Forest Gate Resources Inc.

Diamond Finders

Annual Report 2004

Forest Gate Resources Inc.
Diamond Finders

President's Message

Your company has entered a new era. On March 30, 2005, we closed a $6.5 million financing with a blue-chip group of institutional investors. A strong market for our securities early in 2005 encouraged many of our earlier investors to exercise their warrants, which generated an additional $1.4 million for the company. Forest Gate presently has $7.6 million in the bank.

The 2005 exploration program on the East Side and South Side diamond properties near Prince Albert, Saskatchewan has already started. As this document goes to press, a large electro-magnetic survey will be underway on the diamond properties. The purpose of the survey is to identify new potential kimberlites for the company to drill.

The East Side diamond property already has several targets ready for drilling and that is set to begin later in the spring or early summer subject to rig availability. Our helpful neighbors, Shore Gold Inc., have already offered to process some of our kimberlite in their mill. We look forward to that opportunity.

Wholly-owned Forest Gate metals mining group, Blue Note Metals Inc., is expecting to have reached a preliminary deal to buy the Caribou and Restigouche mines from Breakwater Resources Inc. by the time this annual report reaches you. It probably will be several months more before a definitive agreement will be signed but Breakwater's management are expected to deliver to its board the essential terms of a deal that they have approved.

The key factor in the acquisition of Caribou and Restigouche is financing and I believe that Blue Note Metals will soon succeed in raising the capital required to re-start the mines and mill. As I have been telling shareholders, it is not a question of 'if' but rather a question of 'when'. And that belief is driven by current zinc and lead prices and price forecasts that are expected to continue to climb for the foreseeable future. Timing continues to work in our favor.

I thank you for your support.

Very sincerely,

Michael C. Judson
President & Chief Executive Officer
April 11, 2005

Forest Gate Resources Inc.
Diamond Finders

President's Outlook

The investment community is beginning to understand the implications of what has been achieved by Shore Gold in Prince Albert, Saskatchewan. We believe Shore is on its way to building a large diamond mine.

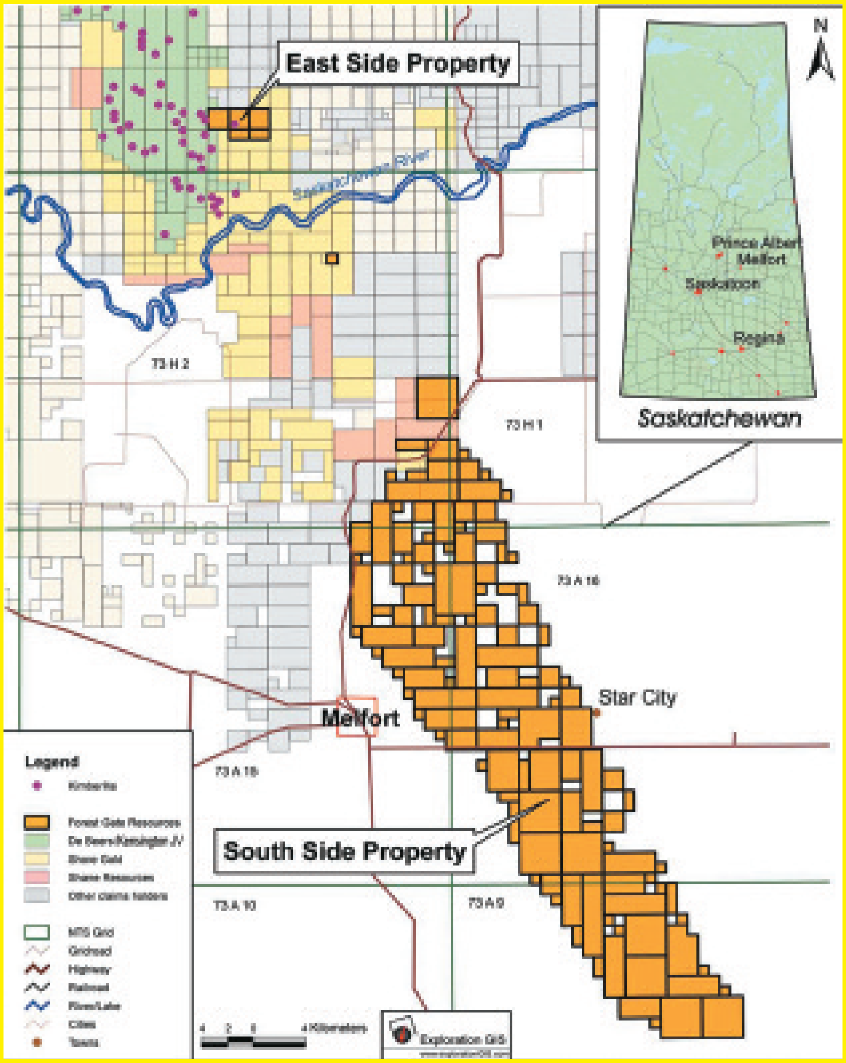
The Fort a la Corne/Prince Albert diamond camp is in its infancy. We are collectively only beginning to understand its nature and implication in order to expose you to further extraordinary opportunities.

There are compelling trends underway in the diamond industry. Worldwide diamond inventories are in serious decline while demand shows no sign of slowing. As well, there are reports that some of the industry's largest players are concerned about their growth prospects. These trends greatly assist our business plan.

Forest Gate Resources Inc.

Diamond Finders

Fort à la Corne, Saskatchewan Properties



East Side Property

Forest Gate's East Side diamond property is situated at Fort à la Corne, Saskatchewan, location of the largest field of diamondiferous kimberlite pipes in the world. The property hosts the Dizzy kimberlite and is approximately four kilometres northeast of the De Beers-Kensington 140-141 kimberlite, one of the largest diamondiferous kimberlites in the world. Contiguous and roughly six kilometers to the south of the East Side property is Shore Gold's Star kimberlite into which a 4.5 metre vertical shaft has been sunk and on which a modular diamond recovery plant has been built.

Gravity and ground magnetic surveys over the Dizzy kimberlite suggest that the kimberlite may be as much as 100 metres thick. Modeling indicates that the Dizzy kimberlite footprint is probably around 250 metres in diameter (about 5 hectares in area) consisting of both magnetic and non-magnetic kimberlite.

Forest Gate has also identified a new anomaly straddling the southern border of its East Side property and the adjacent property held by Shore Gold Inc. Modeling suggests that this feature, if caused by kimberlite could be as large as 600 metres north-south by 400 metres east-west.

Southern Property

Forest Gate Resources has recently staked 42, 368 hectares of new ground to the southeast of the Fort a la Corne kimberlite fields. Forest Gate's new property, referred to as the Southern Property, is on strike with the major southeast-northwest trending kimberlite field that also hosts their East Side Property's diamondiferous Dizzy kimberlite pipe as well as Shore Gold's Star kimberlite pipe.

The 100% owned Southern Property, roughly 10 km wide and 30 km long, has been interpreted as potentially hosting an additional field of kimberlite pipes. The well developed infrastructure near the town of Melfort makes for excellent access to the property.

Details of the Southern Property

- The interpreted regional southeast-northwest structure stands out in gravity and aeromagnetometry surveys.

- The stable Archean craton is interpreted to underlie banded ironstones and other younger rocks on the Southern Property.

- The magnetically noisy aeromagnetometry signature of banded iron stones makes existing aeromagnetometry ineffective to locate kimberlites on the property.

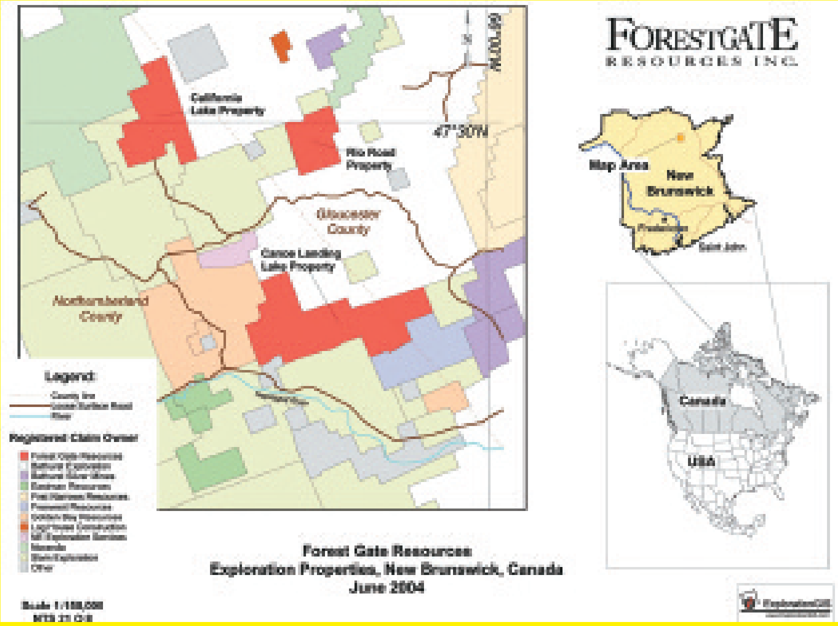
- Most of area has yet to be explored with (300m deep penetrating) Time Domain Airborne Electromagnetics, which is not detrimentally affected by banded ironstones or thicker cover.

- Exciting potential for generating new targets over a vast and under explored region.

Forest Gate Resources Inc.

Diamond Finders

Bathurst, New Brunswick Properties



The Company holds a 100% interest in the Bathurst Project (the "Bathurst Project"), located in northern New Brunswick. The Bathurst Project is comprised of (i) claims acquired on September 18, 2002 from an arm's length third party in exchange for 625,000 common shares of the company, and (ii) claims that were staked by the Company between September and November of 2000. To date, the Company has spent $380,000 on exploration of the Bathurst Project. Estimated historical spending by others is $2-3 million.

The Bathurst Project in New Brunswick covers three properties in close proximity to one another.

Canoe Landing Lake Polymetallic Deposit

This property totals 92 claims covering 1,472 hectares. The Canoe Landing Lake polymetallic deposit, according the records of the New Brunswick Dept. of Natural Resources and Energy (assessment work file no. 473133) has a "geological resource" (not the correct term according to current usage) of ge) of 22.8 million tons of sulphide rock containing 0.03 oz/ton gold, 0.94 oz/ton silver, 0.56% copper, 1.82 % zinc and 0.64% lead. Other lenses of higher grade mineralization have been identified on the property. The Company has conducted geophysical surveys over the Canoe Landing Lake polymetallic deposits to delineate new zones of mineralization. The program, which included magnetic, electromagnetic and induced polarization with resistivity surveys, defined some drill worthy targets.

California Lake Property

The California Lake Property consists of 18 contiguous mineral claims totalling 288 hectares in additional to 26 new claims from the 40 Mile Brook Claim Group. The California Lake silver property hosts an epigenetic breccia and vein system, which has been outlined with 32 widely spaced diamond drill holes along a strike length in excess of 400 metres. Grades of up to 203.81 ounces of silver per ton and 117.45 ounces of silver per ton were intersected in narrow widths. The California Lake Property remains an attractive silver target.

Rio Road Gold Property

The Rio Road Gold Property consists of 25 contiguous mineral claims totalling 400 hectares. This is a gold occurrence consisting of volcanics stratigraphically equivalent to the footwall rocks of Noranda's Number 6 and 12 mines. Forest Gate's two hole drill program on this property intersected an alteration zones of interest that should be further explored.

Caribou and Restigouche Mines Acquisition from Breakwater Resources Ltd.

Forest Gate recently announced that it has signed a letter of intent with Breakwater Resources Ltd. ("Breakwater") to acquire the Caribou and Restigouche Mines (the "Mines"), which are currently on care and maintenance. To undertake this acquisition, Forest Gate has formed a wholly owned subsidiary, Blue Note Metals Inc. ("Blue Note"). It is Forest Gate's intention to transfer its existing New Brunswick mineral properties to Blue Note and to have Blue Note complete the acquisition of the Mines. Under the terms of the agreement, Blue Note will issue Breakwater 600,000 treasury shares and assume Breakwater's obligations under several existing agreements, as well as becoming responsible for the environmental reclamation of the mines. Once the transfers and acquisitions are completed, and subject to regulatory and shareholder approval, it is Forest Gate's intention to spin out Blue Note and list Blue Note as a separate entity on the TSX Venture Exchange..rest Gate's intention to spin out Blue Note and list Blue Note as a separate entity on the TSX Venture Exchange.

Forest Gate Resources Inc.

Diamond Finders

Management's Discussion and Analysis December 2004

Forest Gate Resources Inc. is a mineral exploration company with properties located in Saskatchewan and New Brunswick. The business of the company consists of the acquisition, exploration and development (if warranted) of the properties in which it holds an interest. The principal natural resources being targeted by company are diamonds, gold, silver and base metals. This discussion and analysis of the Company should be read in conjunction with the accompanying consolidated financial statements and related notes. This financial information was prepared in accordance with generally accepted Canadian accounting principles. Unless expressly stated otherwise, all references to dollar amounts are in Canadian dollars.

Results of operations

For the fiscal year ended December 31, 2004, the Company incurred a net loss of $734,087 ($0.02 per share) compared to a net loss of $386,700 ($0.03 per share) for fiscal 2003. During the period the Company invested $228,263 in exploration and an additional $96,422 for the acquisition of properties.

General and administrative expenses

General and administrative expenses increased from $400,218 for the same period last year to $734,087 for this period. This increase reflects an increase in salaries, consulting fees and financing costs. As a matter of policy, Forest Gate reviews the carrying value of its mining properties and deferred exploration and development expenses during the fourth quarter of each fiscal year. The Company has concluded that no adjustments to the carrying value of its Saskatchewan and New Brunswick assets are required.

Mining Properties

The Company has two main areas of interest. The Company holds an 100% interest in two diamond properties near Prince Albert, Saskatchewan and 100% of the California Lake Silver Property and Canoe Landing Lake Polymetallic Deposit, both situated in Bathurst, New Brunswick.

Exploration and development programs

Forest Gate spent $228,263 during the year on exploration and claim renewals of its mining properties. Forest Gate executed no exploration work on its diamond properties during the year. Greater financial resources than were available to the Company in 2004 were required to be able to add any significant value to the East Side diamond property. Assay results published in March 2004 showed the Dizzy kimberlite to be diamondiferous. A long planned drilling program was finally executed on the California Lake silver property and the Rio Road gold property located near Bathurst, New Brunswick.

Six holes were drilled at California Lake in August. Two holes tested geophysical anomalies outlined by Forest Gate recently, and four tested the known silver zone for base metal mineralization. The anomalies, which we theorized were caused by massive sulphides, appear to be caused by disseminated pyrite. The program confirmed the existence of silver mineralization on the property but not the base metal values that would have made it more attractive. California Lake is now being considered on the basis of its silver potential only.

A drilling program at the Rio Road gold property was also executed this summer to test two prominent geophysical anomalies identified by Forest Gate. Two drill holes intersected a sequence of sedimentary rocks made up of volcanic rock that appears to have been eroded and re-deposited, mixed with sedimentary material of an approximately argillaceous composition. The most interesting feature of Hole 1 at Rio was an alteration zone intersected from 275.9 to 281.9 metres.

Pyrite contained in the core of both holes was in the right location to be interpreted as the cause of the geophysical anomaly, but the amount identified appeared insufficient to explain the anomaly. Conductors found by old MaxMin surveys can be explained by the graphite seen.

Geophysical surveys were conducted over Forest Gate's Canoe Landing Lake polymetallic deposit and property this summer to delineate new zones of mineralization. The company executed magnetic, electromagnetic surveys and induced polarization with resistivity (IP/resistivity) surveys. A series of "stacked" anomalies were identified and are interpreted as worthwhile drill targets.

Forest Gate also hired mining engineering consultants, Ross-Finlay 2000 Inc, Val-d'Or, Quebec, to act as general contractors to conduct due diligence on the Caribou and Restigouche mines located near Bathurst. In October, Forest Gate signed a Letter of Intent with Breakwater Resources Ltd., Toronto, to acquire its Caribou and Restigouche lead-zinc-copper mines. Since the Company is undertaking to acquire, finance and re-start the Caribou and Restigouche mines, future exploration plans for California Lake, Rio Road and Canoe Landing Lake have been put on hold at least until 2006.

The Company plans to transfer its agreement to purchase the Caribou and Restigouche mines and its New Brunswick metals properties to Blue Note Metals Inc., a wholly owned subsidiary of Forest Gate. Blue Note Metals would seek a separate listing on the TSX following approval of the transaction at an extraordinary shareholders meeting to be held on May 16, 2005.

During the next 12-18 months the Company is planning to invest approximately $1.5 million in geophysics and drilling on its diamond properties near Prince Albert, Saskatchewan. The Company has funds to comfortably cover this expenditure.

Financing

In August, the Company closed a private placement of 1,325,000 flow-through shares at $0.17 per share. The issue generated total gross proceeds of $225,250. During October 2004, the Company closed a private placement of 1,400,000 flow-through units at $0.18, generating gross proceeds of $252,000. The unit consists of one common flow-through share and one half of a common share purchase warrant. Each whole warrant is exercisable into one non-flow-through common share for a period of two years at a price of $0.23 in the first year and $0.26 in the second year.

The Company also raised proceeds of $379,900 from the exercising 2,333,667 warrants and 199,000 options.

In a subsequent event on March 30, 2005, Forest Gate completed a private placement for gross proceeds of $6,500,000. The issue included a total of 20,000,000 units at $0.25, each unit consisting of a common share and a half warrant exercisable at $0.35 for two years generating proceeds of $5 million, and the issuance of 5,000,000 flow-through units at $0.30, each unit consisting of a flow-through share and a half warrant exercisable at $0.40 per share for two years.

Between January 1, 2005 and March 31, 2005, the Company issued approximately 9,183,903 common shares further to the exercise of approximately the same number of warrants and options generating proceeds of approximately $1,377,000.

Detailed information with respect to these financings and the rest of the Company's operations can be obtained via www.sedar.com and by consulting the Company's accompanying financial statements.

The Company has working capital to easily finance itself for the next three years. At some future point, the Company plans to issue shares to finance its future operations, exploration and development programs.

The health of the equity markets and its interest in the resource sector has a significant impact on the Company's operations since the Company has no revenue and must finance its operations with equity offerings. Happily, the equity markets have a strong interest in the Company's business currently and this interest is expected to continue for several more years. Commodities are in the beginning of bull market driven by fundamental supply weakness and strong demand for metals from Asia. There also appears to be an incipient weakness in diamond supply, which will is also working to Company's advantage.

Detailed information with respect to the company's operations can be obtained via www.sedar.com.

Risk factors

All of the resource properties of the Company are at an exploration stage only and are without a known body of commercial ore or minerals. Mineral exploration and development involves a high degree of risk. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration and subsequent evaluation programs, which may be affected by a number of factors. These include the particular attributes of mineral deposits, including the quantity and quality of the ore, the cost to develop infrastructure for extraction, the financing cost, the rough diamond and metals prices, as well as the competitive nature of the industry. The effects of these factors cannot be accurately predicted, but any combination of them may result in the Company not receiving an adequate return on invested capital. Substantial expenditures are required for exploration programs and the development of reserves. In the absence of 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.

Michael Judson
President and Chief Executive Officer

Forest Gate Resources Inc.

Consolidated Financial Statements

December 31, 2004

Contents

Comptables agréés
Chartered Accountants

Lippman Leebosh April
s.e.n.c.

1 Westmount Square, Suite 1001
Montreal, Quebec H3Z 2P9
Tel.: (514) 931-5821
Fax: (514) 931-3602
E-mail: lla@lla.com

AUDITORS' REPORT

To the Shareholders of
Forest Gate Resources Inc.

We have audited the consolidated balance sheet of **Forest Gate Resources Inc.** as at December 31, 2004 and 2003 and the consolidated statements of earnings and deficit and cash flows for each of the years in the two-year period ended December 31, 2004. 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Signed "Lippman Leebosh April"

Chartered Accountants

Montreal, Quebec
February 11, 2005 - except as to note 15 which is dated March 30, 2005

SC INTERNATIONAL
The global business network

Forest Gate Resources Inc.

Consolidated Balance Sheet

At December 31	**2004** **$**	2003 $
Assets		
Current assets		
Short-term investments	**623,500**	1,040,000
Accounts receivable	**77,370**	35,958
Prepaid expenses	**34,396**	2,625
Deferred financing costs	**16,000**	-
Deferred acquisition costs	**119,175**	-
	870,441	1,078,583
Mining properties and deferred exploration costs *[note 4]*	**1,235,106**	910,421
Office furniture and equipment *[note 5]*	**33,533**	244
	2,139,080	1,989,248
Liabilities		
Current liabilities		
Bank indebtedness	**2,380**	2,582
Accounts payable and accrued liabilities	**173,549**	243,958
	175,929	246,540
Shareholders' equity		
Share capital *[note 6]*	**2,557,475**	1,826,813
Warrants *[note 6]*	**506,089**	476,471
Contributed surplus *[note 6]*	**248,768**	224,625
	3,312,332	2,527,909
Deficit	**(1,349,181)**	(785,201)
	1,963,151	1,742,708
	2,139,080	1,989,248

Approved on behalf of the board:

Signed "Michael Judson"______ *Director*

Signed "John Mavridis"______ *Director*

Forest Gate Resources Inc.

Consolidated Statement of Earnings and Deficit

Year ended December 31	**2004**	2003
	$	$
Revenues		
Interest income	**22,064**	13,518
Expenses		
Salaries and levies *[note 6(c)]*	**144,394**	44,098
Value of stock options granted to directors and consultants *[note 6(c)]*	**58,391**	102,600
Professional and consulting fees	**161,570**	138,599
Rent	**18,318**	12,589
Office expenses	**89,223**	11,290
Taxes	**11,394**	11,191
Registration and filing fees	**23,088**	9,649
Telephone	**11,891**	6,020
Corporate marketing and business development	**127,547**	53,199
Investor relations	**63,065**	(162)
Insurance	**15,801**	6,826
Financial charges *[note 7]*	**4,414**	4,076
Amortization of property and equipment	**4,251**	243
Equipment rental	**740**	-
	734,087	400,218
Loss before income taxes	**712,023**	386,700
Future income taxes recovered	**(148,043)**	-
Net loss	**563,980**	386,700
Deficit at the beginning of year	**785,201**	398,501
Deficit at the end of year	**1,349,181**	785,201
Basic loss per share and diluted loss per share *[note 11]*	**0.02322**	0.02836
Weighted average number of shares outstanding	**24,284,681**	13,634,305

Forest Gate Resources Inc.

Consolidated Statement of Cash Flows

Year ended December 31	**2004**	2003
	$	$
Cash provided from (used for):		
Operating activities		
Net loss	**(563,980)**	(386,700)
Non-cash items:		
Future income taxes recovered	**(148,043)**	-
Amortization of property and equipment	**4,251**	243
Non-cash stock-based compensation *[note 6]*	**58,391**	102,600
Net changes in non-cash components of operating working capital *[note 7]*	**(143,592)**	(31,753)
	(792,973)	(315,610)
Financing activities		
Proceeds from the issue of equity *[note 6]*	**792,325**	1,671,234
Deferred financing costs	**(16,000)**	74,927
Due to a director	**-**	(18,055)
Due to an affiliated company	**-**	(50,873)
	776,325	1,677,233
Investing activities		
Acquisition of property and equipment	**(37,540)**	-
Short-term investments, net variation	**416,500**	(1,040,000)
Deferred acquisition costs	**(119,175)**	-
Mining properties and deferred exploration costs *[notes 6, 7 and 13]*	**(242,935)**	(330,914)
	16,850	(1,370,914)
Net increase (decrease) in cash and cash equivalents	**202**	(9,291)
Cash and cash equivalents - beginning of year	**(2,582)**	6,709
Bank indebtedness - end of year	**(2,380)**	(2,582)
Represented by:		
Bank indebtedness	**(2,380)**	(2,582)

1. Description of operations

The Corporation's operations consist in the exploration of mineral properties, directly or through joint ventures. It is in the process of determining whether its properties contain economically recoverable reserves. Recovery of deferred exploration costs and mining properties depend on the existence of economically recoverable ore reserves, the Corporation's ability to obtain financing for its operations and future profitable commercial production.

2. Summary of significant accounting policies

The consolidated financial statements of the company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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. The financial statements have, in management's opinion, been properly prepared using careful judgement within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Consolidated financial statements: The consolidated financial statements include the accounts of its wholly-owned subsidiary Blue Note Metals Inc.

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.

Office furniture and equipment: Office furniture 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

Mining properties and deferred exploration costs: Mining properties and deferred exploration costs are recorded at cost, less government grants, which may not reflect present or future values. Costs of exploration and related capital assets 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.

...continued

2. Summary of significant accounting policies (continued)

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.

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 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.

Stock option plan: The company has a stock option compensation plan which is described in Note 6. Any consideration paid by employees, directors and others on exercise of stock option is credited to share capital. The company uses the fair value method to account for stock-based compensation and other stock-based payments made in exchange for goods or services. This method is applied for all awards made to non-employees and employees.

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.

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.

3. Comparative figures and changes in accounting policies

a) Effective March 1, 2004, the company adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants (the "CICA") with respect flow-through shares as outlined in the CICA Handbook EIC-146. These recommendations establish standards for the recognition, measurement and disclosure of the future tax liabilities resulting from the renunciation of exploration costs to investors as a cost of issuing flow-through shares on the date the company renounces the expenditures to the shareholders. Prospective application is required.

b) Certain prior year figures have been reclassified in order to conform to the presentation adopted in the current year. These changes do not affect net income and prior year amounts.

4. Mining properties and deferred exploration costs

	Cost of Claims $	Deferred exploration costs $	Write-off of abandoned property $	Government grant [note 13] $	2004 Net $	2003 Net $
Saskatchewan						
Fort à la Corne	**209,980**	**369,172**	**-**	**72,260**	**506,892**	417,879
New Brunswick						
Canoe Landing Lake	**177,496**	**134,153**	**-**	**-**	**311,649**	286,209
California Lake	**141,256**	**172,819**	**-**	**-**	**314,075**	197,459
Rio Road	**66,527**	**120,798**	**84,835**	**-**	**102,490**	8,874
	595,259	**796,942**	**84,835**	**72,260**	**1,235,106**	910,421

The total cost of claims acquired during the year amount to $96,422. This total includes the cost of its acquisition of the remaining 15% interest in the East Side diamond property in Fort à la Corne, bringing the Company's ownership of the property to 100%. See note 6(b).

Deferred exploration costs incurred during the year are as follows:

	$
Drilling for samples and lab analysis	**190,483**
Engineering	**45,134**
Surveys	**36,271**
Consulting	**7,554**
Travel	**5,255**
Equipment and other rentals	**4,674**
Line cutting	**6,636**
Mining	**3,280**
Permits and fees	**1,236**
Total before grants	**300,523**
Government grants	(72,260)
Total	**228,263**

5. Office furniture and equipment

	Cost $	Accumulated Depreciation and Amortization $	2004 Net $	2003 Net $
Furniture and office equipment	**15,797**	**1,580**	**14,217**	-
Computer equipment	**14,723**	**2,208**	**12,515**	-
Leasehold improvements	**7,020**	**219**	**6,801**	244
	37,540	**4,007**	**33,533**	244

6. Share capital

The company is incorporated by the Canada Business Corporations Act.

Authorized: An unlimited number of common shares with no par value.

	Share capital		Warrants		Options		Contributed	Total
	Number	$	Number	$	Number	$	Surplus $	$
Balance - December 31, 2002	**6,226,753**	**676,625**	**704,090**	**77,450**	**-**	**-**	**-**	**754,075**
Units issued for cash (a)	14,216,524	1,075,804	9,870,357	450,965	-	-	-	1,526,769
Stock-based compensation	-	-	-	-	1,037,600 [1]		112,120	112,120
paid on unit issue (a)	-	-	1,693,167	-	1,015,900 [2]		9,905	9,905
Exchange of special warrants	-	-	(704,090)	(77,450)	-	-	-	(32,388)
into units (a)	704,090	45,062	704,090	32,388	-	-	-	32,388
Warrants exercised (a)	149,600	29,322	(149,600)	(6,882)	-	-	-	22,440
Options expired (d)	-	-	-	-	(1,015,900)[2]		-	-
Stock based compensation charged to operations (c)	-	-	-	-	1,900,000 [3]		102,600	102,600
Balance - December 31, 2003	**21,296,967**	**1,826,813**	**12,118,014**	**476,471**	**2,937,600**	**-**	**224,625**	**2,527,909**
Equity issued (b)	2,975,000	228,887	825,000	79,550	-	-	-	308,437
Stock-based compensation paid on unit issue (b)	40,000	-	312,500	-	-	-	37,695	37,695
Warrants exercised (b)	2,532,667	501,775	(2,333,667)	(49,932)	-	-	(57,416)	394,427
Options exercised (b)					(199,000)		(14,527)	(14,527)
Options forfeited	-	-	-	-	(600,000)	-	-	-
Stock based compensation charged to operations (c)	-	-	-	-	675,000		58,391	58,391
Balance - December 31, 2004	**26,844,634**	**2,557,475**	**10,921,847**	**506,089**	**2,813,600**	**-**	**248,768**	**3,312,332**

[1] options to buy units [see note 6(a)(ii)]
[2] options to buy shares [see note 6(a)(i)]
[3] share option plan [see note 6(c)]

...continued

6. Share capital (continued)

(a) Issues during 2003

i) The company completed an initial public offering on March 3, 2003 of units pursuant to a prospectus filed with the British Columbia, Alberta, Quebec and Ontario Securities Commissions to issue units at an issue price of $0.15. Each unit consists of one common share and one transferable purchase warrant entitling the holder to acquire one additional common share at $0.15 per share for a period of two years. A total of 6,799,191 units were issued, generating gross proceeds of $1,019,879 and net proceeds credited to share capital and warrants of $610,656, after payment of $329,221 for related issue costs and $80,002 for stock-based compensation to the agent. The stock-based compensation was paid in the form of 1,693,167 non-transferable share purchase warrants to acquire shares at $0.15 per share for a period of two years and 1,015,900 options to acquire shares at $0.15 for a period of 60 days. The fair value of these warrants and options, totalling $70,097 and $9,905 respectively, were estimated as described in note 6(f).

ii) During the last quarter of 2003, the company closed a private placement pf 6,142,333 units and 1,275,000 flow-through shares. The unit, issued at $0.15 per unit, consists of one common share and one half of a common share purchase warrant entitling the holder to purchase one half of a common share over a period of two years at $0.20. The flow-through shares were offered at $0.20 per share. The units have a mandatory hold period of four months from closing. The issue generated total gross proceeds of $1,176,350 and net proceeds credited to share capital and warrants of $916,113, after payment of share issue costs of $218,214 and a stock-based compensation to the agent. The stock based compensation was paid in the form of 1,037,600 options to acquire 1,037,600 of the said units at an exercise price of $0.15 for a period of two years. The options have a fair value of $42,023 and was estimated as described in note 6(f).

iii) Special warrants

In 2002, the company issued special warrants for a cash consideration of $77,450, exchangeable for no additional consideration, into 704,090 units identical to those described in note 6(a)(i), consisting of one common share accompanied by a warrant to purchase one common share for $0.15 per share over a two year period. During 2003, the special share purchase warrants have been exchanged for 704,090 units.

(b) Issues during 2004

During the year, the following equity issues occurred:

i) 2,333,667 warrants and 199,000 options were exercised for proceeds of $379,900 resulting in the issue of 2,532,667 common shares.

ii) the Company completed its acquisition of the remaining 15% interest in the East Side diamond property in Fort a la Corne, bringing the Company's ownership of the property to 100%. As consideration paid on the transaction, the company issued 250,000 common shares and 125,000 warrants for a value of $64,500 and $17,250 each. Each warrant issued with this transaction and having a fair value of $0.138, can be exercised to purchase a share at $0.32 per share, calculated as described in note 6(f).

iii) the company closed a private placement of 1,325,000 flow-through shares at $0.17 per share. The issue generated total gross proceeds of $225,250 and net proceeds credited to share capital of $187,310 after payment of shares issue costs of $27,605 and a stock-based compensation of $10,335 to the agent paid in the form of 132,500 warrants to acquire shares at $0.17 per share for a period of two years. The fair value of these warrants was estimated at $0.078, calculated as described in note 6(f).

...continued

6. Share capital (continued)

(b) Issues during 2004 (continued)

iv) the company closed a private placement of 1,400,000 units comprising of flow-through shares at $0.18 per unit. The unit consists of one flow-through common share and one-half of a common share purchase warrant that entitles the holder of one warrant to buy one non-flow-through common share over a period of two years at $0.23 in the first year and $0.26 in the second year. The issue generated total gross proceeds of $252,000 and net proceeds credited to share capital and warrants of $125,120 and $62,300 respectively after payment of shares issue costs of $37,220 and a stock-based compensation of $27,360 to the agent paid in the form of 140,000 warrants to buy one non-flow-through common share over a period of two years at $0.23 in the first year and $0.26 in the second year, 40,000 non-flow-through common shares and 40,000 warrants to purchase non-flow-through common shares at $0.17 per share over a period of two years. The fair value of the equity instruments issued was estimated at $0.104, $0.20 (the fair market value at the time of the issue) and $0.12 respectively, calculated as described below in note 6(f).

v) the company has recorded an additional share issue cost of $148,043 to account for the future tax cost of the exploration costs it has renounced on the flow-through shares it has issued during the year.

(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 of 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 form 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 4,786,940 common shares.

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

	2004		2003	
	Granted	**Weighted Average Exercise Price $**	Granted	Weighted Average Exercise Price $
Balance - beginning of year	**1,900,000**	**0.15**	-	-
Options granted under the stock option plan (*)	**675,000**	**0.15**	1,900,000	0.15
Options exercised	**(199,000)**	**0.15**	-	-
Options cancelled	**(600,000)**	**0.15**	-	-
Balance - end of year	**1,776,000**	**0.15**	1,900,000	0.15

(*) The fair value of the options is estimated at $58,391 ($102,600 in 2003), calculated as described in note 6(f), is included as stock-based compensation of which an amount of $52,906 ($102,600 in 2003) relates to management compensation and the balance consists of compensation to consultants.

...continued

6. Share capital (continued)

(c) Stock option plan

As at December 31, 2004, the outstanding options, as issued under the stock option plan to directors and shareholders for the purchase of one common share per option, are as follows:

Option description	Granted	Exercisable	Weighted average Exercise price $	Expiry date
	1,401,000	**1,401,000**	**0.15**	**March 2008**
	25,000	**12,500**	**0.21**	**March 2009**
	300,000	**150,000**	**0.15**	**June 2009**
	50,000	**12,500**	**0.17**	**September 2009**
	1,776,000	**1,576,000**	**0.15**	

(d) Options and warrants to brokers

During 2003, the company issued, to brokers, warrants to buy shares as well as options to buy units of one common share and one-half of a warrant to buy one-half of a common share [see note 6(a)].

The activity and information concerning outstanding and exercisable warrants and options is as follows:

	Number of options	Weighted average exercise price $
Balance - December 31, 2002		
Options/warrants granted	**2,053,500**	**0.15**
Options/warrants expired	**(1,015,900)**	**0.15**
Balance - December 31, 2003	**1,037,600**	**0.15**
Options/warrants granted	**-**	**-**
Balance - December 31, 2004	**1,037,600**	**0.15**

As at December 31, 2004, the company had the following options outstanding:

Option description	Granted	Exercisable	Weighted average Exercise price $	Expiry date
Options to buy units of 1 common share	**901,250**	**901,250**	**0.15**	**October 2005**
and ½ a warrant to purchase ½ a share	**136,350**	**136,350**	**0.15**	**November 2005**
	1,037,600	**1,037,600**		

...continued

6. Share capital (continued)

(e) Share purchase warrants

The company has, as at December 31, 2004, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price $	Expiry date
6,713,181	0.15	March 2005
3,016,666	0.20	October 2005
54,500	0.20	November 2005
125,000	0.32	May 2006
132,500	0.17	July 2006
840,000	0.23 in year 1/ 0.26 in year 2	October 2006
40,000	0.18	October 2006
10,921,847		

(f) Fair value

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

	March 3, 2003 Issue		March 18, 2003 Stock option plan issue	2003 Issues during the last quarter of 2003
	Warrants	Options	Options	Options
Risk-free interest rate	3.76%	3.76%	3.76%	3.1%
Expected life (years)	2	0.16	5	2
Expected volatility	50%	50%	50%	50%
Expected dividend yield	nil	nil	nil	nil
Weighted average grant date fair value	$0.046	$0.013	$0.072	$0.045

	Stock option plan issues during 2004		
	50,000 options	25,000 options	600,000 options
Risk-free interest rate	4.11%	2.37%	3.87%
Expected life (years)	5	3	3
Expected volatility	110%	50%	183%
Expected dividend yield	nil	nil	nil
Weighted average grant date fair value	$0.164	$0.112	$0.153

...continued

6. Share capital (continued)

(f) Fair value (continued)

	Warrant issues during 2004			
	To Agent on flow-through shares			
	1,325,000 share issue	**1,400,000 share issue**		**To Leader Mining**
Risk-free interest rate	**3.12%**	**3.25%**	**3.25%**	**2.8%**
Expected life (years)	**1**	**2.00**	**2**	**2**
Expected volatility	**183%**	**110%**	**110%**	**104%**
Expected dividend yield	**nil**	**nil**	**nil**	**nil**
Weighted average grant date fair value	**$0.078**	**$0.104**	**$0.120**	**$0.138**

7. Supplemental disclosures of expenses and cash flow information

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

	2004 $	2003 $
Increase in:		
Accounts receivable	**(41,412)**	(35,958)
Prepaid expenses	**(31,771)**	(2,625)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(70,409)**	6,830
	(143,592)	(31,753)

ii) Interest paid and received

Interest paid during the year amounts to $2,669 (2003 - $3,268). Interest received during the year amounts to $22,064 (2003 - $13,518).

iii) Non cash-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, shares and warrants have been issued in the acquisition of the remaining 15% interest in the East Side diamond property in Fort à la Corne. A full description of these transactions can be found in notes 6(b) and (c).

8. Financial instruments, credit and price risk management

a) Fair values

The carrying amount of financial instruments, other than the loan to the subsidiary, approximates fair value because of the short-term maturity of these items. The fair value of the loan to the subsidiary cannot be determined since it is non-interest bearing to a related party.

b) Interest risk

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

9. Losses to carry forward

The Corporation has losses which are being carried forward and which can reduce future taxable income. The related potential future tax reduction is not recorded in these financial statements. The losses expire as follows:

	$
2006	**5,000**
2007	**36,000**
2008	**156,000**
2009	**170,000**
2010	**391,000**
2014	**511,000**
	1,269,000
Less: Loss used to reduce future income tax liability relating to flow-through share issues	**(477,000)**
Total losses for which a potential tax benefit is not recorded	**792,000**

10. 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. 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 mining 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.

During the year, the Company received $477,250 ($255,000 in 2003) following two flow-through investments.

11. Loss per share

Due to a loss for the fiscal year, no incremental shares are included in calculating the dilutive loss per share because the effect would be anti-dilutive.

12. Segmented information

The company has only one reportable segment. All of the company's operations are in one geographic location, Canada, and relate to mining exploration.

13. Government grants

During the year, the company earned and received government grants for mineral exploration costs amounting to $72,260 (nil in 2003).

14. Commitments

The company has entered into long-term lease for premises. The lease ends on November 30, 2007 and has a five year option renewal. The minimum annual rentals, excluding property taxes and operating expenses, amount to $19,000.

15. Subsequent events

a) On October 3, 2004 the company signed a Letter of Intent to acquire the Caribou and Restigouche Mines located near Bathurst, New Brunswick from Breakwater Resources Ltd. through its wholly-owned subsidiary Blue Note Metals Inc. This acquisition is subject to the fulfillment of various conditions including the financing of the requisite capital investment.

b) In the first quarter of 2005, the company issued approximately 9,189,903 common shares further to the exercise of approximately the same number of warrants, thus generating gross proceeds of approximately $1,377,000.

c) On March 30, 2005 the Company completed a private placement for gross proceeds of $6,500,000. A total of 20,000,000 common shares and 5,000,000 flow-through common shares were issued as follows:

   (i) $5,000,000 in Units at $0.25 per unit, with each Unit consisting of a common share and a half warrant exercisable at $0.35 per share for a period of two years; and

   (ii) $1,500,000 in Flow-Through Units, at $0.30 per Flow-Through Unit, with each Flow-Through Unit consisting of a flow-through common share and a half warrant exercisable at $0.40 per share for a period of two years.

d) Blue Note Metals Inc. (“Blue Note”), the wholly-owned subsidiary of the Company, has entered into a financing agreement with a Toronto-based investment bank that proposes to raise up to $2,000,000 on a private placement basis, in exchange for up to 8,000,000 Units at a price of $0.25 per Unit. It is anticipated that each Unit will consist of one common share and one share purchase warrant (the “Warrant”) with each whole warrant being exercised at a price of $0.30 per share for a period of two years following the public listing of Blue Note.

...continued

15. Subsequent events (continued)

e) Following the Blue Note financing, Forest Gate proposes to transfer to Blue Note a 100% ownership of:

(i) the Canoe Landing Lake polymetallic deposit,

(ii) the California Lake silver property and

(iii) the Rio Road gold property, as well as an assignment of the Letter of Intent agreement that the company has entered into with Breakwater to acquire the Caribou and Restigouche Mines. The Company may also transfer cash of up to $1 million to Blue Note. This will be done in the context of the proposed distribution, by way of plan of arrangement under the Canada Business Corporations Act, of the shares of Blue Note to the shareholders of the Company.

Concurrently, with this transfer of assets, by way of a plan of arrangement, under the Canada Business Corporations Act, the company plans to transfer its holdings in Blue Note directly to shareholders of the Company, and proposes to subsequently cause the shares of Blue Note to be listed on a recognized stock exchange.

Notes

Forest Gate Resources Inc.
Diamond Finders

Board Of Directors

Michael Judson
President and Chief Executive Officer

André Audet
Director

Jean Girard
Director

John Mavridis
Director and Secretary

Company Information

Symbol and Stock Exchange: FGT - V
Shares Outstanding: 61 Million

Corporate Address:
3500 de Maisonneuve West, Suite 1110
Westmount, Quebec, Canada H3Z 3C1
Website: www.forestgate.ca

Investor Contact:
Robert Kramberger
Toll Free: 1-866-666-3040
rkramberger@forestgate.ca

Registrar & Transfer Agent:
Pacific Corporate Trust Company
Vancouver, B.C.
(604) 689-9853

Auditors:
Lippman Leebosh April
Westmount, Quebec

Legal Counsel:
Miller Thomson LLP
Vancouver, B.C.

Forest Gate Resources Inc.

Diamond Finders

www.forestgate.ca