Forest Gate Resources Inc.

Quarterly Financial Statements

September 30, 2008

(unaudited)

Contents

Forest Gate Resources Inc.

UNAUDITED INTERIM FINANCIAL STATEMENTS

In Accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended September 30, 2008.

Forest Gate Resources Inc.
Balance Sheets (unaudited)

At	**September 30, 2008**	December 31, 2007
		(Audited)
	$	$
Assets		
Current assets		
Cash	**842 961**	892 537
Accounts receivable	**207 843**	106 136
Prepaid expenses	**17 200**	10 920
	1 068 004	1 009 593
Oil and gas participating interests and deferred exploration costs *[note 3]*	**1 018 816**	6 479 339
Assets of business held for sale *[note 4]*	**1 000 000**	3 083 220
Property and equipment *[note 6]*	**41 702**	51 749
	3 128 522	10 623 901
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**477 946**	401 272
Long term liabilities		
Future Income Taxes	**155 197**	-
Shareholders' equity *[note 7]*		
Share capital	**15 291 251**	14 863 460
Warrants	**3 891 225**	2 968 885
Contributed surplus	**1 433 373**	1 219 272
	20 615 849	19 051 617
Deficit	**(18 120 470)**	(8 828 988)
	2 495 379	10 222 629
	3 128 522	10 623 901

Contingent liabilities *[note 13]*

Approved on behalf of the board:

Signed “Michael C. Judson” *Director*

Signed “Peter D. Watson” *Director*

See accompanying notes to financial statements

Forest Gate Resources Inc.
Statements of Operations (unaudited)

Period ended September 30	Three months ended		Nine months ended	
	2008	2007	**2008**	2007
	$	$	**$**	$
Revenues				
Petroleum & natural gas revenue,				
net of royalties	**56 426**	-	**157 552**	-
Interest & other income *[note 9]*	**6 275**	5 366	**15 086**	40 690
	62 701	5 366	**172 638**	40 690
Expenses				
Salaries and levies	**101 853**	164 382	**358 708**	469 776
Value of stock option granted *[note 7 (b)]*	**12 321**	94 071	**115 914**	284 553
Professional & consulting fees	**129 654**	178 379	**376 807**	437 020
General and administration expenses	**50 089**	57 571	**207 134**	270 550
Corporate marketing & business development	**23 584**	95 483	**219 409**	491 254
Financial charges	**133**	1 068	**14 768**	9 452
Depreciation of property & equipment	**3 349**	4 825	**10 047**	14 476
	320 983	595 779	**1 302 787**	1 977 081
Loss before write-down, income taxes				
and discontinued operations	**258 282**	590 413	**1 130 149**	1 936 391
Loss on short term investments		-		50 961
Write-down of mining properties &				
deferred exploration costs *[note 4]*	**-**	(17 833)		135 219
Loss before income taxes				
and discontinued operations	**258 282**	572 580	**1 130 149**	2 122 571
Future income taxes current (recovered)	**-**		**(29 115)**	(345 613)
Net loss from continuing operations	**258 282**	572 580	**1 101 034**	1 776 958
Net loss from discontinued operations *[note 5]*	**8 176 788**	-	**8 190 448**	-
Net loss	**8 435 070**	572 580	**9 291 482**	1 776 958
Deficit at the beginning of period	**9 685 400**	7 647 203	**8 828 988**	6 442 825
Deficit at the end of period	**18 120 470**	8 219 783	**18 120 470**	8 219 783
Basic and diluted loss per share *[note 10]*				
continuing operations	**$0.00181**	$0.00621	**$0.00847**	$0.02096
discontinued operations	**$0.05745**	$0.00000	**$0.06306**	$0.00000
Weighted average number of shares outstanding	**142 322 333**	92 169 388	**129 933 240**	84 773 326

See accompanying notes to financial statements

Forest Gate Resources Inc.
Statements of Cash Flows (unaudited)

	Three months ended		Nine months ended	
	2008	2007	**2008**	2007
	$	$	**$**	$
Cash flows from (used in) operating activities				
Net loss from continuing operations	**(258 282)**	(572 580)	**(1 101 034)**	(1 776 958)
Non-cash items:				
Write-down of mining properties and deferred exploration costs	**544 090**	(17 833)	**544 090**	135 219
Future income taxes current (recovered)	**-**	-	**(29 115)**	(345 613)
Depreciation of property and equipment	**3 349**	4 825	**10 047**	14 476
Unrealized loss on short term investments	**-**	-	**-**	(50 961)
Value of stock option granted	**12 321**	94 071	**115 914**	284 553
Net changes in non-cash working capital items *[note 9]*	**(650 761)**	1 362 947	**(31 312)**	1 664 675
	(349 283)	871 430	**(491 410)**	(74 609)
Cash flows from financing activities				
Proceeds from the issue of equity *[note 7]*	**-**	2 081 423	**1 632 628**	2 081 423
	-	2 081 423	**1 632 628**	2 081 423
Cash flows from (used in) investing activities				
Acquisition of property and equipment	**-**	-	**-**	(7 024)
Proceeds from sale of short-term investments	**-**	-	**-**	488 811
Oil and gas participating interests and deferred exploration costs	**(236 234)**	(2 557 313)	**(1 169 911)**	(4 456 989)
Mining properties and deferred exploration costs	**(7 222)**	10 505	**(20 883)**	(169 884)
	(243 456)	(2 546 808)	**(1 190 794)**	(4 145 086)
Net increase (decrease) in cash and cash equivalents of continuing operations	**(592 739)**	406 045	**(49 576)**	(2 138 272)
Cash and cash equivalents provided by discontinued operations *[note 5]*	-	-	-	-
Cash and cash equivalents - beginning of Period	**1 435 700**	629 422	**892 537**	3 173 739
Cash and cash equivalents - end of Period	**842 961**	1 035 467	**842 961**	1 035 467
Represented by:				
Cash with financial institutions	**842 961**	1 035 467	**842 961**	1 035 467

See accompanying notes to financial statements

1. DESCRIPTION OF OPERATIONS AND BASIS OF PRESENTATION

(a) Description of operations

Forest Gate Resources Inc. ("Forest Gate" or the "Company") is incorporated under the Canada Business Corporations Act and is publicly traded on the TSX Venture Exchange under the symbol "FGT". Forest Gate is a Canadian based international oil exploration and production company.

The Company's operations consist of the exploration and production of oil and gas reserve properties, either directly, through joint ventures or with working interest partners. Recovery of deferred exploration costs and reserve properties depend on the existence of economically recoverable reserves and the Company's ability to obtain financing for its operations and future profitable commercial production.

The Company has put its diamond mining properties in Saskatchewan up for sale, as Forest Gate is no longer a mining exploration company, but an international oil and gas exploration and production company. The mining properties and deferred exploration costs are shown and presented as an asset of business held for sale. Management believes that the carried amount of these assets reflects fair market value of properties and can be realized by way of total disposal.

(b) Basis of presentation

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

(c) Comparative financial statements

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

2. CHANGES IN ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

(a) Changes in accounting policies

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

Section 1535, "Capital Disclosures": this section establishes standards for disclosing information about an entity's capital and how it is managed.

Section 3862, "Financial Instruments – Disclosures": this section describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, "Financial Instruments – Presentation", will replace Section 3861, "Financial Instruments – Disclosure and Presentation".

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

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

(a) Changes in accounting policies (continued)

Section 1400, “Standards of financial statement presentation”: the Canadian Institute of Chartered Accountants has amended section 1400, “General Standards of Financial statement Presentation”, which is effective for interim periods beginning on or after October 1, 2008, to include requirements to assess and disclose the Company’s ability to continue as a going concern. The adoption of this new section will not have an impact on the financial statements.

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

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

(b) New accounting pronouncements

Section 3064, “Goodwill and intangible assets”: in February 2008, the Canadian Institute of Chartered Accountants issued section 3064, “Goodwill and Intangible Assets”, effective January 1, 2009. This section which replace “Goodwill and Other Intangible Assets”, section 3062, and “Research and Development Costs”, section 3450, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. In addition, section 1000, “Financial Statement Concepts” was amended to clarify the criteria for recognition of an asset. The Company has not yet determined the impact of adopting this accounting standard.

Convergence with International Financial Reporting Standards: in 2006, Canada’s Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being evolved and converged with International Financial Reporting Standards (“IFRS”) over a transitional period to be complete by 2011. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal year beginning on January 1, 2011. Canadian GAAP will be converged with IFRS through a combination of two methods as current joint-convergence projects of the United States’ Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will adopted by Canada’s Accounting Standards Board and may be introduced in Canada before the complete changeover to IFRS; the standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the complete changeover to IFRS. As the International Accounting Standards Board currently, and expectedly, has projects underway that should result in new pronouncements that continue to evolve IFRS, and as this Canadian convergence initiative is in an early stage as of the date of these financial statements, it is premature to currently assess the impact of the Canadian initiative on the Company.

3. OIL & GAS PARTICIPATING INTERESTS AND DEFERRED EXPLORATION COSTS

	Participating Interest	**Deferred exploration costs**	**September 30, 2008 Net**	December 31, 2007 Net (Audited)
	$	**$**	**$**	$
Ireland - Celtic Sea			**-**	6 086 346
Canada - Alberta	**-**	**1 018 816**	**1 018 816**	392 993
	-	**1 018 816**	**1 018 816**	6 479 339

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

Canada - Alberta

Forest Gate has entered into a number of Joint Venture Agreements with Emerald Bay Energy Inc. to acquire working interests in Alberta properties. As of September 30, 2008, the total cost of exploration and development is $1,018,816. The Company will cover its participating interest share of all future commitments. The Company's accounts reflect only the proportionate interest in these activities.

4. ASSETS OF BUSINESS HELD FOR SALE

	Cost of Claims	**Deferred exploration costs**	**Tax credits and government assistance**	**September 30, 2008 Net**	December 31, 2007 Net (Audited)
	$	**$**	**$**	**$**	$
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 September 30, 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.

5. DISCOUNTINED 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 three months ended September 30, 2008	**Oil and gas Exploration** (Celtic Sea)	**Mining Exploration** (Saskatchewan)	**Total**
Write-off of deferred exploration costs (net of future income taxes)	6 086 346		6 086 346
Write-down of assets held for sale (net of future income taxes)		2 090 442	2 090 442
Net loss from discontinued operations	6 086 346	2 090 442	8 176 788
Cash and cash equivalents provided from discontinued operations	-	-	-

…continued

5. DISCOUNTINED OPERATIONS (continued)

For the nine months ended September 30, 2008	Oil and gas Exploration (Celtic Sea)	Mining Exploration (Saskatchewan)	Total
Write-off of deferred exploration costs (net of future income taxes)	6 086 346		6 086 346
Write-down of assets held for sale (net of future income taxes)		2 104 102	2 104 102
Net loss from discontinued operations	6 086 346	2 104 102	8 190 448
Cash and cash equivalents provided from discontinued operations	-	-	-

6. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	September 30, 2008 Net	December 31, 2007 Net (Audited)
	$	$	$	$
Furniture and office equipment	**33 314**	**17 004**	**16 310**	21 290
Computer equipment	**68 094**	**42 702**	**25 392**	30 459
Leasehold improvements	**7 020**	**7 020**	**-**	-
	108 428	**66 726**	**41 702**	51 749

7. SHARE CAPITAL

Authorized:
The authorized share capital comprises an unlimited number of common shares with no par value.

	Share capital		Warrants		Broker Warrants and Options	Contributed Surplus	Total
	Number	$	Number	$	Number	$	$
Balance - December 31, 2007	**119 048 570**	**14 863 460**	**36 622 413**	**2 968 885**	**10 832 217**	**1 219 272**	**19 051 617**
Equity issued	2 712 000	194 871					194 871
Warrants issued			2 712 000	122 040			122 040
Broker warrants issued					196 960	10 044	10 044
Stock-based compensation charged to operations						54 731	54 731
Future income taxes on flow through expenses renounced		(161 979)					(161 979)
Balance - March 31, 2008	**121 760 570**	**14 896 352**	**39 334 413**	**3 090 925**	**11 029 177**	**1 284 047**	**19 271 324**

…continued

7. SHARE CAPITAL (continued)

	Share capital		Warrants		Broker Warrants and Options	Contributed Surplus	Total
	Number	$	Number	$	Number	$	$
Equity issued	20 561 763	417 231					417 231
Warrants issued			18 761 597	800 300			800 300
Broker warrants issued					2 056 176	88 143	88 143
Options forfeited					(790 100)		0
Options issued					200 000		0
Stock-based compensation charged to operations						48 862	48 862
Future income taxes on flow through expenses renounced		(22 332)					(22 332)
Balance - June 30, 2008	**142 322 333**	**15 291 250**	**58 096 010**	**3 891 225**	**12 495 253**	**1 421 052**	**20 603 528**
Equity issued	0	0					0
Warrants issued			0	0			0
Broker warrants issued					0	0	0
Options forfeited					(125 000)		0
Options issued					225 000		0
Stock-based compensation charged to operations						12 321	12 321
Future income taxes on flow through expenses renounced		0					0
Balance - September 30, 2008	**142 322 333**	**15 291 251**	**58 096 010**	**3 891 225**	**12 595 253**	**1 433 373**	**20 615 849**

(a) 2008 equity issues

i) Quarter ended March 31, 2008

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

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

ii) Quarter ended June 30, 2008

- The Company has recorded an additional share issue cost of $22,333 to account for the future tax cost of the exploration costs it has renounced on the flow-through shares issued. The amount has been charged to share capital.

…continued

7. SHARE CAPITAL (continued)

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

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

iii) Quarter ended September 30, 2008

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

(b) Stock option plan

The Company has a stock option plan authorizing the Board of Directors to grant options to directors, officers, employees and consultants to acquire common shares of the Company at a price computed by reference to the closing market price of the shares of the Company on the business day before the Company notifies the stock exchanges of the grant of the option. The number of shares which may be granted to any one person shall not exceed 5% (2% for consultants) over a twelve month period. The options will vest from the date of the grant to 18 months and expire within 5 years, as determined by the board, with exceptions to death, employment, etc. The Company is authorized to issue a maximum of 15,298,500 common shares.

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

	September 30, 2008		September 30, 2007	
	Granted	**Weighted Average Exercise Price $**	Granted	Weighted Average Exercise Price $
Balance - December 31, 2007	**8 565 100**	**0.18**	4 815 100	0.22
Options granted (*)	**-**	**-**	1 500 000	0.18
Balance - March 31, 2008	**8 565 100**	**0.18**	6 315 100	0.21
Options granted (*)	**200 000**	**0.10**	2 200 000	0.13
Options forfeited	**(790 100)**	**0.15**	(800 000)	0.27
Balance - June 30, 2008	**7 975 000**	**0.18**	7 715 100	0.18
Options granted (*)	**225 000**	**0.10**	400 000	0.15
Options forfeited	**(125 000)**	**0.19**	(450 000)	0.22
Balance - September, 2008	**8 075 000**	**0.18**	7 665 100	0.18

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

…continued

7. SHARE CAPITAL (continued)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	**2008**	2007
	$	$	**$**	$
Directors and management compensation	**(7 279)**	57 206	**39 315**	161 539
Consultants compensation	**19 600**	36 865	**76 600**	123 014
Net variation	**12 321**	94 071	**115 915**	284 553

As at September 30, 2008, the outstanding options, as issued under the stock option plan to directors, officers, employees and consultants for the purchase of one common share per option, are as follows:

Granted	Exercisable	Weighted Average Exercise Price $	Expiry date
75 000	**75 000**	**0.15**	**June 2009**
25 000	**25 000**	**0.17**	**September 2009**
200 000	**66 667**	**0.10**	**April 2010**
2 375 000	**2 375 000**	**0.25**	**July 2010**
200 000	**200 000**	**0.16**	**November 2011**
500 000	**375 000**	**0.19**	**January 2012**
1 000 000	**1 000 000**	**0.17**	**March 2012**
2 200 000	**1 650 000**	**0.13**	**June 2012**
400 000	**300 000**	**0.15**	**August 2012**
500 000	**250 000**	**0.16**	**November 2012**
500 000	**250 000**	**0.15**	**December 2012**
225 000	**56 250**	**0.10**	**August 2013**
8 200 000	**6 622 917**	**0.18**	

(c) Broker warrants

During the quarter ended September 30, 2008, 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	**196 960**	**0.13**
Balance - March 31, 2008	**2 464 077**	**0.13**
Granted	**2 056 176**	**0.10**
Balance - June 30, 2008	**4 520 253**	**0.12**
Granted	**-**	**-**
Balance - September 30, 2008	**4 520 253**	**0.12**

…continued

7. SHARE CAPITAL (continued)

As at September 30, 2008 the Company had the following broker warrants outstanding:

	Granted	Exercisable	Weighted Average Exercise Price $	Expiry date
Warrants to buy units of 1 common share	**675 600**	**675 600**	**0.12**	**July 2009**
Warrants to buy units of 1 common share	**240 000**	**240 000**	**0.12**	**August 2009**
Warrants to buy units of 1 common share	**338 960**	**338 960**	**0.13**	**September 2009**
Warrants to buy units of 1 common share	**1 012 557**	**1 012 557**	**0.13**	**October 2009**
Warrants to buy units of 1 common share	**196 960**	**196 960**	**0.13**	**February 2010**
Warrants to buy units of 1 common share	**2 056 176**	**2 056 176**	**0.10**	**June 2010**
	4 520 253	**4 520 253**	**0.12**	

(d) Share purchase warrants

The Company has, as at September 30, 2008, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price $	Expiry date
10 244 999	**0.15**	**July 2009**
3 300 000	**0.15**	**August 2009**
4 692 000	**0.17**	**September 2009**
18 385 414	**0.17**	**October 2009**
2 712 000	**0.17**	**February 2010**
18 761 597	**0.10**	**June 2010**
58 096 010		

(e) Fair value

The fair value of options and warrants issued were estimated at their respective grant dates using the Black-Scholes pricing model using the following assumptions:

	Broker warrant issues during 2008		
Number	**196 960**	**1 833 365**	**222 811**
Risk-free interest rate	**3.21%**	**3.22%**	**3.36%**
Expected life (years)	**2**	**2**	**2**
Expected volatility	**108%**	**109%**	**110%**
Expected dividend yield	**nil**	**nil**	**nil**
Weighted average grant date fair value	**$0.051**	**$0.042**	**$0.050**

…continued

7. SHARE CAPITAL (continued)

	Warrant issues during 2008		
Number	**2 712 000**	**17 222 541**	**1 539 056**
Risk-free interest rate	**3.21%**	**3.22%**	**3.36%**
Expected life (years)	**2**	**2**	**2**
Expected volatility	**108%**	**109%**	**110%**
Expected dividend yield	**nil**	**nil**	**nil**
Weighted average grant date fair value	**$0.045**	**$0.042**	**$0.050**

	Stock Option issues during 2008	
Number	**200 000**	**225 000**
Risk-free interest rate	**3.00%**	**3.01%**
Expected life (years)	**2**	**5**
Expected volatility	**109%**	**117%**
Expected dividend yield	**nil**	**nil**
Weighted average grant date fair value	**$0.057**	**$0.038**

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments

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

Fair value

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

Risk management of financial instruments

The Company is exposed to various risks arising from financial instruments. The following analysis provides a measurement of risks as at September 30, 2008.

Credit risk

The Company's principal financial assets are cash and cash equivalents and accounts receivable. Cash and cash equivalents are held with major financial institutions and the risk of default is considered remote. Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers and project operators. The maximum exposure to credit risk as at September 30, 2008 is represented by the carrying value of accounts receivable on the balance sheet.

…continued

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

- the majority of accounts receivable are not considered overdue however in July, 2008 a customer applied for creditor protection in Canada under the Companies' Creditors Arrangement Act. Because of this, Forest Gate has estimated a potential financial exposure of approximately $60,000 relating to the marketing of the company's oil sales for the month of June and to July 22, 2008. There is no additional exposure as Forest Gate has been prepaid for future deliveries from July 22 through August 25, 2008 and will continue to be paid in advance for future deliveries.

The Company does not consider the monetary exposure material to the Company's overall financial position and it will not impact the Company's ability to fund its remaining 2008 capital expenditures program. The Company has not been able to determine either when or how much of the exposure will be ultimately collected from this customer.

Liquidity risk

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

Market risk

a) Commodity price risk

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

The profitability of the Company's continuing operations is highly correlated to the market price of oil and gas. To the extent that prices increase over time, asset value increases and cash flows improve; conversely, declines in the prices directly impact value and cash flows negatively. A protracted period of depressed prices could impair the Company's operations and development opportunities, and significantly erode shareholder value.

b) Market sensitivity analysis (after income taxes)

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.

9. SUPPLEMENTAL DISCLOSURES OF EXPENSES AND CASH FLOW INFORMATION

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

	Three months ended		Nine months ended	
	2008	2007	**2008**	2007
Decrease (increase) in:	**$**	$	**$**	$
Accounts receivable	**41 980**	164 247	**(101 707)**	57 171
Prepaid expenses	**(16 703)**	16 581	**(6 280)**	115 903
Tax credits and government assistance receivable	**-**	297 465	**-**	(21 000)
Increase (decrease) in:				
Accounts payable and accrued liabilities	**(676 038)**	(897 428)	**76 675**	149 654
	(650 761)	(419 135)	**(31 312)**	301 728

b) Interest paid and received

Interest received during the three month period ended September 30, 2008 amounts to $4,589 (September 30, 2007 - $6,349).

Interest received during the nine month period ended September 30, 2008 amounts to $8,789 (September 30, 2007 - $37,088).

c) Non-monetary transactions

Non-cash transactions have been incurred in relation to stock-based compensation for the issue of stock options and warrants as partial payment of share issue costs and other services.

10. LOSS PER SHARE

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

11. COMMITMENTS

The Company has no long term lease for premises.

12. RELATED PARTY TRANSACTION

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

Operations

During the three months ended September 30, 2008, the Company incurred $0 (September 30, 2007 - $15,000) of consulting fees and professional services with officers. Total amount for the nine months ended September 30, is $0 (September 30, 2007 - $45,000)

13. CONTINGENT LIABILITIES

a) Environmental

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

b) Flow-through share issues

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

In 2007, the Company received nothing from flow-through share issues. After year-end, but effective December 31, 2007, the Company has renounced all of its tax deductions relating to flow-through investments. In order to meet its obligation under flow-through share program, the Company should have spent $432,121 in Canadian exploration by December 31, 2007.

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

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