

# **Forest Gate Resources Inc.**

## **Financial Statements**

**December 31, 2008**

### **Contents**

<b>Auditors' Report</b>	<b>2</b>
Financial statements	
Balance sheet	3
Statement of operations	4
Statement of cash flows	5
Notes to the financial statements	6-25

## AUDITORS' REPORT

To the Shareholders of  
**Forest Gate Resources Inc.**

We have audited the balance sheets of **Forest Gate Resources Inc.** as at December 31, 2008 and 2007 and the statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for years then ended in accordance with Canadian generally accepted accounting principles.

*Horwath Leebosh Appel LLP*

1

Montreal, Quebec  
March 20, 2009

---

<sup>1</sup> Chartered accountant auditor permit no. 15046

# Forest Gate Resources Inc.

## Balance Sheets

At December 31,	2008	2007
	\$	\$
<b>Assets</b>		
<i>Current assets</i>		
Cash	631 749	892 537
Accounts receivable	95 896	106 136
Prepaid expenses	11 467	10 920
	739 112	1 009 593
Oil and gas participating interests and deferred exploration costs <i>[note 5]</i>	758 566	6 479 339
Assets of business held for sale <i>[note 6]</i>	1 000 000	3 083 220
Property and equipment <i>[note 7]</i>	38 353	51 749
	2 536 031	10 623 901
<b>Liabilities</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities <i>[note 8]</i>	663 494	401 272
<i>Long term liabilities</i>		
Asset retirement obligations <i>[note 9]</i>	317 800	-
	981 294	401 272
<b>Shareholders' equity <i>[note 10]</i></b>		
Share capital	15 412 376	14 863 460
Warrants	3 891 225	2 968 885
Contributed surplus	1 424 254	1 219 272
Deficit	(19 173 118)	(8 828 988)
	1 554 737	10 222 629
	2 536 031	10 623 901

Contingent liabilities *[note 17]*

Approved on behalf of the board:

Signed "Michael C. Judson" Director

Signed "Jean Mayer" Director

See accompanying notes to financial statements

# Forest Gate Resources Inc.

## Statements of Operations

Years ended December 31,	2008	2007
	\$	\$
<b>Revenues</b>		
Petroleum & natural gas revenue,	336 281	-
Royalties	(63 288)	-
Interest & other income <i>[note 13 (b)]</i>	18 612	45 090
	<b>291 605</b>	<b>45 090</b>
<b>Expenses</b>		
Operating Expenses	101 068	-
Salaries and levies	453 386	586 920
Value of stock option granted <i>[note 10 (c)]</i>	44 655	440 653
Professional & consulting fees	510 522	446 027
General and administration expenses	487 067	239 908
Corporate marketing & business development	249 570	434 764
Financial charges	14 570	1 705
Depletion	317 134	-
Depreciation of property & equipment	13 396	19 302
	<b>2 191 368</b>	<b>2 169 279</b>
<b>Loss before income taxes</b>		
<b>and discontinued operations</b>	<b>1 899 763</b>	<b>2 124 189</b>
Future income taxes current (recovered)	(63 186)	(341 829)
<b>Net loss from continuing operations</b>	<b>1 836 577</b>	<b>1 782 360</b>
Net loss from discontinued operations <i>[note 11]</i>	8 507 553	603 803
<b>Net loss</b>	<b>10 344 130</b>	<b>2 386 163</b>
Deficit at the beginning of year	8 828 988	6 442 825
Deficit at the end of year	<b>19 173 118</b>	<b>8 828 988</b>
Basic and diluted loss per share <i>[note 14]</i>		
continuing operations	\$0.01380	\$0.01927
discontinued operations	\$0.06393	\$0.00653
Basic and diluted loss per share	<b>\$0.07773</b>	<b>\$0.02580</b>
Weighted average number of shares outstanding	<b>133 081 288</b>	<b>92 505 887</b>

See accompanying notes to financial statements

# Forest Gate Resources Inc.

## Statements of Cash Flows

Years ended December 31,	2008 \$	2007 \$
<b>Cash flows from (used in) operating activities</b>		
Net loss from continuing operations	(1 836 577)	(1 782 360)
<i>Non-cash items:</i>		
Future income taxes current (recovered)	(63 186)	(341 829)
Depletion	317 134	-
Depreciation of property and equipment	13 396	19 302
Write-down of amount owing to shareholders	62 141	-
Value of stock option granted	44 655	440 653
Net changes in non-cash working capital items <i>[note 13]</i>	271 915	1 024 526
	<b>(1 190 522)</b>	<b>(639 708)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from the issue of equity <i>[note 10]</i>	1 632 628	4 339 896
	<b>1 632 628</b>	<b>4 339 896</b>
<b>Cash flows from (used in) investing activities</b>		
Acquisition of property and equipment	-	(7 025)
Proceeds from sale of short-term investments	-	386 888
Oil and gas participating interests and deferred exploration costs	(664 907)	(5 867 339)
	<b>(664 907)</b>	<b>(5 487 476)</b>
<b>Net increase (decrease) in cash and cash equivalents from continuing operations</b>	<b>(222 801)</b>	<b>(1 787 288)</b>
Cash and cash equivalents used in discontinued operations <i>[note 11]</i>	(37 987)	(493 914)
Cash and cash equivalents - beginning of year	892 537	3 173 739
<b>Cash and cash equivalents - end of year</b>	<b>631 749</b>	<b>892 537</b>
<b>Represented by:</b>		
Cash with financial institutions	631 749	892 537

See accompanying notes to financial statements

# Forest Gate Resources Inc.

## Notes to the Financial Statements

---

December 31, 2008

---

### 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 an 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) Going Concern Disclosure

These financial statements have been prepared using Canadian generally accepted accounting principles (Canadian GAAP) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due.

The recoverability of capitalized costs in relation to its oil and gas developments is dependent on the ability of the company to successfully operate the wells.

The company's ability to continue as a going concern is dependent upon its ability to fund its working capital, complete the development of its wells, and eventually to generate positive cash flows from oil and gas extraction operations. Management plans to explore all alternatives possible, including joint ventures, debt and equity financings, and merger opportunities.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

### 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
- Warrants

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

# Forest Gate Resources Inc.

## Notes to the Financial Statements

December 31, 2008

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

#### **Oil and gas participating interest and deferred exploration costs:**

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

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

# Forest Gate Resources Inc.

## Notes to the Financial Statements

---

December 31, 2008

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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



# Forest Gate Resources Inc.

## Notes to the Financial Statements

---

December 31, 2008

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

**Comprehensive Income:** comprehensive income is the change in shareholder's equity during a period arising from transactions and other events and circumstances from non-owner sources. In accordance with this 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.

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

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

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

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

# Forest Gate Resources Inc.

## Notes to the Financial Statements

---

December 31, 2008

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial Assets:

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

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

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

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

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

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

#### Financial Liabilities:

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

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

# Forest Gate Resources Inc.

## Notes to the Financial Statements

---

December 31, 2008

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Hedges:** this section establishes standards for when and how hedge accounting may be applied. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. The company did not use any hedging in 2008.

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

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

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

### 3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, 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, 2007:

**(a) 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, 2008. Management has determined that the adoption of this standard will not require any adjustment of opening retained earnings

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:

**(b) Capital Disclosures:** 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 about what the entity regards as capital, whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance. Disclosure requirement are included in *note 18*.

### 4. NEW ACCOUNTING PRONOUNCEMENTS

**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 replaces "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.

# Forest Gate Resources Inc.

## Notes to the Financial Statements

December 31, 2008

### 4. NEW ACCOUNTING PRONOUNCEMENTS (continued)

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

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

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

For the years ended December 31,	Participating Interest \$	Deferred exploration costs \$	2008 Net \$	2007 Net \$
Ireland			-	6 086 346
Canada	758 566	-	758 566	392 993
	758 566	-	758 566	6 479 339

#### Canada

Forest Gate has entered into a number of Joint Venture Agreements with Emerald Bay Energy Inc. to acquire working interests in Alberta properties. As of December 31, 2008, the total cost of the Company's participating interest is \$1,075,700 less depletion expenses of \$317,134. The Company will cover its participating interest share of all future commitments. The Company's accounts reflect only the proportionate interest in these activities.

### 6. ASSETS OF BUSINESS HELD FOR SALE

For the years ended December 31,	Cost of Claims \$	Deferred exploration costs \$	tax credits and government assistance \$	2008 Net \$	2007 Net \$
Saskatchewan					
EastSide	69 792	592 417	(38 110)	624 099	1 921 519
WestSide	330 517	45 384	-	375 901	1 161 701
	400 309	637 801	(38 110)	1 000 000	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. The mining properties and deferred exploration costs are shown and presented as an asset of business held for sale as at December 31, 2008. Given the current state of the capital markets, Management believes it to be prudent to write-down the carrying amount of these assets to reflect the fair market value of the properties that could be realized by way of total disposal.

# Forest Gate Resources Inc.

## Notes to the Financial Statements

December 31, 2008

### 7. PROPERTY AND EQUIPMENT

For the years ended December 31,	Cost	Accumulated Depreciation	2008 Net	2007 Net
	\$	\$	\$	\$
Furniture and office equipment	33 314	19 200	14 114	21 290
Computer equipment	68 094	43 855	24 239	30 459
Leasehold improvements	7 020	7 020	-	-
	108 428	70 075	38 353	51 749

### 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

For the years ended December 31,	2008	2007
	\$	\$
Accounts payable - trade	341 829	156 144
Amount due to shareholders	62 139	124 280
Amount due to entity significantly influenced by the Company's chief executive officer	259 526	120 848
	663 494	401 272

### 9. ASSET RETIREMENT OBLIGATIONS

At the time completion of drilling and testing, the Company identified obligations related to oil and gas properties and records a liability equal to the present value of expected future assets retirement obligations. The total future ARO was estimated by management based on the Company's net ownership interest in the wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its ARO to be \$317,800 as at December 31, 2008 based on the future liability and incorporated the Company's credit-adjusted risk-free interest rate. These payments are expected to be made over the next 9 years.

The following table reconciles the Company's asset retirement obligation:

For the years ended December 31,	2008	2007
	\$	\$
Asset retirement obligation - beginning of year	-	-
Addition for continuing operations	17 800	-
Addition for discontinued operations	300 000	-
Asset retirement obligation - end of year	317 800	-

# Forest Gate Resources Inc.

## Notes to the Financial Statements

December 31, 2008

### 10. 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, 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>279 161</b>	<b>14 000 898</b>
Equity issued	40 222 413	1 780 552					1 780 552
Warrants issued			36 622 413	2 968 885			2 968 885
Warrants forfeited			(12 168 067)	( 297 000)		297 000	0
Broker warrants issued					2 267 117	202 458	202 458
Broker warrants forfeited					(2 201 536)		0
Options forfeited					(1 350 000)		0
Options issued							
Stock-based compensation charged to operations					5 100 000	440 653	440 653
Future income taxes on flow through expenses renounced		( 341 829)					( 341 829)
<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	23 273 763	612 102					612 102
Warrants issued			21 473 597	922 340			922 340
Warrants forfeited							
Broker warrants issued					2 253 136	98 186	98 186
Broker warrants forfeited							
Options forfeited					(2 615 100)		0
Options issued					7 175 000		0
Due to shareholders						62 141	62 141
Stock-based compensation charged to operations						44 655	44 655
Future income taxes on flow through expenses renounced		( 63 186)					( 63 186)
<b>Balance - December 31, 2008</b>	<b>142 322 333</b>	<b>15 412 376</b>	<b>58 096 010</b>	<b>3 891 225</b>	<b>17 645 253</b>	<b>1 424 254</b>	<b>20 727 855</b>

#### (a) Issues during 2008

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

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

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

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

# Forest Gate Resources Inc.

## Notes to the Financial Statements

---

December 31, 2008

---

### 10. SHARE CAPITAL (continued)

#### (a) Issues during 2008 (continued)

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

#### *iii) Quarter ended September 30 and December 31, 2008*

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

#### (b) Issues during 2007

- i. 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 share issued with this transaction has a fair value of \$0.17.
- ii. The Company has recorded an additional share issue cost of \$341,829 to account for the future tax cost of the exploration costs it has renounced in 2007 on the flow-through shares issued in 2006. The amount has been charged to share capital.
- iii. The Company closed a private placement of 13,544,999 shares at \$0.12 per share. The issue generated total gross proceeds of \$1,625,400 and net proceeds credited to share capital of \$689,607 and \$766,664 in the form of 13,544,999 warrants to acquire a common share at \$0.15 over a period of two years after payment of share issues costs of \$109,871. Share issued costs include stock-based compensation of \$59,258 to the agent paid in the form of 915,600 broker warrants to acquire a common share at \$0.12 over a period of two years.
- iv. The Company closed a private placement of 23,077,414 shares at \$0.13 per share. The issue generated total gross proceeds of \$3,000,064 and net proceeds credited to share capital of \$478,945 and \$2,202,222 in the form of 23,077,414 warrants to acquire a common share at \$0.17 over a period of two years after payment of share issues costs of \$175,697. Share issue costs include a stock-based compensation of \$143,200 to the agent paid in the form of 1,351,517 broker warrants to acquire a common share at \$0.13 over a period of two years.

# Forest Gate Resources Inc.

## Notes to the Financial Statements

December 31, 2008

### 10. SHARE CAPITAL (continued)

#### (c) Stock option plan

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

	Granted	2008 Weighted Average Exercise Price \$	Granted	2007 Weighted Average Exercise Price \$
<b>Balance - beginning of year</b>	<b>8 565 100</b>	<b>0.18</b>	<b>4 815 100</b>	<b>0.22</b>
Options granted under Stock option plan (*)	<b>7 175 000</b>	<b>0.10</b>	<b>5 100 000</b>	<b>0.11</b>
Options forfeited	<b>(2 615 100)</b>	<b>0.13</b>	<b>(1 350 000)</b>	<b>0.22</b>
<b>Balance - end of year</b>	<b>13 125 000</b>	<b>0.14</b>	<b>8 565 100</b>	<b>0.18</b>

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

For the years end December 31,	2008 \$	2007 \$
Directors and management compensation	<b>90 315</b>	205 958
Consultants compensation (recovered)	<b>( 45 661)</b>	234 695
Charged to Income	<b>44 655</b>	440 653



# Forest Gate Resources Inc.

## Notes to the Financial Statements

December 31, 2008

### 10. SHARE CAPITAL (continued)

#### c) Stock option plan (continued)

As at December 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
75 000	75 000	0.15	June 2009
25 000	25 000	0.17	September 2009
200 000	133 333	0.10	April 2010
2 375 000	2 375 000	0.25	July 2010
200 000	200 000	0.16	November 2011
1 000 000	1 000 000	0.17	March 2012
1 100 000	1 100 000	0.13	June 2012
200 000	150 000	0.15	August 2012
500 000	375 000	0.16	November 2012
500 000	375 000	0.15	December 2012
200 000	50 000	0.10	August 2013
6 750 000	1 687 500	0.10	December 2013
13 125 000	7 545 833	0.14	

#### (d) Broker warrants

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

	Number	Weighted Average Exercise Price \$
Balance - December 31, 2007	2 267 117	0.13
Granted	2 253 136	0.10
Balance - December 31, 2008	4 520 253	0.12

As at December 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	196 960	0.13	February 2010
Warrants to buy units of 1 common share	2 056 176	2 056 176	0.10	June 2010
	4 520 253	4 520 253	0.12	

# Forest Gate Resources Inc.

## Notes to the Financial Statements

December 31, 2008

### 10. SHARE CAPITAL (continued)

#### (e) Share purchase warrants

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

#### (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:

	<u>Broker warrant issues during 2008</u>		
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

	<u>Warrant issues during 2008</u>		
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

	<u>Stock Option issues during 2008</u>		
Number	200 000	225 000	6 750 000
Risk-free interest rate	3.00%	3.01%	1.77%
Expected life (years)	2	5	5
Expected volatility	109%	117%	212%
Expected dividend yield	nil	nil	nil
Weighted average grant date fair value	\$0.057	\$0.038	\$0.010

# Forest Gate Resources Inc.

## Notes to the Financial Statements

December 31, 2008

### 11. DISCONTINUED OPERATIONS

On September 4, 2008 Forest Gate announced that it forfeited its entire interest in the Celtic Sea project as it had not paid its share of the full amount of the outstanding balance to the Operator within the specified period of time. As of that date, participating interest amounted to \$612,000 and total exploration costs amounted to \$6,018,434 including the outstanding cash calls of \$544,090. The Company's accounts reflected only the 7.5% proportionate interest in these activities.

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

For the year ended December 31, 2008	Oil and gas Exploration (Celtic Sea) \$	Mining Exploration (Saskatchewan) \$	Total \$
Write-off of deferred exploration costs (net of future income taxes)	6 386 346		6 386 346
Write-down of assets held for sale (net of future income taxes)		2 121 207	2 121 207
Net loss from discontinued operations	6 386 346	2 121 207	8 507 553
Cash and cash equivalents used in discontinued operations		(37 987)	(37 987)

### 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### Financial instruments

##### Fair value

The Company's financial instruments consist of cash and cash equivalent, accounts receivable and accounts payable and accrued liabilities. Cash and cash equivalents are presented at fair value.

##### Risk management of financial instruments

The Company is exposed to various risks arising from financial instruments. The following analysis provides a measurement of risks as at December 31, 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 December 31, 2008 is represented by the carrying value of accounts receivable on the balance sheet.

# Forest Gate Resources Inc.

## Notes to the Financial Statements

---

December 31, 2008

---

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

#### Liquidity risk

The cash and cash equivalents on hand and expected cash generated from operations will allow the Company to meet its planned operating requirements. Financial liabilities all have maturity dates prior to December 31, 2009.

Additional funds will be required to meet the Company's planned capital expenditures.

#### Market risk

##### *a) Commodity price risk*

The value of the Company's mineral resource properties is related to the prices of oil, gas and diamonds and the outlook for these commodities. Commodity prices historically have fluctuated widely and are affected by numerous factors outside the Company's control, including, but not limited to, industrial and retail demand, levels of worldwide production, short term changes in supply and demand due to speculative hedging activities, and macro-economic variables.

The profitability of the Company's continuing operations is highly correlated to the market price of oil and gas. To the extent that prices increase over time, asset value increases and cash flows improve; conversely, declines in the prices directly impact value and cash flows negatively. A protracted period of depressed prices could impair the Company's operations and development opportunities, and significantly erode shareholder value. The Company did not have any financial instruments in place to manage commodity prices during the year ended December 31, 2008.

##### *b) Market sensitivity analysis*

Due to the fact that the Company is at a very early stage of production, it is not possible to do a market sensitivity analysis on the earnings.

##### *c) Foreign currency exchange rate risk*

Foreign currency exchange rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's revenues are denominated in Canadian dollars, realized petroleum and, to a certain extent, natural gas prices are based upon reference prices denominated in US dollars and are therefore impacted by changes in the exchange rate between the Canadian and US dollar. A strengthening of the Canadian dollar in comparison to the US dollar will decrease revenues received by the Company from the sale of its production. Correspondingly, a decrease in the value of the Canadian dollar relative to the US dollar will increase the revenues received. The impact of such exchange rate fluctuations cannot be accurately quantified. The Company did not have any forward exchange rate contracts in place for the year ended December 31, 2008 to reduce its exposure to foreign currency fluctuations. As of year end, no other financial instruments were denominated in foreign currency.

# Forest Gate Resources Inc.

## Notes to the Financial Statements

December 31, 2008

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

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

	2008	2007
	\$	\$
<b>Decrease (increase) in:</b>		
Accounts receivable	10 240	130 845
Prepaid expenses	( 547)	105 930
Tax credits and government assistance receivable	-	749 709
<b>Increase in:</b>		
Accounts payable and accrued liabilities	262 222	38 042
	<b>271 915</b>	<b>1 024 526</b>

#### b) Interest paid and received

Interest received during the year amounts to \$18,612 (December 31, 2007 - \$45,090).

#### 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.

### 14. LOSS PER SHARE

Due to an expected loss for the entire current period, no incremental shares are included in calculating the dilutive loss per share because the effect would be anti-dilutive.

### 15. COMMITMENTS

The Company has no long term lease contract for premises.

# Forest Gate Resources Inc.

## Notes to the Financial Statements

December 31, 2008

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

#### a) Provision for income taxes

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

Year ended December 31,

	2008		
	Federal	Provincial	Combined
Loss before income taxes and discontinued operations	(1 899 763)	(1 899 763)	(1 899 763)
Income tax rate	19.50%	11.40%	30.90%
Tax effect	(370 454)	(216 573)	(587 027)
Value of stock option granted	17 612	10 296	27 908
Share issue costs	(75 570)	(44 179)	(119 749)
Depreciation of capital assets	2 612	1 527	4 139
Depletion of oil and Gas properties	61 841	36 153	97 994
Write-down of mining properties	(45 989)	(26 886)	(72 875)
Provision for doubtful accounts	18 844	11 017	29 861
Other	(1 210)	(708)	(1 918)
Change in valuation allowance	329 128	229 353	558 481
<b>Income taxes</b>	<b>(63 186)</b>	<b>0</b>	<b>(63 186)</b>

Year ended December 31,

	2007		
	Federal	Provincial	Combined
Loss before income taxes and discontinued operations	(2 124 189)	(2 124 189)	(2 124 189)
Income tax rate	19.50%	11.40%	30.90%
Tax effect	(414 217)	(242 158)	(656 375)
Value of stock option granted	85 927	50 234	136 161
Share issue costs	(88 287)	(51 614)	(139 901)
Depreciation of property and equipment	3 764	2 200	5 964
Write-down of short-term investments, mining properties and deferred exploration costs	55 927	32 696	88 623
Other	731	855	1 586
Change in valuation allowance	14 326	207 787	222 113
<b>Income taxes</b>	<b>(341 829)</b>	<b>-</b>	<b>(341 829)</b>

# Forest Gate Resources Inc.

## Notes to the Financial Statements

December 31, 2008

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

#### b) Future income tax assets and liabilities

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

Year ended December 31,

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

Year ended December 31,

	2007		
	Federal	Provincial	Combined
Share issue costs	159 566	93 285	252 851
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	4 785	2 797	7 582
Non capital losses carried forward	1 509 105	1 347 645	2 856 750
	1 245 106	1 712 035	2 957 141
Valuation allowance for future tax assets	(1 245 106)	(1 712 035)	(2 957 141)
	-	-	-

# Forest Gate Resources Inc.

## Notes to the Financial Statements

December 31, 2008

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

#### b) Future income tax assets and liabilities (continued)

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

The losses and costs expire as follows:

<i>Expiry date</i>	<i>Federal</i>	<i>Provincial</i>
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	4 697 000	4 238 000
2028	1 883 000	1 876 000
	9 505 000	8 787 000

  

Share issue costs (deductible from 2009 to 2011)	696 468	696 468
--	---------	---------

#### 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.

### 17. CONTINGENT LIABILITIES

#### Environmental

The Company's exploration activities are subject to various federal and provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing. Environmental consequences are difficult to identify in terms of results, timetable and impact. The Company conducts its operations so as to protect the public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations.



# Forest Gate Resources Inc.

## Notes to the Financial Statements

---

December 31, 2008

---

### 18. CAPITAL DISCLOSURE

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

There are no externally imposed capital requirements. The Company manages the capital structure and makes adjustments depending on economic conditions.

The Company manages its capital structure and makes adjustments to it in response to changes in general industry conditions and its petroleum and natural gas assets. The Company may choose to issue equity or debt, revise its capital expenditure programme, and/or sell assets. Access to equity markets is currently very limited due to recent weakening of the global economy and low commodity prices.

The Company's capital management objectives, evaluation measures and targets have remained unchanged over the periods presented. With the decline in commodity prices in the second half of 2008, the Company's revenues declined decreasing its cashflow from operations available to meet its obligations.

### 19. COMPARATIVE FIGURES

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