18</b>	4 615 100	0.22

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

	Three months ended June 30,		Six months ended June 30,	
	2007 \$	2006 \$	2007 \$	2006 \$
Directors and management compensation	66 812	70 163	104 333	168 563
Consultants compensation	37 110	7 419	86 149	18 204
Net variation	103 922	77 582	190 482	186 767

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

For the three and six months ended June 30, 2007

### 7. SHARE CAPITAL (continued)

#### (b) Stock option plan (continued)

As at June 30, 2007, 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
940 100	940 100	0.15	March 2008
75 000	75 000	0.15	June 2009
25 000	25 000	0.17	September 2009
100 000	100 000	0.15	January 2010
2 675 000	2 675 000	0.25	July 2010
200 000	50 000	0.16	November 2011
500 000	125 000	0.19	January 2012
1 000 000	200 000	0.17	March 2012
2 200 000	525 000	0.13	June 2012
<b>7 715 100</b>	<b>4 715 100</b>	<b>0.18</b>	

#### (c) Broker warrants

During the quarter ended June 30, 2007, 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
Forfeited	(1 872 048)	0.27
<b>Balance - March 31, 2007</b>	<b>329 488</b>	<b>0.38</b>
No activity	-	-
<b>Balance - June 30, 2007</b>	<b>329 488</b>	<b>0.38</b>

As at June 30, 2007 the Company had the following broker warrants outstanding:

Granted	Exercisable	Weighted average Exercise price \$	Expiry date
329 488	329 488	0.38	September 2007
329 488	329 488	0.38	

...continued

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

For the three and six months ended June 30, 2007

### 7. SHARE CAPITAL (continued)

#### (d) Share purchase warrants

The Company has, as at June 30, 2007, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price \$	Expiry date
1 500 000	0.55	November 2007
1 500 000		

#### (e) Exercise of broker warrants and warrants

Pursuant to an agreement with Blue Note as part of the arrangement and effective November 10, 2005, Blue Note has agreed that, upon exercise of a warrant and broker warrants by a Forest Gate warrant holder, Blue Note will issue 0.1168 of a Blue Note share in exchange for 6.23% of the exercise price received by Forest Gate. As at June 30, 2007, Forest Gate has no warrants outstanding as they have all expired in March 2007.

#### (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:

	Stock option plan issues during 2007		
	500 000 options	1 000 000 options	2 200 000 options
Risk-free interest rate	4.04%	3.88%	4.65%
Expected life (years)	5	5	5
Expected volatility	95%	95%	95%
Expected dividend yield	nil	nil	nil
Weighted average grant date fair value	0.141 \$	0.127 \$	0.097 \$

There were no warrants issued in 2007 as of June 30, 2007.

### 8. FINANCIAL INSTRUMENTS, CREDIT AND PRICE RISK MANAGEMENT

#### a) Fair values

The carrying amount of financial instruments approximates fair value because of the short-term maturity of these items and terms are similar to prevailing market terms.

#### b) Interest risk

The short-term investments include shares and redeemable short-term deposits with financial institutions, invested at current market rates and have terms of up to one year.

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

For the three and six months ended June 30, 2007

### 9. SUPPLEMENTAL DISCLOSURES OF EXPENSES AND CASH FLOW INFORMATION

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Decrease (increase) in:</b>				
Accounts receivable	164 247	919 591	57 171	914 148
Prepaid expenses	107 300	(316 289)	115 903	(303 304)
Tax credits & government assistance receivable	-	(38 000)	(21 000)	(38 000)
<b>Increase (decrease) in:</b>				
Accounts payable and accrued liabilities	(897 428)	(690 063)	149 654	(40 942)
	<b>(625 881)</b>	<b>(124 761)</b>	<b>301 728</b>	<b>531 902</b>

#### b) Interest paid and received

	Three months ended		Six months ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Interest paid	-	5 492	-	5 496
Interest received	6 349	12 398	37 088	151 779

#### 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. In addition, common shares have been issued in the acquisition of the 15% working interest in off-shore international oil & gas prospect in the Celtic Sea. A full description of the transaction can be found in note 7(a)(i).

### 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 entered into a long term lease for premises. The lease ends on November 30, 2007 and has a five year option renewal. The minimum annual rentals, excluding property taxes and operating expenses, amount to \$19,000.

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

For the three and six months ended June 30, 2007

### 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 three months quarter ended June 30, 2007, the Company incurred \$15,000 (June 30, 2006 - \$0) of consulting fees and professional services with officers. Total amount for the six months ended June 30, 2007, is \$45,000 (June 30, 2006 - \$9,722). The total amount consists of professional and consulting fees. As at June 30, 2007, no amount relating to these fees were included in the accounts payable and accrued liabilities (March 31, 2007 - \$10,000).

### 13. SEGMENTED INFORMATION

The Company has two reportable segments in two geographic locations; Canada, for mining exploration and Ireland, 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 present information on the Company's operations based on its reportable segments for the three months ended June 30, 2007:

<b>For the three months ended June 30, 2007 (in dollars)</b>	<b>Oil and gas Exploration</b>	<b>Mining Exploration</b>	<b>Corporate Administrative</b>	<b>Consolidated</b>
<b>Revenues</b>	-	-	4 230	4 230
<b>Expenses</b>				
Salaries and levies	121 681	8 112	32 448	162 241
Stock based compensation	-	-	103 922	103 922
Professional and consulting fees	71 899	10 767	15 390	98 056
General & administration expenses	2 010	5 943	87 828	95 781
Corporate marketing and business development	41 728	2 915	74 099	118 742
Financial charges	-	-	5 642	5 642
Depreciation	-	-	4 826	4 826
	<b>237 318</b>	<b>27 737</b>	<b>324 155</b>	<b>589 210</b>
<b>Loss before write-down &amp; income taxes</b>	<b>237 318</b>	<b>27 737</b>	<b>319 925</b>	<b>584 980</b>
Loss on investments	-	-	-	-
Write-downs of mining properties and deferred exploration costs	-	126 453	-	126 453
<b>Loss before income taxes</b>	<b>237 318</b>	<b>154 190</b>	<b>319 925</b>	<b>711 433</b>
<b>Total Assets</b>	<b>2 570 553</b>	<b>3 964 644</b>	<b>788 251</b>	<b>7 323 448</b>

...continued

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

For the three and six months ended June 30, 2007

### 13. SEGMENTED INFORMATION (continued)

The following table presents information on the Company's operations based on its reportable segments for the six months ended June 30, 2007:

For the six months ended June 30, 2007 (in dollars)	Oil and gas Exploration	Mining Exploration	Corporate Administrative	Consolidated
<b>Revenues</b>	-	3 452	31 872	35 324
<b>Expenses</b>				
Salaries and levies	191 539	43 614	70 241	305 394
Stock based compensation	-	-	190 482	190 482
Professional and consulting fees	151 878	66 977	39 786	258 641
General & administration expenses	9 848	10 902	192 229	212 979
Corporate marketing and business development	201 007	98 832	95 932	395 771
Financial charges	-	-	8 384	8 384
Depreciation	-	-	9 651	9 651
	<b>554 272</b>	<b>220 325</b>	<b>606 705</b>	<b>1 381 302</b>
<b>Loss before write-down &amp; income taxes</b>	<b>554 272</b>	<b>216 873</b>	<b>574 833</b>	<b>1 345 978</b>
Loss on investments	-	50 961	-	50 961
Write-downs of mining properties and deferred exploration costs	-	153 052	-	153 052
<b>Loss before income taxes</b>	<b>554 272</b>	<b>420 886</b>	<b>574 833</b>	<b>1 549 991</b>
<b>Total Assets</b>	<b>2 570 553</b>	<b>3 964 644</b>	<b>788 251</b>	<b>7 323 448</b>

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

For the three and six months ended June 30, 2007

### 14. TAX LOSSES AND OTHER EXPENSES TO CARRY FORWARD

#### a) Provision for income taxes

The provision for income taxes for the six months ended June 30, 2007, differs from the combined Canadian federal and provincial statutory rates as follows:

	June 30, 2007		
	Federal	Provincial	Combined
Loss before income taxes	(1 549 991)	(1 549 991)	(1 549 991)
Federal income tax rate	22.12%	9.90%	32.02%
Tax effect	(342 858)	(153 449)	(496 307)
Stock based compensation	42 135	18 858	60 993
Share issue costs	(43 758)	(19 584)	(63 342)
Amortization	2 135	955	3 090
Write-down of short-term investments, mining properties and deferred exploration costs	45 128	20 197	65 325
Recapture of mining exploration expenses	-	-	-
Restriction on resource losses	-	-	-
Other	3 204	2 868	6 072
Benefit of losses not previously recognized	(93 743)	-	(93 743)
Change in valuation allowance, tax estimates and rate changes	-	130 155	130 155
<b>Income taxes</b>	<b>(387 757)</b>	<b>-</b>	<b>(387 757)</b>

#### 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 June 30 were as follows:

	June 30, 2007		
	Federal	Provincial	Combined
Share issue costs [see note i]	174 230	77 978	252 208
Carrying value of mining properties and deferred exploration costs in excess of tax basis	(504 985)	201 553	(303 432)
Tax cost of property and equipment in excess of carrying value	6 440	2 882	9 322
Non capital losses carried forward [see note i]	964 875	406 296	1 371 171
	640 560	688 709	1 329 269
Valuation allowance for future tax assets	(640 560)	(688 709)	(1 329 269)
	-	-	-

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

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# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

For the three and six months ended June 30, 2007

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

The losses and costs expire as follows:

Expiry date	June 30, 2007	
	Federal	Provincial
2008	117 000	117 000
2009	75 000	84 000
2010	325 000	320 000
2014	641 000	739 000
2015	1 284 000	1 148 000
2016	591 000	382 000
2017	1 329 000	1 314 000
	<b>4 362 000</b>	<b>4 104 000</b>
Share issue costs (from 2008 to 2010)	787 659	787 659
Less: losses and share issue costs recognized due to exploration costs renounced to investors	(5 149 659)	(50 000)
	<b>-</b>	<b>4 841 659</b>

#### 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 of \$1,752,975 filed in June 2007 (see note 15) but effective December 31, 2006. 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 mining 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.

In 2006, the Company received \$1,752,975 following flow-through share issues. After year-end, but effective December 31, 2006, 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 \$1,463,000 in Canadian exploration by December 31, 2007 in addition to the exploration expenses it has incurred to date.

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# **Forest Gate Resources Inc.**

## **Notes to the Financial Statements (unaudited)**

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For the three and six months ended June 30, 2007

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### **16. GOVERNMENT GRANTS**

During 2006, the Company earned tax credits and government assistance for mineral exploration costs amounting to \$878,226 (\$38,000 in 2005), which were reduced against mining properties and deferred exploration costs (note 5).

### **17. SUBSEQUENT EVENTS**

a) On July 5, 2007, Forest Gate announced that the Company has finalized and signed a Joint Operating Agreement (JOA) with its Celtic Sea consortium partners regarding its upcoming oil & gas drilling program off the coast of Southern Ireland.

b) On July 20, 2007, Forest Gate raised gross proceeds of \$904,600 by issuing 7,538,333 shares at \$0.12 per share. The proceeds of the financing will be used for general working capital purposes and to finance the commitments in acquiring the 15% working interest in the Celtic Sea oil and gas exploration project.

c) On July 27, 2007, Forest Gate raised gross proceeds of \$324,800 by issuing 2,706,666 shares at \$0.12 per share. The proceeds of the financing will be used for general working capital purposes and to finance the commitments in acquiring the 15% working interest in the Celtic Sea oil and gas exploration project.