

Forest Gate Resources Inc.

Financial Statements

December 31, 2007

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AUDITORS' REPORT

*To the Shareholders of
Forest Gate Resources Inc.*

We have audited the balance sheet of **Forest Gate Resources Inc.** as at December 31, 2007 and 2006 and the statements of earnings and deficit and cash flows for each of the years in the two-year period ended December 31, 2007. 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, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

Lippman Leebosh April
Chartered Accountants

Montreal, Quebec
March 7, 2008

Forest Gate Resources Inc.

Balance Sheet

At December 31	2007	2006
	\$	\$
Assets		
<i>Current assets</i>		
Cash	892 537	3 173 739
Short term investments, at fair value	-	437 850
Accounts receivable	106 136	236 981
Tax credits and government assistance receivable [notes 5 and 16]	-	849 708
Prepaid expenses	10 920	116 850
	1 009 593	4 815 128
Oil and gas participating interest and deferred exploration costs [note 4]	6 479 339	-
Assets of business held for sale [note 5]	3 083 220	-
Mining properties and deferred exploration costs [note 5]	-	3 042 149
Property and equipment [note 6]	51 749	64 026
	10 623 901	7 921 303
Liabilities		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities	401 272	363 230
Shareholders' equity [note 7]		
Share capital	14 863 460	13 424 737
Warrants	2 968 885	297 000
Contributed surplus	1 219 272	279 161
	19 051 617	14 000 898
Deficit	(8 828 988)	(6 442 825)
	10 222 629	7 558 073
	10 623 901	7 921 303

Contingent liabilities and subsequent events [notes 15 and 17]

Approved on behalf of the board:

Signed "Michael Judson" Director

Signed "Peter Watson" Director

Forest Gate Resources Inc.

Statements of Operations

Year ended December 31	2007	2006
	\$	\$
Revenues		
Interest income <i>[note 9]</i>	45 090	157 729
Expenses		
Salaries and levies	586 920	390 766
Value of stock option granted <i>[note 7 (c)]</i>	440 653	271 756
Professional and consulting fees	446 027	336 345
General and administration expenses	239 908	275 801
Registration and filing fees	50 382	33 403
Corporate marketing and business development	316 336	272 749
Investor relations	68 046	52 610
Financial charges <i>[note 9]</i>	1 705	8 658
Depreciation of property and equipment <i>[note 6]</i>	19 302	19 812
	2 169 279	1 661 900
Loss before write-down, income taxes and discontinued operations	2 124 189	1 504 171
Unrealized loss on short term investments	-	43 655
Write-down of mining properties and deferred exploration costs <i>[note 5]</i>	-	2 471 862
Loss before income taxes and discontinued operations	2 124 189	4 019 688
Future income taxes recovered	(341 829)	(632 185)
Net loss from continuing operations	1 782 360	3 387 503
Net loss from discontinued operations	603 803	-
Net loss	2 386 163	3 387 503
Deficit at the beginning of year	6 442 825	3 055 322
Deficit at the end of year	8 828 988	6 442 825
Basic and diluted loss per share <i>[note 10]</i>		
continuing operations	\$0.01927	\$0.04454
discontinued operations	\$0.00653	-
Weighted average number of shares outstanding	92 505 887	76 050 018

Forest Gate Resources Inc.

Statements of Cash Flows

Year ended December 31	2007 \$	2006 \$
Cash provided from (used for) continuing operating activities		
Net loss from continuing operations	(1 782 360)	(3 387 503)
<i>Non-cash items:</i>		
Write-down of mining properties and deferred exploration costs	-	2 471 862
Future income taxes recovered [note 14]	(341 829)	(632 185)
Depreciation of property and equipment	19 302	19 812
Unrealized loss on short term investments	-	43 655
Value of stock option granted	440 653	271 756
Net changes in non-cash components of operating working capital [note 9]	1 024 526	(885 177)
	(639 708)	(2 097 780)
Cash provided from continuing financing activities		
Proceeds from the issue of equity [note 7]	4 339 896	1 592 388
Loan receivable from former subsidiary company	-	877 724
	4 339 896	2 470 112
Cash provided from (used for) continuing investing activities		
Acquisition of property and equipment	(7 025)	(25 150)
Proceeds from sale of short-term investments	386 888	4 122 495
Oil and gas participating interest and deferred exploration costs	(5 867 339)	-
Mining properties and deferred exploration costs	-	(1 700 681)
	(5 487 476)	2 396 664
Net increase in cash and cash equivalents of continuing operations	(1 787 288)	2 768 996
Cash and cash equivalents provided by discontinued operations [note 5]	(493 914)	-
Cash and cash equivalents - beginning of year	3 173 739	404 743
Cash and cash equivalents - end of year	892 537	3 173 739
Represented by:		
Cash with financial institutions	892 537	3 173 739

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

1. NATURE OF BUSINESS

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

The Company is currently evaluating selling options for its actual diamond mining properties in Saskatchewan. 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.

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

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.

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

Revenue recognition: 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

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. As at December 31, 2007 the mining properties and deferred exploration costs are presented as "assets of business held for sale".

Share issuance expenses: share issue expenses are recorded as an increase of the deficit in the year in which they are incurred.

Stock-based compensation: the Company has a stock option compensation plan which is described in Note 7. 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 while compensation expense related to broker warrants issued are recorded as share issue costs and deducted from share capital. 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.

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.

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, 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, 2006:

Section 1506, "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, 2007. Management has determined that the adoption of this standard will not require any adjustment of opening retained earnings.

Section 1530, "Comprehensive Income", and Section 3251, "Equity": comprehensive income is the change in shareholder's equity during a period arising from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, the Company now reports a statement of comprehensive loss and a new category, accumulated other comprehensive income, has been added to the shareholder's equity section of the balance sheet. The components of this new category will include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any. Section 3251 establishes standards for the presentation of equity and changes in equity as a result of the new requirements of Section 1530. Adopting this section on January 1, 2007, did not result in any components to be recognized in comprehensive income for the financial statements ended December 31, 2007.

Section 3861, "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.

Section 3855, "Financial Instruments, Recognition and Measurement": this section establishes standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives. The new standard lays out how financial instruments are to be recognized depending on their classification. Depending on financial instruments classification, changes in subsequent measurements are recognized in net income or comprehensive income. The Company has implemented the following classification:

- Cash and cash equivalents are classified as "Financial Assets Held for Trading". These financial assets are marked-to-market through net income at each period end.
- Accounts receivable are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost.
- Accounts payable are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost.

Section 3865, "Hedges": this section establishes standards for when and how hedge accounting may be applied. Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period. Adopting this section on January 1, 2007 did not have any effect on the financial statements ended December 31, 2007

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

3. CHANGES IN ACCOUNTING POLICIES (continued)

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:

Section 1535, "Capital Disclosures": this section establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

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

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

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 3064, "Goodwill and intangible assets": in February 2008, the Canadian Institute of Chartered Accountants issued section 3064, "Goodwill and Intangible Assets", effective for fiscal year beginning after October 1, 2008. 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.

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

4. OIL & GAS PARTICIPATING INTEREST AND DEFERRED EXPLORATION COSTS

	Participating Interest \$	Deferred exploration costs \$	2007 Net \$	2006 Net \$
Ireland - Celtic Sea	612 000	5 474 346	6 086 346	-
Canada - Alberta	-	392 993	392 993	-
	612 000	5 867 339	6 479 339	-

a) Ireland - Celtic Sea

In February 2007, the Company entered into an Agreement to acquire a 15% working interest in off-shore international oil & gas prospect in the Celtic Sea located off the south coast of Ireland. The working interest was held by a private Calgary based company called Arriba Capital Corporation Inc. The operator is Providence Resources P.L.C. with headquarters in Dublin, Ireland. Providence is involved in petroleum exploration licenses in Ireland, UK, West Africa and the Gulf of Mexico. In September 2007, the Company reported that it has forfeited 7.5% of its 15% interest in the Celtic Sea joint venture, due to defaulting on a cash call.

Under the terms of the Agreement and after regulatory approval, the Company paid 3,600,000 common shares of Forest Gate (\$0.17 per share) to Arriba principals and entered into consulting agreements and granted one million options to them. As part of the Agreement, the Company paid 586,104 Euros (\$902,249) for outstanding cash calls on work already performed.

As of December 31, 2007, the total cost of exploration costs is \$5,474,346 including the outstanding cash calls on work already performed of \$902,249. The Company's accounts reflect only the Company's proportionate interest in these activities.

b) Canada - Alberta

In October 2007, the Company entered into a joint venture agreement with Emerald Bay Energy Inc. to acquire a working interest in an Alberta property, which potentially hosts natural gas in coalbed methane. Leases have been acquired by the consortium for the drilling of four coalbed methane (CBM) test wells in the Nevis area, located in Central Alberta. Forest Gate's commitment to the four well drilling programs is fully funded.

The project operator is Emerald Bay Energy Inc. headquarters in Calgary, Alberta, with land holdings and operations in Alberta and South Texas. Just Freehold Energy, Calgary, is another partner in the Consortium.

Partner	Before Payout	After Payout
Emerald Bay Energy	45%	28%
Just Freehold Energy	45%	22%
Forest Gate Resources	10%	5%

In December 2007, Forest Gate reported the drilling of a single well on a potential oil and gas target at Ferrybank, Alberta, with partner Emerald Bay. This represented the second joint venture signed in 2007 with Emerald Bay.

As of December 31, 2007, the total cost of exploration costs is \$392,993. The Company will cover its participating interest share of all future commitments. The Company's accounts reflect only the Company's proportionate interest in these activities.

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

5. ASSETS OF BUSINESS HELD FOR SALE

	Cost of Claims \$	Deferred exploration costs \$	Tax credits and government assistance \$	2007 Net \$	2006 Net \$
Saskatchewan					
East Side	215 689	1 823 608	117 778	1 921 519	1 884 455
West Side	1 021 444	140 257	-	1 161 701	1 157 694
	1 237 133	1 963 865	117 778	3 083 220	3 042 149

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. A total write-down for South Side property has been recorded on December 31, 2006. The mining properties and deferred exploration costs are shown and presented as an asset of business held for sale as at December 31, 2007. Management believes that the carried amount of these assets reflects fair market value of properties and can be realized by way of total disposal.

The Company has written-down certain of its mining properties and deferred exploration costs for a total amount of \$2,471,862 at December 31, 2006 based on the decision taken to defer further exploration work on these properties.

The Company formally adopted a plan to divest of its mining operations and focus on oil and gas exploration and operation. As of December 31, 2007 the mining division was classified as a discontinued operation.

The following table presents summarized financial information related to discontinued mining operations:

	2007 \$
Net loss from discontinued operations	603 803
Cash and cash equivalents provided by discontinued operations	493 914
Assets of business held for sale	3 083 220

6. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Depreciation \$	2007 Net \$	2006 Net \$
Furniture and office equipment	36 232	14 942	21 290	22 703
Computer equipment	65 176	34 717	30 459	39 202
Leasehold improvements	7 020	7 020	-	2 121
	108 428	56 679	51 749	64 026

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

7. SHARE CAPITAL

Authorized:

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

	Share capital		Warrants		Broker Warrants and Options		Contributed Surplus	Total
	Number	\$	Number	\$	Number	\$	\$	\$
Balance - December 31, 2005 (a) (c)	72 223 574	12 372 541	12 938 067	353 855	7 366 739	0	42 543	12 768 939
Equity issued	5 741 112	1 366 959						1 366 959
Warrants exercised	200 000	65 639	(200 000)					65 639
Warrants forfeited			(570 000)	(56 855)			56 855	0
Broker warrants forfeited					(90 000)			
Options exercised	100 400	22 389			(100 400)		(7 329)	15 060
Broker warrants and broker unit warrants exercised	561 071	229 394			(561 071)		(84 664)	144 730
Broker warrants issued upon exercise of broker unit warrants					201 368			0
Options issued and Stock-based compensation charged to operations					200 000		271 756	271 756
Future income taxes on flow through expenses renounced		(632 185)						(632 185)
Balance - December 31, 2006	78 826 157	13 424 737	12 168 067	297 000	7 016 636	0	279 161	14 000 898
Equity issued (b)	40 222 413	1 780 552						1 780 552
Warrants issued (b)			36 622 413	2 968 885				2 968 885
Warrants forfeited (b)			(12 168 067)	(297 000)			297 000	0
Broker warrants issued (b)					2 267 117		202 458	202 458
Broker warrants forfeited (b)					(2 201 536)			0
Options issued and Stock-based compensation charged to operations (b) (c)					5 100 000		440 653	440 653
Options forfeited (b)					(1 350 000)			0
Future income taxes on flow through expenses renounced (b)		(341 829)						(341 829)
Balance - December 31, 2007	119 048 570	14 863 460	36 622 413	2 968 885	10 832 217	0	1 219 272	19 051 617

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Forest Gate Resources Inc.

Notes to the Financial Statements

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7. SHARE CAPITAL (continued)

(a) Issues during 2006

- i. A total of 200,000 warrants, 100,400 options issued under the stock option plan and 561,071 options issued to brokers were exercised for gross proceeds of \$238,754 resulting in the issue of 861,471 common shares and 201,368 broker warrants. Pursuant to an agreement with its former subsidiary, Blue Note, the exercise of 713,296 warrants by the Corporation's warrant holders has resulted in the payment to Blue Note in the amount of \$13,325 cash. Net proceeds received amount to \$225,429.
- ii. The Company has recorded an additional share issue cost of \$632,185 to account for the future tax cost of the exploration costs it has renounced in March 2006 on the flow-through shares issued in 2005. The amount has been charged to share capital.
- iii. The Company closed a private placement of 3,407,786 flow-through shares at \$0.305 per share. The issue generated total gross proceeds of \$1,039,375 and net proceeds credited to share capital of \$939,216 after payment of share issue costs of \$99,321 in the June 2006 quarter and \$838 paid in the September 2006 quarter.
- iv. The Company closed a private placement of 1,946,230 flow-through shares at \$0.305 per share. The issue generated total gross proceeds of \$593,600 and net proceeds credited to share capital of \$331,388 after payment of share issue costs of \$48,470 and other disbursement of \$213,742.
- v. The Company closed a private placement of 387,096 flow-through shares at \$0.31 per share. The issue generated total gross proceeds of \$120,000 and net proceeds credited to share capital of \$96,355 after payment of share issue costs of \$23,645.

(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 after payment of share issues costs of \$109,871, a stock-based compensation of \$766,664 in the form of 13,544,999 warrants to acquire a common share at \$0.15 over a period of two years and a 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 after payment of share issues costs of \$175,697, a stock-based compensation of \$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 and 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.

...continued

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

7. 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. This is an increase from the previous maximum of 12,321,000 after board approval was obtained in June 2006.

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

	2007		2006	
	Granted	Weighted Average Exercise Price \$	Granted	Weighted Average Exercise Price \$
Balance - beginning of year	4 815 100	0.22	4 715 500	0.22
Options granted under the stock option plan (*)	5 100 000	0.15	200 000	0.16
Options forfeited	(1 350 000)	0.22	(100 400)	0.15
Balance - end of year	8 565 100	0.18	4 815 100	0.22

(*) An amount of \$440,653 (\$271,756 in 2006) was recorded as stock-based compensation and credited to contributed surplus for options vesting in the current year and issued either in the current or prior year. An amount of \$205,958 (\$237,575 in 2006) relates to management compensation and the balance consists of compensation to consultants.

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

7. SHARE CAPITAL (continued)

(c) Stock option plan (continued)

As at December 31, 2007, the outstanding options, as issued under the stock option plan to directors, officers, employees and consultants for the purchase of one common share per option, are as follows:

Granted	Exercisable	Weighted Average Exercise Price \$	Expiry date
790 100	790 100	0.15	March 2008
75 000	75 000	0.15	June 2009
25 000	25 000	0.17	September 2009
2 375 000	2 375 000	0.25	July 2010
200 000	150 000	0.16	November 2011
500 000	250 000	0.19	January 2012
1 000 000	400 000	0.17	March 2012
2 200 000	1 100 000	0.13	June 2012
400 000	100 000	0.15	August 2012
500 000	125 000	0.16	November 2012
500 000	125 000	0.15	December 2012
8 565 100	5 515 100	0.18	

(d) Broker warrants

During the year ended December 31, 2007, the activity and information concerning outstanding and exercisable broker warrants is as follows:

	Number	Weighted Average Exercise Price \$
Balance - December 31, 2005	2 651 239	0.27
Granted	201 368	0.35
Exercised	(561 071)	0.27
Forfeited	(90 000)	0.24
Balance - December 31, 2006	2 201 536	0.29
Granted	2 267 117	0.13
Exercised	-	0.00
Forfeited	(2 201 536)	0.29
Balance - December 31, 2007	2 267 117	0.13

...continued

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

7. SHARE CAPITAL (continued)

(d) Broker warrants (continued)

As at December 31, 2007 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	-	0.13	September 2009
Warrants to buy units of 1 common share	1 012 557	-	0.13	October 2009
	2 267 117	915 600	0.13	

(e) Share purchase warrants

The Company has, as at December 31, 2007, 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
36 622 413		

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

7. SHARE CAPITAL (continued)

(f) Fair value

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

	Stock option plan issues during 2007					
	<u>500 000</u>	<u>1 000 000</u>	<u>2 200 000</u>	<u>400 000</u>	<u>500 000</u>	<u>500 000</u>
Risk-free interest rate	4.04%	3.89%	4.65%	4.33%	4.09%	3.84%
Expected life (years)	5	5	5	5	5	5
Expected volatility	95%	95%	95%	85%	103%	102%
Expected dividend yield	nil	nil	nil	nil	nil	nil
Weighted average grant date fair value	0.141 \$	0.127 \$	0.097 \$	0.087 \$	0.124 \$	0.098 \$

	Broker warrant issues during 2007				
	<u>559 067</u>	<u>116 533</u>	<u>240 000</u>	<u>338 960</u>	<u>1 012 557</u>
Risk-free interest rate	4.59%	4.53%	4.53%	4.19%	4.29%
Expected life (years)	2	2	2	2	2
Expected volatility	87%	87%	86%	88%	88%
Expected dividend yield	nil	nil	nil	nil	nil
Weighted average grant date fair value	0.066 \$	0.058 \$	0.065 \$	0.064 \$	0.120 \$

	Warrant issues during 2007				
	<u>7 538 333</u>	<u>2 706 666</u>	<u>3 300 000</u>	<u>4 692 000</u>	<u>18 385 414</u>
Risk-free interest rate	4.59%	4.53%	4.53%	4.19%	4.29%
Expected life (years)	2	2	2	2	2
Expected volatility	87%	87%	86%	88%	88%
Expected dividend yield	nil	nil	nil	nil	nil
Weighted average grant date fair value	0.058 \$	0.051 \$	0.058 \$	0.054 \$	0.106 \$

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

8. FINANCIAL INSTRUMENTS, CREDIT AND PRICE RISK MANAGEMENT

a) Fair values

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

b) Interest risk

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

9. SUPPLEMENTAL DISCLOSURES OF EXPENSES AND CASH FLOW INFORMATION

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

	2007 \$	2006 \$
Decrease (increase) in:		
Accounts receivable	130 845	40 863
Prepaid expenses	105 930	(87 734)
Tax credits and government assistance receivable	749 709	(811 708)
Increase (decrease) in:		
Accounts payable and accrued liabilities	38 042	(26 598)
	1 024 526	(885 177)

b) Interest paid and received

Interest paid during the year amounts to \$0 (2006 - \$5,496) and interest received during the year amounts to \$45,090 (2006 - \$274,734).

c) Non-monetary transactions

Non-cash transactions have been incurred in relation to stock-based compensation for the issue of stock options and warrants as partial payment of share issue costs and other services. In addition, common shares have been issued in the acquisition of the 15% (reduced to 7.5%) working interest in off-shore international oil & gas prospect in the Celtic Sea. A full description of the transaction can be found in note 7(b).

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.

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

12. RELATED PARTY TRANSACTION

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

Operations

During the year, the Company incurred \$45,000 (2006 - \$56,484) of consulting fees and professional services with officers. Of this amount \$0 (2006 - \$2,762) is included in mining properties and deferred exploration costs.

13. SEGMENTED INFORMATION

The Company has two reportable segments in three geographic locations; Canada, for mining exploration (discontinued operations) and Ireland and Canada, for oil & gas exploration. The significant aspects of these operating segments are presented below. The accounting policies of each segment are the same as those described in the summary of significant accounting policies in note 2. The following table presents information on the Company's operations based on its reportable segments for the twelve months ended December 31, 2007:

For the twelve months ended December 31, 2007	Oil and gas Exploration	Mining Exploration	Corporate	Consolidated
Revenues	-	3 452	45 090	48 542
Expenses				
Salaries and levies	448 229	60 727	138 691	647 647
Value of stock option granted	-	-	440 653	440 653
Professional and consulting fees	345 609	123 464	100 418	569 491
General and administration expenses	18 081	59 166	221 827	299 074
Registration and filling fees	4 380	158	46 002	50 540
Corporate marketing and business development	248 352	76 937	67 984	393 273
Investor relations	50 750	-	17 296	68 046
Financial charges	-	-	1 705	1 705
Depreciation of property and equipment	-	-	19 302	19 302
	1 115 401	320 452	1 053 878	2 489 731
Loss before write-down & income taxes	1 115 401	317 000	1 008 788	2 441 189
Loss on short term investments	-	50 961	-	50 961
Loss on mining deferred exploration costs	-	235 842	-	235 842
Loss before income taxes	1 115 401	603 803	1 008 788	2 727 992
Total Assets	6 479 339	3 083 220	1 061 342	10 623 901

In 2006 the Company had only one reportable segment which related to mining exploration. All of the operations in 2006 were in Canada.

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

14. 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:

	2007		
	Federal	Provincial	Combined
Loss before income taxes	(2 727 992)	(2 727 992)	(2 727 992)
Income tax rate	19.50%	11.40%	30.90%
Tax effect	(531 958)	(310 991)	(842 949)
Value of stock option granted	85 927	50 234	136 161
Share issue costs	(88 287)	(51 614)	(139 901)
Depreciation of capital assets	3 764	2 200	5 964
Write-down of short-term investments, mining properties and deferred exploration costs	55 927	32 696	88 623
Recapture of mining exploration expenses	-	-	-
Restriction on resource losses	-	-	-
Other	731	855	1 586
Benefit of losses not previously recognized	-	-	-
Change in valuation allowance, tax estimates and rate changes	132 067	276 620	408 687
Income taxes	(341 829)	-	(341 829)

	2006		
	Federal	Provincial	Combined
Loss before income taxes	(4 019 688)	(4 019 688)	(4 019 688)
Income tax rate	22.12%	9.90%	32.02%
Tax effect	(889 155)	(397 949)	(1 287 104)
Value of stock option granted	60 112	26 904	87 016
Share issue costs	(87 516)	(39 168)	(126 684)
Depreciation of property and equipment	4 382	1 961	6 343
Write-down of short-term investments, mining properties and deferred exploration costs	556 433	249 036	805 469
Recapture of mining exploration expenses	130 153	-	130 153
Restriction on resource losses	92 645	118 469	211 114
Other	2 308	2 861	5 169
Benefit of losses not previously recognized	(544 023)	-	(544 023)
Change in valuation allowance, tax estimates and rate changes	-	80 362	80 362
Income taxes	(674 661)	42 476	(632 185)

...continued

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

14. TAX LOSSES AND OTHER EXPENSES TO CARRY FORWARD

b) Future income tax assets and liabilities

The Company has exploration costs, operating losses and other costs which are being carried forward and which can reduce future taxable income. The components of the net future income tax assets (liabilities) as at December 31 were as follows:

	2007		
	Federal	Provincial	Combined
Share issue costs <i>[see note i]</i>	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 <i>[see note i]</i>	1 067 040	594 624	1 661 664
	803 041	959 014	1 762 055
Valuation allowance for future tax assets	(803 041)	(959 014)	(1 762 055)
	-	-	-
	2006		
	Federal	Provincial	Combined
Share issue costs <i>[see note i]</i>	217 988	97 562	315 550
Carrying value of mining properties and deferred exploration costs in excess of tax basis	(434 818)	269 868	(164 950)
Tax cost of property and equipment in excess of carrying value	6 715	3 005	9 720
Non capital losses carried forward <i>[see note i]</i>	680 854	279 774	960 628
	470 739	650 209	1 120 948
Valuation allowance for future tax assets	(470 739)	(650 209)	(1 120 948)
	-	-	-

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

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

b) Future income tax assets and liabilities (continued)

Note i: 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:

Expiry date	2007	
	Federal	Provincial
2008	117 000	117 000
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	2 430 000	2 426 000
	5 472 000	5 216 000
Share issue costs (from 2008 to 2011)	818 290	818 290
Less: losses and share issue costs recognized due to exploration costs renounced to investors	(5 280 225)	(50 000)
	1 010 065	5 984 290

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. There was no flow-through investment in year 2007.

15. CONTINGENT LIABILITIES

a) Environmental

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

b) Flow-through share issues

The Company is partially financed through the issuance of flow-through shares, requiring that the Company spend the proceeds for qualified 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.

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2007

15. CONTINGENT LIABILITIES (continued)

b) Flow-through share issues (continued)

In 2006, the Company received \$1,752,975 following flow-through share issues. After year-end, but effective December 31, 2006, the Company has renounced all of its tax deductions relating to flow-through investments (see note 14). In order to meet its obligation under flow-through share program, the Company must spend \$1,463,000 in Canadian exploration by December 31, 2007 in addition to the exploration expenses it has incurred to date.

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 (see note 14). In order to meet its obligation under flow-through share program, the Company must spend \$835,371 in Canadian exploration by December 31, 2008 in addition to the exploration expenses it has incurred to date.

16. GOVERNMENT GRANTS

During 2007, the Company earned tax credits and government assistance for mineral exploration costs amounting to \$0 (\$878,226 in 2006), which were reduced against mining properties and deferred exploration costs (note 5).

17. SUBSEQUENT EVENTS

In February 2008 the Company announced that it will be undertaking a non-brokered private placement to raise up to \$1,000,000 in units at a price of \$0.13 per unit, subject to a four month hold period and pursuant to applicable prospectus and registration exemptions. Each unit is comprised of one common share and one common share purchase warrant of the Company. Each share purchase warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.17 per share for a period of two years after issuance. The Company will pay, where appropriate, a cash finder's fee of 8% in connection with the placement and issue finder's fee warrants equal up to 8% of the total number of units issued under the offering. Each finder's fee warrant will entitle the holder to subscribe for units of the Company at an exercise price of \$0.13 for a period of two years after issuance. The Company intends to utilize the proceeds for general working capital purposes.

On February 29, 2008 the Company announced that it had closed the first tranche if it's non-brokered private placement. In the first tranche 3,862,000 units for total gross proceeds of \$502,600 were issued. The hold period on these units expires June 29, 2008. A cash finder fee of \$37,565 and 288,960 finder's fee warrants were paid.