

**Forest Gate Resources Inc.**  
**Quarterly Financial Statements**

**June 30, 2008**

**(unaudited)**

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# Forest Gate Resources Inc.

## Balance Sheets (unaudited)

At	June 30, 2008	December 31, 2007 (Audited)
	\$	\$
<b>Assets</b>		
<i>Current assets</i>		
Cash	1 435 700	892 537
Accounts receivable	249 823	106 136
Prepaid expenses	497	10 920
	<b>1 686 020</b>	1 009 593
Oil and gas participating interests and deferred exploration costs <i>[note 3]</i>	<b>7 413 017</b>	6 479 339
Assets of business held for sale <i>[note 4]</i>	<b>3 083 220</b>	3 083 220
Property and equipment <i>[note 5]</i>	<b>45 051</b>	51 749
	<b>12 227 308</b>	10 623 901
<b>Liabilities</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	<b>1 153 985</b>	401 272
<i>Long term liabilities</i>		
Future Income Taxes <i>[note 13]</i>	<b>155 197</b>	-
<b>Shareholders' equity <i>[note 6]</i></b>		
Share capital	<b>15 291 250</b>	14 863 460
Warrants	<b>3 891 225</b>	2 968 885
Contributed surplus	<b>1 421 051</b>	1 219 272
	<b>20 603 526</b>	19 051 617
Deficit	<b>(9 685 400)</b>	(8 828 988)
	<b>10 918 126</b>	10 222 629
	<b>12 227 308</b>	10 623 901

Contingent liabilities and subsequent events *[notes 13 and 14]*

*Approved on behalf of the board:*

Signed "Michael C. Judson" Director

Signed "Peter D. Watson" Director

See accompanying notes to financial statements

# Forest Gate Resources Inc.

## Statements of Operations (unaudited)

Period ended June 30	Three months ended		Six months ended	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Revenues</b>				
Petroleum and natural gas revenue, net of royalties	101 126	-	101 126	-
Interest and other income <i>[note 8]</i>	4 613	4 230	8 812	35 324
	<b>105 739</b>	4 230	<b>109 938</b>	35 324
<b>Expenses</b>				
Salaries and levies	128 868	162 241	256 855	305 394
Value of stock option granted <i>[note 6 (b)]</i>	48 862	103 922	103 593	190 482
Professional and consulting fees	99 909	98 056	247 154	258 641
General and administration expenses	73 809	95 781	157 045	212 979
Corporate marketing and business development	63 280	118 742	195 825	395 771
Financial charges <i>[note 8]</i>	14 365	5 642	14 635	8 384
Depreciation of property and equipment <i>[note 5]</i>	3 349	4 826	6 698	9 651
	<b>432 442</b>	589 210	<b>981 805</b>	1 381 302
<b>Loss before write-down, income taxes and discontinued operations</b>	<b>326 703</b>	584 980	<b>871 867</b>	1 345 978
Loss on short term investments	-	-	-	50 961
Write-down of mining properties and deferred exploration costs <i>[note 4]</i>	-	126 453	-	153 052
<b>Loss before income taxes and discontinued operations</b>	<b>326 703</b>	711 433	<b>871 867</b>	1 549 991
Future income taxes current (recovered)	132 864	(79 226)	(29 115)	(345 613)
<b>Net loss from continuing operations</b>	<b>459 567</b>	632 207	<b>842 752</b>	1 204 378
Net loss from discontinued operations <i>[note 4]</i>	6 255	-	13 660	-
<b>Net loss</b>	<b>465 822</b>	632 207	<b>856 412</b>	1 204 378
Deficit at the beginning of period	9 219 578	7 014 996	8 828 988	6 442 825
Deficit at the end of period	<b>9 685 400</b>	7 647 203	<b>9 685 400</b>	7 647 203
Basic and diluted loss per share <i>[note 9]</i>				
continuing operations	\$0.00361	\$0.00767	\$0.00681	\$0.01486
discontinued operations	\$0.00005	\$0.00000	\$0.00011	\$0.00000
Weighted average number of shares outstanding	<b>127 475 147</b>	82 426 157	<b>123 738 693</b>	81 014 002

See accompanying notes to financial statements

# Forest Gate Resources Inc.

## Statements of Cash Flows (unaudited)

Period ended June 30	Three months ended		Six months ended	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Cash flows from (used in) operating activities</b>				
Net loss from continuing operations	(459 567)	(632 207)	(842 752)	(1 204 378)
<i>Non-cash items:</i>				
Write-down of mining properties and deferred exploration costs	-	126 453	-	153 052
Future income taxes current (recovered)	132 864	(79 226)	(29 115)	(345 613)
Depreciation of property and equipment	3 349	4 826	6 698	9 651
Unrealized loss on short term investments	-	-	-	(50 961)
Value of stock option granted	48 862	103 922	103 593	190 482
Net changes in non-cash working capital items <i>[note 8]</i>	371 604	(625 881)	619 449	301 728
	97 112	(1 102 113)	(142 127)	(946 039)
<b>Cash flows from (used in) financing activities</b>				
Proceeds from the issue of equity <i>[note 6]</i>	1 305 674	-	1 632 628	-
<b>Cash flows from (used in) investing activities</b>				
Acquisition of property and equipment	-	-	-	(7 024)
Proceeds from sale of short-term investments	-	-	-	488 811
Oil and gas participating interests and deferred exploration costs	(624 782)	-	(933 678)	(1 899 676)
Mining properties and deferred exploration costs	-	(143 228)	-	(180 389)
	(624 782)	(143 228)	(933 678)	(1 598 278)
<b>Net increase (decrease) in cash and cash equivalents of continuing operations</b>	<b>778 004</b>	<b>(1 245 341)</b>	<b>556 823</b>	<b>(2 544 317)</b>
Cash and cash equivalents provided by discontinued operations <i>[note 4]</i>	(6 255)	-	(13 660)	-
Cash and cash equivalents - beginning of Period	663 952	1 874 763	892 537	3 173 739
<b>Cash and cash equivalents - end of Period</b>	<b>1 435 700</b>	<b>629 422</b>	<b>1 435 700</b>	<b>629 422</b>
<b>Represented by:</b>				
Cash with financial institutions	1 435 700	629 422	1 435 700	629 422

See accompanying notes to financial statements

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

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June 30, 2008

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### 1. DESCRIPTION OF OPERATIONS AND BASIS OF PRESENTATION

#### (a) Description of operations

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

The Company has put its diamond mining properties in Saskatchewan up for sale, as Forest Gate is no longer a mining exploration company, but an international oil and gas exploration and production company. 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.

#### (b) Basis of presentation

These unaudited financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for presentation of interim financial information and in the opinion of management, all adjustments necessary to present fairly the results of operations have been included. All disclosures required for annual financial statements have not been included in these financial statements and therefore these interim statements should be read in conjunction with the Company's 2007 annual audited financial statements. These financial statements use the same accounting policies and methods used in the preparation of the Company's 2007 annual audited financial statements except for changes in accounting policies described in note 2. Interim results may not necessarily be indicative of results for the year.

#### (c) Comparative financial statements

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

### 2. CHANGES IN ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

#### (a) Changes in accounting policies

Effective January 1, 2008 the Company adopted the following CICA accounting standards:

*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.

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# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

June 30, 2008

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

#### (a) Changes in accounting policies (continued)

*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 3031, "Inventories":* this section establishes the accounting treatment for inventory and provides guidance on the determination of inventory cost and the subsequent recognition as an expense including any write-down to net realizable value. The adoption of this section had no impact on the quarterly financial statements.

The Company evaluated the impact of these new accounting standards on its financial statements. The only impact is additional disclosure requirements and does not have a material effect on the financial condition, changes in financial condition and results of operations.

#### (b) New accounting pronouncements

*Section 3064, "Goodwill and intangible assets":* in February 2008, the Canadian Institute of Chartered Accountants issued section 3064, "Goodwill and Intangible Assets", effective January 1, 2009. 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.

### 3. OIL & GAS PARTICIPATING INTERESTS AND DEFERRED EXPLORATION COSTS

	Participating Interest	Deferred exploration costs	June 30, 2008 Net	December 31, 2007 Net (Audited)
	\$	\$	\$	\$
Ireland - Celtic Sea	612 000	6 018 434	6 630 434	6 086 346
Canada - Alberta	-	782 583	782 583	392 993
	612 000	6 801 017	7 413 017	6 479 339

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# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

June 30, 2008

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

#### (a) Ireland - Celtic Sea

On June 3, 2008, the Company received a cash call of \$544,090 (€343,319) for its share of the upcoming drilling expenditures. This amount remained unpaid as of June 30, 2008. On July 3, 2008, the Company was issued a Notice of Default from the Operator for not having paid its share within a specified period of time.

As of June 30, 2008, total exploration costs are \$6,018,434 including the outstanding cash calls of \$544,090. The Company's accounts reflect only the 7.5% proportionate interest in these activities.

Under the terms of the Joint Operating Agreement dated June 29, 2007, Forest Gate has sixty days from the notice date of July 3, 2008 to remedy the default by paying the full amount of the outstanding balance to the Operator, Providence Resources P.L.C.. In the event that the default continues for more than sixty days Forest Gate faces forfeiture of its interest in the Celtic Sea project.

#### b) Canada - Alberta

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 June 30, 2008, the total cost of exploration costs is \$782,583. The Company will cover its participating interest share of all future commitments. The Company's accounts reflect only the proportionate interest in these activities.

### 4. ASSETS OF BUSINESS HELD FOR SALE

	Cost of Claims \$	Deferred exploration costs \$	tax credits and government assistance \$	June 30, 2008 Net \$	December 31, 2007 Net (Audited) \$
Saskatchewan					
EastSide	215 689	1 823 608	117 778	1 921 519	1 921 519
WestSide	1 021 444	140 257	-	1 161 701	1 161 701
	<b>1 237 133</b>	<b>1 963 865</b>	<b>117 778</b>	<b>3 083 220</b>	<b>3 083 220</b>

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 mining properties and deferred exploration costs are shown and presented as an asset of business held for sale as at June 30, 2008. Management believes that the carrying amount of these assets reflects the fair market value of the properties and can be realized by way of total disposal. The Company formally adopted a plan to divest of its mining operations and focus on oil and gas exploration and operation. As of December 31, 2007 the mining division was classified as a discontinued operation. The following table presents summarized financial information related to discontinued mining operations:

	June 30, 2008 Net \$	December 31, 2007 Net (Audited) \$
Net loss from discontinued operations	13 660	603 803
Cash and cash equivalents provided by discontinued operations	(13 660)	493 914
Assets of business held for sale	<b>3 083 220</b>	<b>3 083 220</b>

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

June 30, 2008

### 5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	June 30, 2008 Net	December 31, 2007 Net (Audited)
	\$	\$	\$	\$
Furniture and office equipment	36 232	17 071	19 161	21 290
Computer equipment	65 176	39 286	25 890	30 459
Leasehold improvements	7 020	7 020	-	-
	<b>108 428</b>	<b>63 377</b>	<b>45 051</b>	<b>51 749</b>

### 6. 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	\$	\$
<b>Balance - December 31, 2007</b>	<b>119 048 570</b>	<b>14 863 460</b>	<b>36 622 413</b>	<b>2 968 885</b>	<b>10 832 217</b>	<b>1 219 272</b>	<b>19 051 617</b>
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)
<b>Balance - March 31, 2008</b>	<b>121 760 570</b>	<b>14 896 352</b>	<b>39 334 413</b>	<b>3 090 925</b>	<b>11 029 177</b>	<b>1 284 047</b>	<b>19 271 324</b>
Equity issued	20 561 763	417 231					417 231
Warrants issued			18 761 597	800 300			800 300
Broker warrants issued					2 056 176	88 142	88 142
Options forfeited					( 790 100)		
Options issued					200 000		
Stock-based compensation charged to operations						48 862	48 862
Future income taxes on flow through expenses renounced		( 22 333)					( 22 333)
<b>Balance - June 30, 2008</b>	<b>142 322 333</b>	<b>15 291 250</b>	<b>58 096 010</b>	<b>3 891 225</b>	<b>12 495 253</b>	<b>1 421 051</b>	<b>20 603 526</b>

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# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

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June 30, 2008

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### 6. SHARE CAPITAL (continued)

#### (a) 2008 equity issues

##### *i) Quarter ended March 31, 2008*

- 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.
- 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.

##### *ii) Quarter ended June 30, 2008*

- The Company has recorded an additional share issue cost of \$22,333 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.
- 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 after payment of share issue costs. Share issue costs include \$182,474 of cash finder's fee, a stock-based compensation of \$723,347 in the form of 17,222,541 warrants 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 after payment of share issue costs. Share issue costs include \$23,182 of cash finder's fee, a stock-based compensation of \$76,953 in the form of 1,539,056 warrants and \$11,141 to agents paid in the form of 222,811 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.

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

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# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

June 30, 2008

### 6. SHARE CAPITAL (continued)

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

	June 30, 2008		June 30, 2007	
	Granted	Weighted Average	Granted	Weighted Average
		Exercise Price \$		Exercise Price \$
Balance - December 31, 2007	8 565 100	0.18	4 815 100	0.22
Options granted (*)	-	-	1 500 000	0.18
Balance - March 31, 2008	8 565 100	0.18	6 315 100	0.21
Options granted (*)	200 000	0.10	2 200 000	0.13
Options forfeited	(790 100)	0.15	(800 000)	0.27
Balance - June 30, 2008	7 975 000	0.18	7 715 100	0.18

(\*) 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		Six months ended	
	2008	2007	2008	2007
	\$	\$	\$	\$
Directors and management compensation	19 496	66 812	46 594	168 563
Consultants compensation	29 366	37 110	56 999	18 204
Net variation	48 862	103 922	103 593	186 767

As at June 30, 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	Expiry date
		Exercise Price \$	
75 000	75 000	0.15	June 2009
25 000	25 000	0.17	September 2009
200 000	66 667	0.10	April 2010
2 375 000	2 375 000	0.25	July 2010
200 000	200 000	0.16	November 2011
500 000	375 000	0.19	January 2012
1 000 000	600 000	0.17	March 2012
2 200 000	1 650 000	0.13	June 2012
400 000	200 000	0.15	August 2012
500 000	250 000	0.16	November 2012
500 000	250 000	0.15	December 2012
7 975 000	6 066 667	0.18	

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# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

June 30, 2008

### 6. SHARE CAPITAL (continued)

#### (c) Broker warrants

During the quarter ended June 30, 2008, the activity and information concerning outstanding and exercisable broker warrants is as follows:

	Number	Weighted Average Exercise Price \$
<b>Balance - December 31, 2007</b>	<b>2 267 117</b>	<b>0.13</b>
Granted	196 960	0.13
<b>Balance - March 31, 2008</b>	<b>2 464 077</b>	<b>0.13</b>
Granted	2 056 176	0.10
<b>Balance - June 30, 2008</b>	<b>4 520 253</b>	<b>0.12</b>

As at June 30, 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	196 960	0.13	February 2010
Warrants to buy units of 1 common share	2 056 176	-	0.10	June 2010
	<b>4 520 253</b>	<b>2 464 077</b>	<b>0.12</b>	

#### (d) Share purchase warrants

The Company has, as at June 30, 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
18 761 597	0.10	June 2010
<b>58 096 010</b>		

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# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

June 30, 2008

### 6. SHARE CAPITAL (continued)

#### (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	1,833,365	222,811
Risk-free interest rate	3.21%	3.22%	3.36%
Expected life (years)	2	2	2
Expected volatility	108%	109%	110%
Expected dividend yield	nil	nil	nil
Weighted average grant date fair value	\$0.051	\$0.042	\$0.050

#### Warrant issues during 2008

Number	2,712,000	17,222,541	1,539,056
Risk-free interest rate	3.21%	3.22%	3.36%
Expected life (years)	2	2	2
Expected volatility	108%	109%	110%
Expected dividend yield	nil	nil	nil
Weighted average grant date fair value	\$0.045	\$0.042	\$0.050

#### Stock Option issues during 2008

Number	200,000
Risk-free interest rate	3.00%
Expected life (years)	2
Expected volatility	109%
Expected dividend yield	nil
Weighted average grant date fair value	\$0.057

### 7. 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.

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# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

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June 30, 2008

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### 7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### 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 June 30, 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 and project operators. The maximum exposure to credit risk as at June 30, 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.

##### 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. Financial liabilities all have maturity dates prior to December 31, 2008. As for other contractual obligations, Forest Gate will continue to try to fund its share of this year's oil and gas exploration activities.

##### 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.

###### *b) Foreign currency exchange risk*

Foreign exchange risk arises because the amount of foreign currency cash and cash equivalent, receivable or payable will vary in Canadian dollar terms due to changes in exchange rates. The Corporation does not use derivative instruments to reduce its exposure to foreign exchange fluctuations. At June 30, 2008, an amount of \$544,090 (June 30, 2007 – nil) in accounts payable and no amount (June 30, 2007 – nil) in accounts receivable are at risk due to foreign exchange.

###### *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.

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

June 30, 2008

### 8. 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	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Decrease (increase) in:</b>				
Accounts receivable	(55 755)	164 247	(143 687)	57 171
Prepaid expenses	5 211	107 300	10 423	115 903
Tax credits and government assistance receivable	-	-	-	(21 000)
<b>Increase (decrease) in:</b>				
Accounts payable and accrued liabilities	422 148	(897 428)	752 713	149 654
	<b>371 604</b>	<b>(625 881)</b>	<b>619 449</b>	<b>301 728</b>

#### b) Interest paid and received

Interest paid during the three month period ended June 30, 2008 amounts to \$0 (June 30, 2007 - \$0) and interest received during the period amounts to \$4,589 (June 30, 2007 - \$6,349).

Interest paid during the six month period ended June 30, 2008 amounts to \$0 (June 30, 2007 - \$0) and interest received during the period amounts to \$8,789 year to date (June 30, 2007 - \$37,088).

#### 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.

### 9. 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.

### 10. COMMITMENTS

The Company has no long term lease for premises.

### 11. 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 ended June 30, 2008, the Company incurred \$0 (June 30, 2007 - \$15,000) of consulting fees and professional services with officers. Total amount for the six months ended June 30, is \$0 (June 30, 2007 - \$45,000)

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

June 30, 2008

### 12. SEGMENTED INFORMATION

The Company has two reportable segments in three geographic locations; Ireland and Canada, for oil & gas exploration and Canada, for mining exploration (discontinued operations). The significant aspects of these operating segments are presented below. The following table presents information on the Company's operations based on its reportable segments for the periods ended June 30, 2008:

For the three months ended June 30, 2008	Oil and gas Exploration	Mining Exploration	Corporate	Consolidated
<b>Revenues</b>	<b>101 126</b>	<b>-</b>	<b>4 613</b>	<b>105 739</b>
<b>Expenses</b>				
Salaries and levies	96 650	-	32 218	128 868
Value of stock option granted	-	-	48 862	48 862
Professional and consulting fees	25 794	-	74 115	99 909
General and administration expenses	-	6 255	73 810	80 065
Corporate marketing and business development	28 345	-	34 935	63 280
Financial charges	-	-	14 365	14 365
Depreciation of capital assets	-	-	3 349	3 349
	<b>150 789</b>	<b>6 255</b>	<b>281 654</b>	<b>438 698</b>
<b>Loss before income taxes</b>	<b>49 663</b>	<b>6 255</b>	<b>277 041</b>	<b>332 959</b>
<b>Total Assets</b>	<b>7 424 743</b>	<b>3 083 220</b>	<b>1 719 345</b>	<b>12 227 308</b>

For the six months ended June 30, 2008	Oil and gas Exploration	Mining Exploration	Corporate	Consolidated
<b>Revenues</b>	<b>101 126</b>	<b>-</b>	<b>8 812</b>	<b>109 938</b>
<b>Expenses</b>				
Salaries and levies	192 641	-	64 214	256 855
Value of stock option granted	-	-	103 593	103 593
Professional and consulting fees	160 816	-	86 339	247 154
General and administration expenses	3 812	13 660	153 234	170 706
Corporate marketing and business development	85 971	-	109 854	195 825
Financial charges	-	-	14 635	14 635
Depreciation of capital assets	-	-	6 698	6 698
	<b>443 239</b>	<b>13 660</b>	<b>538 566</b>	<b>995 465</b>
<b>Loss before income taxes</b>	<b>342 113</b>	<b>13 660</b>	<b>529 754</b>	<b>885 528</b>
<b>Total Assets</b>	<b>7 424 743</b>	<b>3 083 220</b>	<b>1 719 345</b>	<b>12 227 308</b>

# Forest Gate Resources Inc.

## Notes to the Financial Statements (unaudited)

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June 30, 2008

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### 13. 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.

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. In order to meet its obligation under flow-through share program, the Company should have spent \$432,121 in Canadian exploration by December 31, 2007.

On July 3, 2008, the Company received a notice from Canada Revenue Agency advising of the possible reassessment of income tax returns for 2004, 2005 and 2006 and Returns for Part XII.6 Tax on Flow-Through Shares related to renunciation for Canadian Exploration Expenses and the Company has adjusted its taxes payable account accordingly. The Company disagrees with the assessment and will file an objection. An amount of \$155,197 has been recorded as future income tax as June 30, 2008.

In 2008, the Company received \$324,030 from flow-through shares issues, and the Company must spend this amount in Canadian exploration by December 31, 2009.

### 14. SUBSEQUENT EVENTS

Forest Gate received the July cash call from the Operator, Providence Resources Plc. for the Celtic Sea project in the amount of US\$2,400,000, €56,250 and £162,014, payable July 9, 2008. This amount remains unpaid. On July 21, 2008, the Company received a Notice of Default for not having paid this July cash call within a specified period of time

Under the terms of the Joint Operating Agreement, Forest Gate has sixty days from the notice date of July 3, 2008 to remedy the first default by paying the full amount of the outstanding balance to the Operator. In the event that the default continues for more than sixty days, Forest Gate will forfeit its interest in the Celtic Sea project.