Forest Gate Resources Inc.

Quarterly Financial Statements

March 31, 2007

(unaudited)

Contents

Forest Gate Resources Inc.

Balance Sheet (unaudited)

At	**March 31, 2007**	December 31, 2006 *(Audited)* *[note 2]*
	$	$
Assets		
Current assets		
Cash	**1 874 763**	3 173 739
Short-term investments *(fair market value - $100; 2006 - $437 950)*	**100**	437 950
Accounts receivable	**343 957**	236 881
Tax credits and government assistance receivable *[notes 5 and 16]*	**870 708**	849 708
Prepaid expenses	**108 247**	116 850
	3 197 775	4 815 128
Oil and gas properties and deferred exploration costs *[note 4]*	**2 511 676**	-
Mining properties and deferred exploration costs *[note 5]*	**3 052 711**	3 042 149
Property and equipment *[note 6]*	**66 225**	64 026
	8 828 387	7 921 303
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *[note 12]*	**1 410 312**	363 230
Future income taxes *[note 14]*	**121 371**	-
Shareholders' equity *[note 7]*		
Share capital	**13 648 979**	13 424 737
Warrants	**297 000**	297 000
Contributed surplus	**365 721**	279 161
	14 311 700	14 000 898
Deficit	**(7 014 996)**	(6 442 825)
	7 296 704	7 558 073
	8 828 387	7 921 303

Approved on behalf of the board:

Signed “Michael Judson” *Director*

Signed “John Mavridis” *Director*

Forest Gate Resources Inc.

Statement of Earnings and Deficit (unaudited)

Period ended	Three months ended March 31	
	2007	2006
		[note 2]
	$	$
Revenues		
Interest income *[note 9]*	**31 094**	49 744
Expenses		
Salaries and levies	**143 153**	100 075
Value of stock options granted to directors and consultants *[note 7 (c)]*	**86 560**	109 185
Professional and consulting fees	**160 585**	26 809
Rent	**38 751**	5 125
Office expenses	**69 306**	39 471
Taxes	**10 530**	59 727
Registration and filing fees	**18 131**	13 109
Telephone	**7 204**	3 076
Corporate marketing and business development	**228 752**	54 385
Investor relations	**16 337**	15 537
Insurance	**5 216**	4 785
Financial charges *[note 9]*	**2 742**	389
Amortization of property and equipment	**4 825**	4 215
	792 092	435 888
Loss before write-down and income taxes	**760 998**	386 144
Loss on investments	**50 961**	-
Write-down of mining properties and deferred exploration costs	**26 599**	-
Loss before income taxes	**838 558**	386 144
Future income taxes recovered	**(266 387)**	(976 610)
Net loss (earnings) and comprehensive loss (earnings) for the period	**572 171**	(590 466)
Deficit at the beginning of period	**6 442 825**	3 055 322
Deficit at the end of period	**7 014 996**	**2 464 856**
Basic loss per share and diluted loss per share *[note 10]*	**$0.00719**	$0.00812
Weighted average number of shares outstanding	**79 586 157**	72 682 691

Forest Gate Resources Inc.

Statement of Cash Flows (unaudited)

Period ended	Three months ended March 31	
	2007	2006 *[note 2]*
	$	$
Cash provided from (used for):		
Operating activities		
Net loss	**(572 171)**	590 466
Non-cash items:		
Write-down of mining properties and deferred exploration costs	**26 599**	-
Future income taxes recovered *[note 14]*	**(266 387)**	(976 610)
Amortization of property and equipment	**4 825**	4 215
Loss on investments	**(50 961)**	-
Value of stock options granted to directors and shareholders (non-cash stock-based compensation) *[note 7]*	**86 560**	109 185
Net changes in non-cash components of operating working capital *[note 9]*	**927 609**	656 663
	156 074	383 919
Financing activities		
Proceeds from the issue of equity *[note 7]*	**-**	221 190
Deferred financing costs	**-**	(10 547)
	-	210 643
Investing activities		
Deferred acquisition costs	**-**	(1 540)
Acquisition of property and equipment	**(7 024)**	(5 305)
Short-term investments, net variation	**488 811**	280 000
Oil and gas properties and deferred exploration costs	**(1 899 676)**	-
Mining properties and deferred exploration costs	**(37 161)**	(859 435)
	(1 455 050)	(586 280)
Net increase in cash and cash equivalents (bank indebtedness)	**(1 298 976)**	8 282
Cash and cash equivalents - beginning of period	**3 173 739**	404 743
Cash and cash equivalents - end of period	**1 874 763**	413 025
Represented by:		
Cash with financial institutions	**1 874 763**	413 025

1. Governing statutes and description of operations

The Company is incorporated by the Canada Business Corporations Act and operations consist of the exploration of reserve 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 reserve 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.

The Company has expanded its business into oil and gas exploration. It is currently evaluating strategic options for its mining properties including further exploration, sale of properties and exploitation partnerships. As no final decision in this regard has been made by management, the properties and deferred exploration costs continue to be shown and presented as in prior years. Management believes that the carried amount of these assets can be realized though exploitation and operation or by way of opportunities with other participants in the industry.

2. Summary of significant accounting policies

The financial information as at March 31, 2007 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 the 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 interim 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.

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

3. Changes in accounting policies

Comprehensive income: section 1530 "Comprehensive Income" and section 3251 "Equity" of the CICA Handbook is the change in shareholder's equity during a period 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. Adopting this section on January 1, 2007 did not result in any components to be recognized in comprehensive income for the quarterly financial statements ended March 31, 2007.

Hedges: section 3865 "Hedges" of the CICA Handbook establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. Adopting this section on January 1, 2007 did not have any effect on the quarterly financial statements ended March 31, 2007.

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3. Changes in accounting policies (continued)

Financial Instruments, Recognition and Measurement: section 3855 “Financial Instruments – Recognition and measurement” of the CICA Handbook 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 and short term investments 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.

4. Oil and gas properties and deferred exploration costs

	Participating Interest	**Deferred exploration costs**	**Write-down of abandoned property**	**Cumulative tax credits and Government assistance**	**March 31, 2007 Net**	December 31, 2006 (Audited) Net
	$	**$**	**$**	**$**	**$**	$
Celtic Sea	**612 000**	**1 899 676**	**-**	**-**	**2 511 676**	-
	612 000	**1 899 676**	**-**	**-**	**2 511 676**	-

In February 2007, the Company entered into an Agreement to acquire a 15% working interest in off-shore international oil and gas prospect in the Celtic Sea located off the south coast of Ireland. The working interest was held by a private Calgary based international oil and gas 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.

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. The cash call for the first quarter 2007 was accrued for 640,650 euros ($997,427) and paid on April 4, 2007. The Company will cover his 15% participating interest share of all future commitments including this summer drilling program.

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5. Mining properties and deferred exploration costs

	Cost of Claims $	Deferred exploration Costs $	Write-down of abandoned property $	Cumulative tax credits and Government assistance $	March 31, 2007 Net $	December 31, 2006 (Audited) Net $
Saskatchewan						
EastSide	**215 689**	**1 797 106**	**-**	**117 778**	**1 895 017**	1 884 455
SouthSide	**5 714**	**1 036 425**	**1 042 139**	**-**	**-**	-
WestSide	**1 021 444**	**136 250**	**-**	**-**	**1 157 694**	1 157 694
Quebec						
Portage	**266 236**	**2 060 794**	**1 456 322**	**870 708**	**-**	-
	1 509 083	**5 030 575**	**2 498 461**	**988 486**	**3 052 711**	3 042 149

Costs incurred during the period are as follows:

	March 31, 2007 $	December 31, 2006 (Audited) $
Cost of claims	**-**	40 189
Drilling for samples and lab analysis	**4 400**	1 545 792
Engineering	**-**	8 525
Surveys	**-**	419 409
Consulting	**25 914**	285 232
Travel	**370**	25 046
Equipment, other rentals and other costs	**4 961**	169 874
Exploration	**-**	11 714
Personnel	**1 516**	73 126
	37 161	2 538 718
Total before grants	**37 161**	2 578 907
Tax credits and government assistance	**-**	(878 226)
Total	**37 161**	1 700 681
Write-down of claims and deferred exploration costs	(26 599)	(2 471 862)
Net variation	10 562	(771 181)

…continued

5. Mining properties and deferred exploration costs (continued)

In July 2005, the Company signed an option agreement with Majescor Resources to earn up to 55% undivided recorded and beneficial interest in Majescor's Portage property located north of Quebec's Otish Mountains. Under the terms of the agreement, Forest Gate must invest $5 million over five years to earn a 50% working interest and can earn an additional 5% by funding a 200-tonne bulk sample from a kimberlite body. The Company had to invest $500,000 on claim renewals and exploration by November 2005, $800,000 by November 2006, $1.0 million by November 2007, $1.2 million by November 2008 and $1.5 million by November 2009. Majescor will remain operator of the project, until $5 million is invested, but the Company will have a final say on the content and form of the exploration program on Portage. A formal joint venture between the two companies will be entered into when the Company has earned its 50% working interest. As at March 31, 2007, the Company has invested a total of $2,327,030 on the Portage property or $1,456,322 net of tax credits and government assistance.

The Corporation has written-down certain of its mining properties and deferred exploration costs for an amount of $2,471,862 at December 31, 2006 based on the decision taken in the first quarter 2007 to defer further exploration work on these properties. An additional write-down was taken during first quarter ending March 31, 2007 for an amount of $26,599. The total cumulative write-down as of March 31, 2007 is $2,498,461.

6. Property and equipment

			March 31, 2007	December 31, 2006 (Audited)
	Cost	**Accumulated Depreciation**	**Net**	Net
	$	**$**	**$**	$
Furniture and office equipment	**36 232**	**11 276**	**24 956**	22 703
Computer equipment	**65 176**	**25 497**	**39 679**	39 202
Leasehold improvements	**7 019**	**5 429**	**1 590**	2 121
	108 427	**42 202**	**66 225**	64 026

…continued

7. Share capital

Authorized: 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, 2006	**78 826 157**	**13 424 737**	**12 168 067**	**297 000**	**7 016 636**	**0**	**279 161**	**14 000 898**
Equity issued	3 600 000	612 000						612 000
Warrants forfeited			(10 668 067)					
Broker warrants and broker unit warrants forfeited					(1 872 048)			
Options issued and Stock-based compensation charged to operations					1 500 000		86 560	86 560
Future income taxes on flow through expenses renounced		(387 758)						(387 758)
Balance - March 31, 2007	**82 426 157**	**13 648 979**	**1 500 000**	**297 000**	**6 644 588**	**0**	**365 721**	**14 311 700**

(a) Issues during the quarter ended March 31, 2007

i) The Company completed its acquisition of the 15% working interest in off-shore international oil and 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 shares issued with this transaction has a fair value of $0.17.

ii) The company has recorded an additional share issue cost of $387,758 to account for the future tax cost of the exploration costs it has renounced in March 2007 on the flow-through shares issued in 2006. The amount has been charged to share capital.

(b) Stock option plan

The company has a stock option plan authorizing the Board of Directors to grant options to directors, officers, employees and consultants to acquire common shares of the company at a price computed by reference to the closing market price of the shares of the company on the business day before the company notifies the stock exchanges of the grant of the option. The number of shares which may be granted to any one person shall not exceed 5% (2% for consultants) over a twelve month period. The options will vest from the date of the grant to 24 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.

…continued

7. Share capital (continued)

(b) Stock option plan (continued)

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

	March 31, 2007		March 31, 2006	
	Granted	**Weighted Average Exercise Price $**	Granted	Weighted Average Exercise Price $
Balance - beginning of period	**4 815 100**	**0.22**	4 715 500	0.22
Options granted under the stock option plan (*)	**1 500 000**	**0.18**	-	-
Options exercised	**-**	**-**	(100 400)	0.15
Balance – end of period	**6 315 100**	**0.21**	4 615 100	0.22

(*) An amount of $86,560 (March 31, 2006 - $109,185) was recorded as stock-based compensation and credited to contributed surplus for options vesting in the current period and issued either in the current or prior period. An amount of $37,521 (March 31, 2006 - $98,400) relates to management compensation and the balance consists of compensation to consultants.

As at March 31, 2007, 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:

Granted	Exercisable	Weighted Average Exercise Price $	Expiry date
940 100	**940 100**	**0.15**	**March 2008**
75 000	**75 000**	**0.15**	**June 2009**
25 000	**25 000**	**0.17**	**September 2009**
300 000	**300 000**	**0.15**	**January 2010**
3 275 000	**3 275 000**	**0.25**	**July 2010**
200 000	**50 000**	**0.16**	**November 2011**
500 000	**125 000**	**0.19**	**January 2012**
1 000 000	**200 000**	**0.17**	**March 2012**
6 315 100	**4 990 100**	**0.21**	

…continued

7. Share capital (continued)

(c) Broker warrants

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

	Number	Weighted Average Exercise Price $
Balance - December 31, 2006	**2 201 536**	**0.29**
Forfeited	**(1 872 048)**	**0.27**
Balance - March 31, 2007	**329 488**	**0.38**

As at March 31, 2007 the company had the following broker warrants outstanding:

Granted	Exercisable	Weighted Average Exercise Price $	Expiry date
329 488	**329 488**	**0.38**	**September 2007**
329 488	**329 488**	**0.38**	

(d) Share purchase warrants

The company has, as at March 31, 2007, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price $	Expiry date
1 500 000	**0.55**	**November 2007**
1 500 000		

(e) Exercise of broker warrants and warrants

Pursuant to an agreement with Blue Note as part of the arrangement and effective November 10, 2005, Blue Note has agreed that, upon exercise of a warrant and broker warrants by a Forest Gate warrant holder, Blue Note will issue 0.1168 of a Blue Note share in exchange for 6.23% of the exercise price received by Forest Gate. As at March 31, 2007, Forest Gate has no warrants outstanding as they have all expired in March 2007.

…continued

7. Share capital (continued)

(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:

	Stock option plan issues during 2007	
	500 000 options	**1 000 000 options**
Risk-free interest rate	**4.04%**	**3.88%**
Expected life (years)	**5**	**5**
Expected volatility	**95%**	**95%**
Expected dividend yield	**nil**	**nil**
Weighted average grant date fair value	**0.141 $**	**0.127 $**

There were no warrants issued during this period 2007.

8. Financial instruments, credit and price risk management

a) Fair values

The carrying amount of financial instruments 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

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

	March 31, 2007 $	March 31, 2006 $
Decrease (increase) in:		
Accounts receivable	**(107 076)**	(5 443)
Prepaid expenses	**8 603**	12 985
Tax credits and government assistance receivable	**(21 000)**	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	**1 047 082**	649 121
	927 609	656 663

…continued

9. Supplemental disclosures of expenses and cash flow information (continued)

ii) Interest paid and received

Interest paid during the period amounts to $0 (March 31, 2006 - $4). Interest received during the period amounts to $30,739 (March 31, 2006 - $139,381).

iii) 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% working interest in off-shore international oil and gas prospect in the Celtic Sea. A full description of the transaction can be found in note 7(a)(i).

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 entered into a 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.

12. Related party transactions

Some of the Corporation's officers are also shareholders of the Corporation. 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.

(a) Operations

During the period, the Corporation incurred $30,000 (March 31, 2006 - $9,722) of consulting fees and professional services with officers. The total amount consists of professional and consulting fees. As at March 31, 2007 an amount of $10,000 relating to these fees is included in accounts payable.

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13. Segmented information

The company has reportable segments in two geographic locations; Canada for mining exploration, and Ireland for oil and gas exploration.

The following table presents information on the Company's operations based on its reportable segments:

For the three months ended March 31, 2007	**Oil and gas exploration**	**Mining exploration**	**Corporate**	**Consolidated**
Revenues				
Interest Income	-	3 452	27 642	31 094
Expenses				
Salaries and levies	69 859	35 502	37 792	143 153
Professional fees	79 980	56 210	24 396	160 586
Office expenses	4 959	4 959	73 403	83 321
Travel & entertainment	86 092	43 158	-	129 250
Registration and filling fees	2 880	-	15 251	18 131
Corporate marketing	68 848	52 758	9 835	131 441
Investor relations	4 337	-	12 000	16 337
Stock based compensation	-	-	86 560	86 560
Other corporate expenses	-	-	23 313	23 313
	316 955	192 587	282 550	792 092
Loss before the following:	**316 955**	**189 135**	**254 908**	**760 998**
Gain (loss) ST investment	-	(50 961)	-	(50 961)
W/D of def exploration costs	-	(26 599)	-	(26 599)
Loss before income taxes	**316 955**	**266 695**	**254 908**	**838 558**
Total assets	**2 602 225**	**4 079 485**	**2 146 678**	**8 828 387**

…continued

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:

	March 31, 2007		
	Federal	**Provincial**	**Combined**
Loss before income taxes	**(838 558)**	**(838 558)**	**(838 558)**
Federal income tax rate	**22.12%**	**9.90%**	**32.02%**
Tax effect	**(185 489)**	**(83 017)**	**(268 506)**
Stock based compensation	**19 147**	**8 569**	**27 716**
Share issue costs	**(21 879)**	**(9 792)**	**(31 671)**
Amortization	**1 067**	**478**	**1 545**
Write-down of short-term investments, mining properties and deferred exploration costs	**5 884**	**2 633**	**8 517**
Recapture of mining exploration expenses	**-**	**-**	**-**
Restriction on resource losses	**-**	**-**	**-**
Other	**1 602**	**1 434**	**3 036**
Benefit of losses not previously recognized	**(208 090)**	**-**	**(208 090)**
Change in valuation allowance, tax estimates and rate changes	**-**	**79 695**	**79 695**
Income taxes	**(387 758)**	**-**	**(387 758)**

b) *Future income tax assets and liabilities*

The Corporation 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 March 31 were as follows:

	March 31, 2007		
	Federal	**Provincial**	**Combined**
Share issue costs *[see note i]*	**196 109**	**87 770**	**283 879**
Carrying value of mining properties and deferred exploration costs in excess of tax basis	**(501 274)**	**203 213**	**(298 061)**
Tax cost of property and equipment in excess of carrying value	**6 946**	**3 109**	**10 055**
Non capital losses carried forward *[see note i]*	**850 505**	**355 901**	**1 206 406**
	552 286	**649 993**	**1 202 279**
Valuation allowance for future tax assets	**(552 286)**	**(649 993)**	**(1 202 279)**
	-	**-**	**-**

Note i: the Corporation has the following non capital losses and share issue costs available to reduce future income taxes.

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14. Tax losses and other expenses to carry forward (continued)

The losses and costs expire as follows:

	Expiry date	2007 Federal	2007 Provincial
	2008	**117 000**	**117 000**
	2009	**75 000**	**84 000**
	2010	**325 000**	**320 000**
	2014	**641 000**	**739 000**
	2015	**1 284 000**	**1 148 000**
	2016	**591 000**	**382 000**
	2017	**812 000**	**805 000**
		3 845 000	**3 595 000**
Share issue costs (from 2008 to 2010)		**886 569**	**886 569**
Less: losses and share issue costs recognized due to exploration costs renounced to investors		**(4 731 569)**	**(50 000)**
		-	**4 431 569**

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 of $1,752,975 filled in March 2007 (see note 15) but effective December 31, 2006. 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.

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 Corporation 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.

In 2006, the Company received $1,752,975 following flow-through share issues. After year-end, but effective December 31, 2006, the Corporation 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.

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16. Government grants

During 2006, the Company earned tax credits and government assistance for mineral exploration costs amounting to $878,226 ($38,000 in 2005), which were reduced against mining properties and deferred exploration costs (note 5).

17. Subsequent event

On May 7, 2007, the Company announced that it has terminated its joint venture with Majescor, thereby relinquishing its participation in exploring the Portage property in Quebec.