Forest Gate Resources Inc.
Management's Discussion and Analysis

For the year ended December 31, 2008

This Management's Discussion and Analysis ("MD&A") of financial position and results of operations, as provided by the management of Forest Gate Resources Inc. ("Forest Gate" or the "Company"), should be read in conjunction with the financial statements and related notes thereto for the years ended December 31, 2008 and 2007. Forest Gate's accounting policies are in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts are in Canadian dollars unless otherwise indicated.

This MD&A is dated April 30, 2009. The Company's shares trade under the symbol FGT on the TSX Venture Exchange. These documents and additional information about Forest Gate are available on SEDAR at www.sedar.com..

Forward-Looking Statements

Certain information in this MD&A of the Company's financial position and results of operations constitutes forward-looking information. These statements and this information represent Forest Gate's intentions, plans, expectations and beliefs, and are subject to risks, uncertainties and other factors, of which many are beyond the control of the Company. All information other than statements of historical fact may be forward-looking information. In consequence, actual results in the future may differ materially from any conclusion, forecast or projection in such forward-looking information.

Examples of statements that constitute forward-looking information may be identified by words such as "may", "could", "should", "believe", "expect", "plan", "target" and other similar words and expressions. These statements reflect current expectations of management regarding future events and operating performance, and speak only as of the date of this report.

This forward-looking information includes, amongst others, information with respect to our objectives and strategies to achieve those objectives. Readers are cautioned not to place undue reliance on these forward-looking statements or information. You will find more information about the risks that could cause our actual results to significantly differ from our current expectations in the "Risks and Uncertainties" section. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Corporate Overview

Forest Gate is an international oil and gas exploration and production company that seeks to create shareholder value through the exploration and development of projects worldwide. The Company is focusing on low-risk Canadian hydrocarbon production to generate cash flow while also pursuing, on a selective basis, international projects. It holds various participating interests in oil and gas exploration and production projects in Canada.

Historically, the Company has worked in mineral exploration and, with the identification of new opportunities, changed its strategic orientation towards oil and gas exploration and production. In February 2007, Forest Gate entered into an agreement to acquire a working interest in two licenses in an offshore international oil and gas prospect in the Celtic Sea located off the south coast of Ireland.

In 2007, the Company entered into its first oil and gas project with a joint venture agreement with Emerald Bay Energy Inc. ("Emerald Bay") in a coal bed methane (CBM) project in the Nevis area of Central Alberta. Later in 2007, Forest Gate successfully drilled an oil well at Ferrybank, also located in Central Alberta. This represented the second joint venture signed in 2007 with Emerald Bay.

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

In August, drilling was successful at Kelsey and this gas well was tied-in in the first quarter of 2009.

Forest Gate forfeited its interest in the Celtic Sea project in September 2008 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.

Results of Operations

For the year ended December 31, 2008, Forest Gate incurred a net loss from continuing operations of $1,899,763 ($0.01380 per share) and in 2007 $2,124,189 ($0.01927 per share).

The net loss from discontinued operations was $8,507,555 ($0.06393 per share) and in 2007 was $603,803 ($0.00653 per share).

The total net loss, after discontinued operations in 2008 was $10,344,130 ($0.07773 per share) and in 2007 was $2,386,163 ($0.02580 per share).

	Three months		**Twelve months**	
For the periods ended December 31,	**2008**	2007	**2008**	2007
	$	$	**$**	$
Revenues	**44 898**	7 852	**291 605**	45 090
Expenses				
Operating Expenses	**26 999**	-	**101 068**	-
Salaries and levies	**94 678**	177 871	**453 386**	586 920
Value of stock option granted	**(71 260)**	156 100	**44 655**	440 653
Professional & consulting fees	**133 715**	132 471	**510 522**	446 027
General and administration expenses	**279 932**	(33 147)	**487 067**	239 908
Corporate marketing & business development	**30 162**	74 115	**249 570**	434 764
Financial charges	**(0)**	415	**14 570**	1 705
Depletion	**317 134**	-	**317 134**	-
Depreciation of property & equipment	**3 349**	4 825	**13 396**	19 302
	814 708	512 650	**2 191 368**	2 169 279
Loss before income taxes and discontinued operations	**769 810**	605 423	**1 899 763**	2 124 189
Future income taxes recovered	**-**	3 784	**(63 186)**	(341 829)
Net loss from continuing operations	**769 810**	609 206	**1 836 577**	1 782 360
Net loss from discontinued operations	**317 104**	320 452	**8 507 553**	603 803
Net loss	**1 023 729**	929 658	**10 344 130**	2 386 163

Forest Gate reported oil and gas revenue of $336,281 less royalty of $63,288 and operating expenses of $101,068 for the year ended December 31, 2008. There were no petroleum revenues last year.

The net loss in 2008 includes the write-off of the Celtic Sea project ($6,386,346) and the reduction in the carrying value of the Saskatchewan diamond properties ($2,121,207). The Company has expanded its business into oil and gas exploration and continues evaluating strategic options to sell its Saskatchewan diamond properties.

In 2007, the company recorded a loss of $603,803 from discontinued operations

An amount for future income taxes recovery of $63,186 has been recorded during 2008 (2007 a recovery of $341,829 was recorded). The Company has recorded a share issue cost to account for the future tax cost of the exploration expenses it has renounced on the flow-through shares issued. This amount has been charged to share capital.

Expenses

Expenses consist primarily of petroleum extraction costs, depletion, salaries, professional and consulting fees, general and administration fees and expenses relating to the business development of the Company.

Forest Gate incurred total expenses from continuing operations of $2,191,368 in 2008 compared to $2,169,279 in 2007. The small increase in total expenses relates to the new oil and gas operations including expenses for operations of $101,068 (2007 - $nil). Salaries expense of $453,386 (2007 - $586,920) declined as staffing levels were reduced. The value of stock options granted of $44,655 (2007 - $440,453) declined due in part to a change in the value of options granted to consultants. Professional and consultant fees of $510,522 (2007 - $446,027) rose due to increased corporate financing expenses. General and administration expenses of $487,067 (2007 - $239,908) are mainly related to a tax reassessment. Corporate marketing and business development of $249,570 (2007 - $434,764) declined as higher expenses were incurred in 2007 relating to the company's strategic shift to oil and gas. Depletion of $317,134 (2007 - $nil) was recorded as production was initiated.

Selected Quarterly Information

For the quarter ended December 31, 2008, the Company earned revenues of $44,898 (2007 - $7,852) mainly from oil and gas production.

The increase in total expenses relates to the initiation of oil and gas activities in 2008 including expenses for operations of $26,999 (2007 - $nil). Salaries declined as staffing levels were reduced. The value of stock options granted was a recovery ($71 260) (2007 – expense of $156,100) declined due in part to a change in the value of options granted to consultants. Professional and consultant fees of $133,715 (2007 - $132,471) were virtually unchanged. General and administration expenses of $279,932 (recovery of $33,147 in 2007) are mainly related to a tax reassessment. Corporate marketing and business development of $30,162 (2007 - $74,115) declined as expenses in 2007 related to the company strategic shift to oil and gas. Depletion for the full year of $317,134 (2007 - $nil) was charged to the fourth quarter. Loss from discontinued operations amounted to $317,104 (2007 - $320,452). The Company incurred a net loss of $1,023,729 compared to a net loss of $929,658 for the same quarter last year.

		Net loss Net (earnings) Unaudited **$**	**Per weighted average number of Shares outstanding** **$**
2008	Fourth quarter	1 023 729	0.00492
	Third quarter	8 453 989	0.05926
	Second quarter	465 822	0.00366
	First quarter	390 590	0.00325
2007	Fourth quarter	929 658	0.01005
	Third quarter	572 580	0.00621
	Second quarter	632 207	0.00767
	First quarter	572 171	0.00719

Oil and Gas Participating Interest

Forest Gate owns a number of participating interests in oil and gas exploration in Canada. As of December 31, 2008, the total participating interests and deferred exploration and development costs in oil and gas exploration, net of depletion and write-offs, were $758,566 compared to $6,479,339 as at December 31, 2007. The decrease reflects the forfeiture of Forest Gate's interest in the Celtic Sea project.

	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**

The Company's reserves were evaluated by AJM Petroleum Consultants ("AJM") as at December 31, 2008. Gross reserves are the total of the Company's working interest share before deduction of royalties owned by others. Net reserves are the total of the Company's working interest reserves after deducting the amounts attributable to royalties owned by others.

	Gross Reserves			Net Reserves		
	Light and Medium Crude Oil Mbbls	Natural Gas Mmcf	Oil Equivalent Mbbl	Light and Medium Crude Oil Mbbls	Natural Gas Mmcf	Oil Equivalent Mbbl
Proved Developed Producing	3.3	52.1	12.0	2.2	37.8	8.5
Proved Developed Non-Producing	0.0	0.0	0.0	0.0	0.0	0.0
Proved Undeveloped	0.0	107.2	17.9	0.0	93.0	15.5
Total Proved	3.3	159.3	29.9	2.2	130.8	24.0
Probable	2.1	22.4	5.8	1.4	18.8	4.5
Total Proved plus Probable	5.4	181.7	35.7	3.6	149.6	28.5

Canada

In 2007, Forest Gate entered into a joint venture agreement with Emerald Bay, to acquire working interests in the Nevis area, located in Central Alberta, which hosts natural gas as coal bed methane. A second joint venture agreement with Emerald Bay was entered into to drill a well at Ferrybank, Alberta.

In February 2008, Forest Gate announced that crude oil was discovered at Ferrybank, and also announced that the four Nevis methane wells had begun producing natural gas.

In March 2008, Forest Gate entered into a third joint venture agreement with Emerald Bay to acquire a 38% working interest in the Kelsey exploration well in Alberta. Drilling at Kelsey, Alberta was successful and this gas well was tied-in in April 2009.

In January 2009, Forest Gate Resources reported that it has acquired a license targeting Bakken Formation hydrocarbons in South Eastern Saskatchewan.

Ireland

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.

Other Properties

The Company decided in 2007 to expand its business into oil and gas exploration. The Company formally adopted a plan to divest its mineral exploration properties and focus on oil and gas exploration and operations. Management believes that the carried amount of these assets can be realized by way of total disposal.

Saskatchewan Mining Exploration Properties

Forest Gate also owns a 100% interest in the East Side, West Side and South Side diamond exploration properties located in the Fort a la Corne area, 50 km northeast of Prince Albert, Saskatchewan. Fort a la Corne is host to the largest diamondiferous kimberlite pipes in the world. As of December 31, 2008, total mining properties and deferred exploration costs were written down to $1,000,000 (December 31, 2007 - $3,083,220) and are recorded under "assets of business held for sale". The Company spent $37,987 during the year on these discontinued operations. These amounts represent basic administration costs.

The total investment thus far in Saskatchewan is $4,125,982 of which $1,000,000 are now shown as "assets of business held for sale" ($1,921,519 has been invested on the East Side Property and $1,161,701 on the West Side Property, and $1,042,762 on the South Side Property). While management believes that the carried amount of these assets in Saskatchewan can be realized through disposition, a complete write-down for the South Side Property investment was recorded at the end of fiscal year 2006 and partial write-down of the East Side and West Side properties was recorded in the third quarter. This is considered to be appropriate given the strategic re-orientation to direct current resources to oil and gas exploration and production.

Liquidity, Financing and Capital Resources

Cash and cash equivalents as at December 31, 2008 totalled $631,749 compared to $892,537 at December 31, 2007.

Issue of Equity

Net proceeds from the issues of Equity amounted to $1,632,628 during the year.

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 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 after payment of share issue costs. Share issue costs include $182,474 of cash finder's fee, and $77,001 to agents paid in the form of 1,833,365 broker warrants.

- The Company closed the second tranche of the private placement on June 27, 2008 of 2,228,112 shares consisting of 1,378,112 flow-through units at $0.09 per unit and 850,000 units at $0.07 per share. The issue generated total gross proceeds of $183,530 and net proceeds credited to share capital of $72,254 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) Quarters ended September 30, and December 31, 2008

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

Share Capital

The weighted average number of shares issued and outstanding as at December 31, 2008 is 133,081,288 compared to 92,505,887 as at December 31, 2007. As of December 31, 2008 there were 142,322,333 shares issued and outstanding compared to 119,048,570 at December 31, 2007. As at April 30, 2009, 142,322,333 shares were issued and outstanding.

Disclosure Controls, Procedures and Internal Controls

We evaluated our disclosure controls and procedures as defined in the rules under the Canadian Securities Administrators. The Board of Director's duties include the assessment of the integrity of the Company's internal control and information system. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

As of December 31, 2008 we believe that our internal control systems at Forest Gate are sufficient to execute our business plan and to provide meaningful results upon which to manage our business. No changes were made in our internal control systems during the fiscal year that have materially affected our financial reporting and controls.

Summary of Significant of 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.

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.

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. 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 quote 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 of the annual financial statements. 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.

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.

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.

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.

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.

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.

Hedges: this section establishes standards for when and how hedge accounting may be applied. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. Adopting this section on January 1, 2007 did not have any effect on the financial statements ended December 31, 2007. 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 the notes to the financial statements.

Risks and uncertainties

Going Concern Disclosure: The Company's 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. The 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.

Exploration and development: the business of exploring for developing and producing oil and gas involves a high degree of risk. Oil and gas reserves may never be found or, if discovered, may not result in production at reasonable costs or profitability.

Dependence: oil and gas activities are conducted presently through partners and in respect of which the Company is not the operator. Forest Gate is dependent upon its operating partners for the financial and technical support which they contribute to the Company's oil and gas projects. If those operating partners are unable to fulfill their own contractual obligations, the Company's interests could be jeopardized, resulting in project delays, additional costs and loss of the participating interests.

Environmental: the Company's oil and gas participating projects are subject to environmental regulations in the jurisdictions in which they operate. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the projects in which the Company holds interests which are presently unknown to the Company and which have been caused by previous or existing partners or operators of the projects or by illegal mining activities.

*Liquidity: s*ubstantial expenditures are required for exploration programs and the development of reserves. In the absence of sufficient cash flow from operations, the Company relies on capital markets to fund its exploration and evaluation activities. Capital market conditions and other unforeseeable events may impact the Company's ability to finance and develop its projects. The business of exploring, developing and producing is also capital intensive and, to the extent that cash flows from operation activities and external sources become limited or unavailable, the ability of Forest Gate and of its operating partners to meet their respective financial obligations which are necessary to maintain their interests in the underlying projects could be impaired.

Foreign exchange: the Company's operations and financial results are exposed to currency fluctuations as the commodity prices it receives are based on the US dollar. The Company does not currently engage in any hedging activities to mitigate its foreign exchange risk. Material changes in the value of the Canadian dollar vis-à-vis any of the other currencies relevant to the Company's business could have a material impact on its financial statements.

Governmental: government approvals and permits are generally required in connection with the Company's operations. To the extent such approvals are required and not obtained; the Company may be delayed or prohibited from proceeding with planned exploration or development of projects. Although the governments of the various countries or provinces in which Forest Gate operates have been stable recently, there is no assurance that political and economic conditions will remain stable.

ACCOUNTING CHANGES AND NEW PRONOUNCEMENTS

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.

(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 contained in *note 18* of the financial statements.

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.

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.

Signed: “Michael Judson”

Michael Judson
President and Chief Executive Officer
Forest Gate Resources Inc.
April 30, 2009,
Montreal, Quebec