Forest Gate Resources Inc.

Financial Statements

March 31, 2004

Contents

Forest Gate Resources Inc.

Balance Sheet

At	**March 31, 2004 $ (unaudited)**	December 31, 2003 $
Assets		
Current assets		
Short-term investments	**1,115,000**	1,040,000
Sundry receivables	**15,131**	35,958
Prepaid expenses	**-**	2,625
	1,130,131	1,078,583
Mining properties and deferred exploration costs	**969,328**	910,421
Leasehold improvements *[net of accumulated amortization of $791 (2003 - $730)]*	**183**	244
	2,099,642	1,989,248
Liabilities		
Current liabilities		
Bank indebtedness	**19,343**	2,582
Accounts payable and accrued liabilities	**166,719**	243,958
	186,062	246,540
Shareholders' equity		
Share capital *[note 4]*	**2,250,208**	1,826,813
Warrants *[note 4]*	**387,518**	476,471
Contributed surplus *[note 4]*	**229,607**	224,625
	2,867,333	2,527,909
Deficit	**(953,753)**	(785,201)
	1,913,580	1,742,708
	2,099,642	1,989,248

Approved on behalf of the board:

……………………………………………………………*Director*

……………………………………………………………*Director*

Forest Gate Resources Inc.

Statement of Earnings and Deficit (Unaudited)

Period ended	Three months ended March 31, **2004** $	2003 $
Revenues		
Interest income	**3,830**	488
Expenses		
Management fees, salaries and levies	**42,764**	10,253
Professional and consulting fees	**30,386**	6,336
Rent	**3,488**	4,759
Office expenses	**20,060**	2,240
Taxes	**4,116**	3,652
Registration and filing fees	**22,360**	-
Telephone	**1,907**	365
Travel, advertising and business development	**38,042**	2,427
Insurance	**7,983**	-
Bank charges and interest	**475**	77
Amortization of leasehold improvements	**61**	61
Equipment Expense	**740**	-
	172,382	30,170
Net loss	**(168,552)**	(29,682)
Deficit at the beginning of period	**(785,201)**	(398,501)
Deficit at the end of period	**(953,753)**	(428,183)
Basic loss per share and diluted loss per share *[note 7]*	**$0.00765**	$0.00351
Weighted average number of shares outstanding	**22,042,872**	8,451,581

Forest Gate Resources Inc.

Statement of Cash Flows (Unaudited)

Period ended	Three months ended March 31, 2004 $	2003 $
Cash flows from (used for):		
Operating activities		
Net loss	**(168,552)**	(29,682)
Non-cash items:		
Amortization of leasehold improvements	**61**	61
Non-cash stock based compensation *[note 4]*	**19,509**	-
Net change in non-cash components of operating working capital	**(53,787)**	(99,365)
	(202,769)	(128,986)
Financing activities		
Proceeds from the issue of units of share capital and warrants	**-**	690,658
Proceed from the issue of share capital *[note 4]*	**319,915**	-
Deferred financing costs	**-**	74,927
Due to a director	**-**	(18,055)
Due to an affiliated company	**-**	(40,000)
	319,915	707,530
Investing activities		
Short-term investments	**(75,000)**	(600,000)
Mining properties and deferred exploration costs	**(58,907)**	-
	(133,907)	(600,000)
Net decrease in cash and cash equivalents	**(16,761)**	(21,456)
Cash and cash equivalents - beginning of period	**(2,582)**	6,709
Cash and cash equivalents - end of period	**(19,343)**	(14,747)
Represented by:		
Cash with bank (net of outstanding cheques in excess of cash)	**(19,343)**	(14,747)

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 financial information as at March 31, 2004 is not audited. However, in the opinion of the management, all adjustments necessary to present fairly the results of these periods have been included. The adjustments made were of a normal recurring nature. Interim results may not necessarily be indicative of results anticipated for the year.

These interim financial statements are prepared in accordance with generally accepted accounting principles in Canada for the presentation of interim financial information All disclosures required for annual financial statements have not been included in these financial statements and therefore should be read in conjunction with the company's most recent annual financial statements. These financial statements use the same accounting policies and methods in the preparation of the company's most recent annual financial statements.

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 in the most recent annual audited financial statements.

3. Comparative figures and changes in accounting policies

a) Effective January 1, 2004, the company retroactively adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants (the "CICA") with respect to impairment of ling-lived assets, as outlined in the CICA Handbook Section 3063. The prior year figures have not been restated as a result of the change in accounting policy because the effect of the change on the current year's and prior year's earnings is not material.

b) Effective January 1, 2004, the company adopted the new accounting recommendations of the CICA with respect to asset retirement obligations, as outlined in the CICA Handbook Section 3110. The adoption of this section had no impact on the prior year financial statements.

c) Certain comparative 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.

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4. Share capital

The company is incorporated under 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, 2003	21,296,967	1,826,813	12,118,014	476,471	2,937,600	-	224,625	2,527,909
Warrants/Options exercised	2,132,767	423,395	(1,933,767)	(88,953)	(199,000)	-	(14,527)	319,915
Stock-based compensation charged to operations	-	-	-	-	25,000	-	19,509	19,509
Balance–March 31, 2004	23,429,734	2,250,208	10,184,247	387,518	2,763,600	-	229,607	2,867,333

(a) Stock issues
During the quarter, 1,933,767 warrants and 199,000 options were exercised for proceeds of $319,915, resulting in the issue of 2,132,767 common shares.

(b) Stock option plan
The company has a stock option plan authorizing the Board of Directors to grant options to directors, officers, employees and consultants to acquire common shares of the company at a price no less then 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 from the date of the grant to 18 months and expire within 5 years, as determined by the board. The company is authorized to issue a maximum of 2,760,000 common shares.

The option activity, including options issued under the share option plan, and information concerning outstanding and exercisable options as at March 31, 2004 is as follows:

	Options outstanding		**Weighted Average Exercise Price**
	Available for Grant	**Granted**	**$**
Balance - December 31, 2003	**860,000**	**1,900,000**	**0.15**
Options granted under the stock option plan (*)	**(25,000)**	**25,000**	**0.21**
Options exercised	**-**	**(199,000)**	**0.15**
Options cancelled	**-**	**-**	**-**
Balance - December 31, 2004	**835,000**	**1,726,000**	

(*) The fair value of the options granted is estimated is calculated as described below in note 4(c), is recorded as stock-based compensation and is included in consulting fees.

Stock-based compensation during the quarter amounts to $19,509.

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4. Share capital (continued)

(c) Fair value

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

	Stock option plan issue
	Options
Risk-free interest rate	2.37%
Expected life (years)	3
Expected volatility	50%
Expected dividend yield	Nil
Weighted average grant date fair value	$0.112

d) Share purchase warrants

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

Number of shares	Exercise price $	Expiry date
7,113,081	0.15	March 2005
3,016,666	0.20	October 2005
54,500	0.20	November 2005
10,184,247		

e) Options

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

Option description	Granted	Exercisable	Weighted average Exercise price $	Expiry date
Stock options issued under the stock option plan to directors and consultants for the purchase of 1,900,000 common shares	1,701,000	1,226,000	0.15	March 2008
	25,000	6,250	0.21	March 2009
	1,726,000	1,232,250		
Options to buy units of 1 common share and ½ a warrant to purchase ½ a share	901,250	901,250	0.15	October 2005
	136,350	136,350	0.15	November 2005
	1,037,600	1,037,600		
	2,763,600	2,269,850		

5. Supplemental disclosures of expenses and of cash flow information:

i) Interest paid and received

Interest paid during the period amounts to nil (2003 - $1,490). Interest received during the period amounts to $3,316 (2003 – $nil).

ii) Non-cash transactions

All non-cash transactions relate to stock-based compensation for the issue of stock options. A full description can be found in Note 4.

6. Income taxes

The Corporation has exploration costs of approximately $161,000 and losses, as detailed below, 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	**169,000**
2010	**324,000**
2011	**170,000**
	860,000

7. 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.

8. Segmented information

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

9. Subsequent events

During May 2004, 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 to purchase common shares at $0.32.