Forest Gate Resources Inc.

Quarterly Consolidated Financial Statements

June 30, 2005

(unaudited)

Contents

Forest Gate Resources Inc.

Consolidated Balance Sheet

At	**June 30, 2005 $ (unaudited)**	December 31, 2004 $
Assets		
Current assets		
Short-term investments	**6,382,530**	623,500
Accounts receivable	**191,698**	77,370
Prepaid expenses	**18,229**	34,396
Deferred financing costs	**-**	16,000
Deferred acquisition costs	**492,628**	119,175
	7,085,085	870,441
Mining properties and deferred exploration costs *[note 4]*	**1,939,917**	1,235,106
Office furniture and equipment *[note 5]*	**50,803**	33,533
	9,075,805	2,139,080
Liabilities		
Current liabilities		
Bank indebtedness	**44,181**	2,380
Accounts payable and accrued liabilities	**535,174**	173,549
	579,355	175,929
Shareholders' equity		
Share capital *[note 6]*	**9,693,045**	2,557,475
Warrants *[note 6]*	**121,506**	506,089
Contributed surplus *[note 6]*	**671,093**	248,768
	10,485,644	3,312,332
Deficit	**(1,989,194)**	(1,349,181)
	8,496,450	1,963,151
	9,075,805	2,139,080

Approved on behalf of the board:

Signed "Michael Judson" *Director*

Signed "John Mavridis" *Director*

Forest Gate Resources Inc.

Consolidated Statement of Earnings and Deficit (unaudited)

Period ended June 30,	Three months ended		Six months ended	
	2005	2004	**2005**	2004
	$	$	**$**	$
Revenue				
Interest income	**47,034**	4,484	**50,760**	8,313
Expenses				
Salaries and levies *[note 6]*	**92,347**	23,919	**160,650**	47,174
Value of stock options granted to directors and consultants *[note 6]*	**17,446**	18,808	**46,573**	38,317
Professional and consulting fees	**66,166**	61,144	**102,367**	91,530
Rent	**11,329**	3,639	**22,439**	7,127
Office expenses	**49,111**	33,147	**62,764**	53,207
Taxes	**17,296**	2,492	**28,271**	6,608
Registration and filing fees	**1,025**	6,565	**48,808**	28,925
Telephone	**5,142**	1,747	**9,499**	3,654
Corporate marketing and business development	**81,742**	33,205	**129,043**	71,987
Investor relations	**16,288**	-	**42,918**	-
Insurance	**5,653**	757	**8,604**	8,740
Financial charges *[note 7]*	**1,151**	2,478	**3,896**	2,952
Reallocation expense	**19,113**	-	**19,113**	-
Amortization of office furniture and equipment	**3,276**	112	**5,828**	173
	387,085	188,013	**690,773**	360,394
Net loss	**(340,051)**	(183,529)	**(640,013)**	(352,081)
Deficit at the beginning of the period	**(1,649,143)**	(953,753)	**(1,349,181)**	(785,201)
Deficit at the end of the period	**(1,989,194)**	(1,137,282)	**(1,989,194)**	(1,137,282)
Basic loss per share and diluted loss per share *[note 8]*	**0.00552**	0.00772	**0.01406**	0.01537
Weighted average number of shares outstanding	**61,560,251**	23,784,239	**45,536,260**	22,913,555

Forest Gate Resources Inc.

Consolidated Statement of Cash Flows (unaudited)

Period ended June 30,	Three months ended		Six months ended	
	2005	2004	**2005**	2004
	$	$	**$**	$
Cash provided from (used for):				
Operating activities				
Net loss	**(340,051)**	(183,529)	**(640,013)**	(352,081)
Non-cash items:				
Amortization of office furniture and equipment	**3,276**	112	**5,828**	173
Non-cash stock-based compensation *[note 6]*	**17,446**	18,808	**46,573**	38,317
Net changes in non-cash components of operating working capital	**167,822**	10,234	**263,464**	(43,553)
	(151,507)	(154,375)	**(324,148)**	(357,144)
Financing activities				
Net proceeds (expenses net of proceeds) on equity issues *[note 6]*	**(9,373)**	33,000	**7,126,739**	352,915
Deferred financing costs	**-**	-	**16,000**	-
	(9,373)	33,000	**7,142,739**	352,915
Investing activities				
Acquisition of office furniture and equipment	**(14,404)**	(680)	**(23,098)**	(680)
Short-term investments, net variation	**923,145**	191,000	**(5,759,030)**	116,000
Deferred acquisition costs	**(273,953)**	-	**(373,453)**	-
Mining properties and deferred exploration costs *[note 4]*	**(692,639)**	(45,862)	**(704,811)**	(104,769)
	(57,851)	144,458	**(6,860,392)**	10,551
Net increase (decrease) in cash and cash equivalents	**(218,731)**	23,083	**(41,801)**	6,322
Cash and cash equivalents (bank indebtedness) - beginning	**174,550**	(19,343)	**(2,380)**	(2,582)
Cash and cash equivalents (Bank indebtedness)-ending	**(44,181)**	3,740	**(44,181)**	3,740
Represented by:				
Cash with bank (Bank indebtedness)	**(44,181)**	3,740	**(44,181)**	3,740

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 as at June 30, 2005 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 consolidated 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 consolidated 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.

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

3. Comparative figures and changes in accounting policies

a) The Canadian Institute of Chartered accountants (the "CICA") issued revisions to section 3860 of the CICA Handbook, Financial Instruments – Disclosure and Presentation. The revisions, effective January 1, 2005, require that instruments that meet specific criteria be classified as liabilities on the balance sheet, rather than equities, as previously classified. Given we do not have any instruments with these characteristics, adopting this section on January 1, 2005 will not affect our consolidated financial statements.

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.

Forest Gate Resources Inc.

Notes to the Consolidated Financial Statements (unaudited)

June 30, 2005

4. Mining properties and deferred exploration costs

	Cost of Claims $	**Deferred exploration costs $**	**Write-off of abandoned property $**	**Government grant $**	**June 30, 2005 Net $ (unaudited)**	December 31, 2004 Net $
Saskatchewan						
East Side	**209,980**	**949,770**	**-**	**72,260**	**1,087,490**	506,892
South Side	**-**	**121,262**	**-**	**-**	**121,262**	-
New Brunswick						
Canoe Landing Lake	**177,496**	**134,867**	**-**	**-**	**312,363**	311,649
California Lake	**141,256**	**173,491**	**-**	**-**	**314,747**	314,075
Rio Road	**66,527**	**121,969**	**84,835**	**-**	**103,661**	102,490
Quebec						
Portage	**-**	**394**	**-**	**-**	**394**	-
	595,259	**1,501,753**	**84,835**	**72,260**	**1,939,917**	1,235,106

Deferred exploration costs incurred during the period are as follows:

	Three months ended June 30, 2005 $ (unaudited)	**Six months ended June 30, 2005 $ (unaudited)**
Consulting	**37,406**	**47,280**
Travel, utilities, equipment and other rentals	**34,444**	**36,742**
Sampling	**222,550**	**222,550**
Surveying	**302,633**	**302,633**
Exploration	**95,606**	**95,606**
Total	**692,639**	**704,811**

5. Office furniture and equipment

	Cost $	**Accumulated Depreciation and Amortization $**	**June 30, 2005 Net $ (unaudited)**	December 31, 2004 Net $
Furniture and office equipment	**16,910**	**3,026**	**13,884**	14,217
Computer equipment	**36,709**	**5,420**	**31,289**	12,515
Leasehold improvements	**7,019**	**1,389**	**5,630**	6,801
	60,638	**9,835**	**50,803**	33,533

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 Surplus	Total
	Number	$	Number	$	Number	$	$	$
Balance–December 31, 2004	**26,844,634**	**2,557,475**	**10,921,847**	**506,089**	**2,813,600**	**-**	**248,768**	**3,312,332**
Equity issued (a)	25,000,000	5,181,793	12,500,000	-				5,181,793
Stock-based compensation paid on equity issues (a)	-	-	-	-	2,500,000 *		482,500	482,500
Warrants exercised (a)	8,410,098	1,753,775	(8,410,098)	(368,601)	-		(30,326)	1,354,848
Warrants forfeited			(139,124)	(3,007)	-		3,007	-
Options exercised (a)	396,000	100,308	-	-	(396,000)		(40,908)	59,400
Broker options exercised (a)	383,805	74,842	191,902	-	(383,805)		(17,271)	57,571
Options issued and Stock-based compensation charged to operations (b)	-	-	-	-	400,000		29,127	29,127
Balance–March 31, 2005	**61,034,537**	**9,668,193**	**15,064,527**	**134,481**	**4,933,795**	**-**	**674,897**	**10,477,571**
Equity issued (a) **	-	(115,098)	-	-	-	-	-	(115,098)
Stock-based compensation paid on equity issues (a)	-	-	-	-	-	-	17,446	17,446
Warrants exercised (a)	237,000	61,950	(237,000)	(12,975)	-	-	-	48,975
Warrants forfeited	-	-	-	-	-	-	-	-
Options exercised (a)	75,000	19,500	-	-	(75,000)	-	(7,750)	11,750
Broker options exercised (a)	300,000	58,500	150,000	-	(300,000) ***	-	(13,500)	45,000
Options issued and Stock-based compensation charged to operations (b)	-	-	-	-	-	-	-	-
Balance–June 30, 2005	**61,646,537**	**9,693,045**	**14,977,527**	**121,506**	**4,558,795**	**-**	**671,093**	**10,485,644**

***** Broker warrants issued to the agent on the issue of 25,000,000 common shares. See note 6(a).
** Additional expenses incurred for equity issues of the March quarter
*** Broker warrants exercised allowing for the purchase of a unit of one common share and ½ a warrant to purchase ½ of a common share.

(a) In 2005, the following equity issues occurred:

1) Quarter ended March 31, 2005

i) A total of 8,410,098 warrants, 396,000 options issued under the stock option plan and 383,805 options issued to brokers were exercised for cash proceeds of $1,471,819 resulting in the issue of 9,189,903 common shares.

…continued

6. Share capital (continued)

ii) The company closed a private placement of 20,000,000 units at $0.25 per unit and 5,000,000 units at $0.30 per unit. Each unit issued at $0.25 consists of one common share and a half warrant, whereby one full warrant is exercisable to buy one common share at $0.35 per share over a period of two years. The units issued at $0.30 consists of one flow-through common share and a half warrant, whereby one full warrant is exercisable to buy one non-flow through common share at $0.40 per share over a period of two years. The issue generated total gross proceeds of $6,500,000 and net proceeds credited to share capital of $5,181,793 after payment of shares issue costs of $835,707 and a stock-based compensation of $482,500 to the agent paid in the form of 2,500,000 warrants to acquire at $0.25 per unit, a unit of one common share and a half warrant, whereby one full warrant is exercisable to buy one common share at $0.35 per share over a period of two years. The fair value of these warrants was estimated at $0.193 is calculated as described in note 6(e).

2) Quarter ended June 30, 2005

i) A total of 237,000 warrants, 75,000 options issued under the stock option plan and 300,000 options issued to brokers were exercised for cash proceeds of $105,725 resulting in the issue of 612,000 common shares and 150,000 warrants.

(b) Stock option plan

The company has a stock option plan authorizing the Board of Directors to grant options to directors, officers, employees and consultants to acquire common shares of the company at a price computed by reference to the closing market price of the shares of the company on the business day before the company notifies the stock exchanges of the grant of the option. The number of shares which may be granted to any one person shall not exceed 5% (2% for consultants) over a twelve month period. The options will vest from the date of the grant to 18 months and expire within 5 years, as determined by the board, with exceptions to death, employment, etc. The company is authorized to issue a maximum of 12,321,000 common shares. This is an increase from the previous maximum of 4,786,940 after board approval was obtained in May 2005.

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

	Three months ended			
	June 30, 2005		June 30, 2004	
	Granted	**Weighted Average Exercise Price $**	Granted	Weighted Average Exercise Price $
Balance - beginning of period	**1,780,000**	**0.15**	1,726,000	0.15
Options granted under the stock option plan (*)	**-**	-	-	-
Options exercised	**(75,000)**	**0.16**	-	-
Options cancelled	**-**	**0.15**	-	-
Balance - end of period	**1,705,000**	**0.15**	1,726,000	0.15

(*) No options were issued in the current quarter

The stock-based compensation for the quarter, resulting from all issues, amounts to $17,446, of which an amount of $13,429 ($18,808 for the same quarter in 2004) relates to management compensation and the balance consists of compensation to consultants.

...continued

6. Share capital (continued)

(b) Stock option plan (continued)

As at June 30, 2005, 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
	1,105,000	**1,105,000**	**0.15**	**March 2008**
	25,000	**18,750**	**0.21**	**March 2009**
	150,000	**75,000**	**0.15**	**June 2009**
	25,000	**-**	**0.17**	**September 2009**
	400,000	**100,000**	**0.15**	**January 2010**
	1,705,000	**1,298,750**	**0.15**	

(c) Options and warrants to brokers

During the quarter ended June 30, 2005, the company did not issue any warrants to brokers. The activity and information concerning outstanding and exercisable warrants and options is as follows:

	quantity	Weighted average exercise price $
Balance – beginning of period	**3,153,795**	**0.23**
Options/warrants granted	**-**	**-**
Options/warrants exercised	**(300,000)**	**0.15**
Balance – June 30, 2005	**2,853,795**	**0.24**

As at June 30, 2005, the company had the following options/warrants outstanding:

Option description	Granted and exercisable	Weighted average exercise price to purchase unit $	Exercise price of warrant included in unit	Expiry date
Options to buy units of 1 common share	**278,690**	**0.15**	**0.20**	**October 2005**
and ½ a warrant to purchase ½ a share	**75,105**	**0.15**	**0.20**	**November 2005**
	2,500,000	**0.25**	**0.35**	**March 2007**
	2,853,795	**0.24**		

...continued

6. Share capital (continued)

(d) Share purchase warrants

The company has, as at June 30, 2005, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price $	Expiry date
1,686,280	0.20	October 2005
30,622	0.20	November 2005
125,000	0.32	May 2006
600,625	0.23 in year 1/ 0.26 in year 2	October 2006
35,000	0.18	October 2006
10,000,000	0.35	March 2007
2,500,000	0.40	March 2007
14,977,527		

7. Supplemental disclosures of expenses and cash flow information

i) Interest paid and received

Interest paid during the six month period amounts to $2,645 (June 2004 quarter – $1,942). Interest received during the period amounts to $3,640 (June 2004 quarter - $4453).

ii) 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. See note 6 for further details.

...continued

8. 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.

9. 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.

10. Commitments

The company has entered into long-term leases for premises. The lease for office premises ends on November 30, 2007 and has a five year option renewal. The minimum annual rentals, excluding property taxes and operating expenses, are as follows:

2006	$38,800
2007	$22,625

11. Subsequent events

a) On October 3, 2004 the company signed a Letter of Intent to acquire, subject to various conditions, the Caribou and Restigouche Mines located near Bathurst, New Brunswick, from Breakwater Resources Ltd. through its wholly-owned subsidiary, Blue Note Metals Inc. In July 2005, Forest Gate Resources Inc. entered into a revised letter of intent (“LOI”) between its wholly-owned subsidiary, Blue Note Metals, Breakwater Resources and Breakwater’s wholly-owned subsidiary, CanZinco Ltd., regarding the acquisition of the Caribou and Restigouche Mines. The LOI sets out the provisions that will form the basis of a definitive agreement to be entered into between the two companies; the LOI replaces all other previously announced agreements and understandings between the parties.

   Under the terms of the LOI, after raising sufficient funds, Blue Note will acquire the Caribou and Restigouche mines by (i) replacing the reclamation deposits with the New Brunswick government for environmental rehabilitation of approximately $7 million, and (ii) issuing to CanZinco a C$15 million convertible debenture with a maturity of five years. The debenture is repayable in shares at CanZinco’s option or in cash or shares at maturity at Blue Note’s option. Additionally, CanZinco has the right to convert the debenture in return for a direct 20% ownership of the mines; this must be exercised within one year from the commencement of commercial production. Blue Note has also agreed to spend $1.5 million on exploration on the properties before the 12-month anniversary of the commencement of commercial production. CanZinco will also receive a royalty on zinc metal production in the event the price of zinc reaches US$0.65 per pound or more as determined by the London Metals Exchange.

b) In August 2005, Forest Gate Resources Inc. has entered into a private placement financing agreement with Northern Securities Inc., to raise up to $1 million in flow-through shares at $0.38 per share. The proceeds of the financing will be used to further develop the Company's Canadian diamond exploration projects.

c) In August 2005, 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, 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.

d) In the context of the proposed distribution, by way of plan of arrangement under the Canada Business Corporations Act (the “CBCA’), of the shares of Blue Note to the shareholders of the Company and further to the arrangement resolution adopted by the shareholders of Forest Gate and Blue Note on May 25, 2005, Forest Gate will 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, it proposes to transfer, by way of an assignment, the LOI that the Company has entered into with Breakwater to acquire the Caribou and Restigouche Mines. The Company will also transfer cash of up to $1 million to Blue Note.

Concurrently, with this transfer of assets and the completion of the arrangement under the CBCA, the Company proposes to subsequently cause the shares of Blue Note to be listed on a recognized stock exchange.

e) In July 2005, Forest Gate signed a memorandum of understanding ("MOU") with Majescor Resources Inc. of Montreal, to earn up to a 55% participating interest in Majescor's Portage property located north of Quebec's Otish Mountains. Under the terms of the MOU, Forest Gate must spend $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. Forest Gate must spend $500,000 on claim renewals and exploration by November 1, 2005, $800,000 by November 1, 2006, $1,000,000 by November 1, 2007, $1,200,000 by November 1, 2008 and $1,500,000 by November 1, 2009. Majescor will remain operator of the project, until $5 million is invested, but Forest Gate 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 Forest Gate has earned its 50% working interest.

f) In July 2005, a total of 3,300,000 stock options were issued under the stock option plan to directors and consultants. The options can be exercised for the purchase of one common share at $0.25 over a period of five years.