

**Forest Gate Resources Inc.**  
**Consolidated Financial Statements**  
**December 31, 2004**

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## 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

# Forest Gate Resources Inc.

## Consolidated Balance Sheet

At December 31	2004 \$	2003 \$
<b>Assets</b>		
<i>Current assets</i>		
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 <i>[note 4]</i>	1,235,106	910,421
Office furniture and equipment <i>[note 5]</i>	33,533	244
	2,139,080	1,989,248
<b>Liabilities</b>		
<i>Current liabilities</i>		
Bank indebtedness	2,380	2,582
Accounts payable and accrued liabilities	173,549	243,958
	175,929	246,540
<b>Shareholders' equity</b>		
Share capital <i>[note 6]</i>	2,557,475	1,826,813
Warrants <i>[note 6]</i>	506,089	476,471
Contributed surplus <i>[note 6]</i>	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 \$
<b>Revenues</b>		
Interest income	22,064	13,518
<b>Expenses</b>		
Salaries and levies <i>[note 6(c)]</i>	144,394	44,098
Value of stock options granted to directors and consultants <i>[note 6(c)]</i>	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 <i>[note 7]</i>	4,414	4,076
Amortization of property and equipment	4,251	243
Equipment rental	740	-
	734,087	400,218
<b>Loss before income taxes</b>	712,023	386,700
Future income taxes recovered	(148,043)	-
<b>Net loss</b>	563,980	386,700
Deficit at the beginning of year	785,201	398,501
<b>Deficit at the end of year</b>	1,349,181	785,201
Basic loss per share and diluted loss per share <i>[note 11]</i>	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 \$
<b>Cash provided from (used for):</b>		
<b>Operating activities</b>		
Net loss	(563,980)	(386,700)
<i>Non-cash items:</i>		
Future income taxes recovered	(148,043)	-
Amortization of property and equipment	4,251	243
Non-cash stock-based compensation <i>[note 6]</i>	58,391	102,600
Net changes in non-cash components of operating working capital <i>[note 7]</i>	(143,592)	(31,753)
	<b>(792,973)</b>	<b>(315,610)</b>
<b>Financing activities</b>		
Proceeds from the issue of equity <i>[note 6]</i>	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)
	<b>776,325</b>	<b>1,677,233</b>
<b>Investing activities</b>		
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 <i>[notes 6, 7 and 13]</i>	(242,935)	(330,914)
	<b>16,850</b>	<b>(1,370,914)</b>
Net increase (decrease) in cash and cash equivalents	<b>202</b>	<b>(9,291)</b>
Cash and cash equivalents - beginning of year	<b>(2,582)</b>	<b>6,709</b>
<b>Bank indebtedness - end of year</b>	<b>(2,380)</b>	<b>(2,582)</b>
<b>Represented by:</b>		
Bank indebtedness	<b>(2,380)</b>	<b>(2,582)</b>

# Forest Gate Resources Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2004

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### 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:

	<b>Rates</b>	<b>Methods</b>
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.

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# Forest Gate Resources Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2004

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### 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.

# Forest Gate Resources Inc.

## Notes to the Consolidated Financial Statements

December 31, 2004

### 4. Mining properties and deferred exploration costs

	Cost of Claims \$	Deferred exploratio n costs \$	Write-off of a bandoned 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
<b>Total before grants</b>	<b>300,523</b>
Government grants	(72,260)
<b>Total</b>	<b>228,263</b>

### 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

# Forest Gate Resources Inc.

## Notes to the Consolidated Financial Statements

December 31, 2004

### 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	\$		
<b>Balance - December 31, 2002</b>	<b>6,226,753</b>	<b>676,625</b>	<b>704,090</b>	<b>77,450</b>	-	-	-	<b>754,075</b>
Units issued for cash (a)	14,216,524	1,075,804	9,870,357	450,965	-	-	-	1,526,769
Stock-based compensation paid on unit issue (a)	-	-	-	-	1,037,600 <sup>1</sup>	-	112,120	112,120
	-	-	1,693,167	-	1,015,900 <sup>2</sup>	-	9,905	9,905
Exchange of special warrants into units (a)	-	-	(704,090)	(77,450)	-	-	-	(32,388)
	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) <sup>2</sup>	-	-	-
Stock based compensation charged to operations (c)	-	-	-	-	1,900,000 <sup>3</sup>	-	102,600	102,600
<b>Balance - December 31, 2003</b>	<b>21,296,967</b>	<b>1,826,813</b>	<b>12,118,014</b>	<b>476,471</b>	<b>2,937,600</b>	-	<b>224,625</b>	<b>2,527,909</b>
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
<b>Balance - December 31, 2004</b>	<b>26,844,634</b>	<b>2,557,475</b>	<b>10,921,847</b>	<b>506,089</b>	<b>2,813,600</b>	-	<b>248,768</b>	<b>3,312,332</b>

<sup>1</sup> options to buy units [see note 6(a)(ii)]

<sup>2</sup> options to buy shares [see note 6(a)(i)]

<sup>3</sup> share option plan [see note 6(c)]

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# Forest Gate Resources Inc.

## Notes to the Consolidated Financial Statements

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December 31, 2004

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### 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 of 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).

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# Forest Gate Resources Inc.

## Notes to the Consolidated Financial Statements

December 31, 2004

### 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 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 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 \$
<b>Balance - beginning of year</b>	<b>1,900,000</b>	<b>0.15</b>	-	-
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	-	-
<b>Balance - end of year</b>	<b>1,776,000</b>	<b>0.15</b>	<b>1,900,000</b>	<b>0.15</b>

(\*) 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.

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# Forest Gate Resources Inc.

## Notes to the Consolidated Financial Statements

December 31, 2004

### 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
	<b>1,776,000</b>	<b>1,576,000</b>	<b>0.15</b>	

#### (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
	<b>1,037,600</b>	<b>1,037,600</b>		

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# Forest Gate Resources Inc.

## Notes to the Consolidated Financial Statements

December 31, 2004

### 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
<b>10,921,847</b>		

#### (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

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# Forest Gate Resources Inc.

## Notes to the Consolidated Financial Statements

December 31, 2004

### 6. Share capital (continued)

(f) Fair value (continued)

	Warrant issues during 2004			
	To Agent on flow-through shares			To Leader Mining
	1,325,000 share issue	1,400,000 share issue		
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 \$
<b>Increase in:</b>		
Accounts receivable	(41,412)	(35,958)
Prepaid expenses	(31,771)	(2,625)
<b>Increase (decrease) in:</b>		
Accounts payable and accrued liabilities	(70,409)	6,830
	<b>(143,592)</b>	<b>(31,753)</b>

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).

# Forest Gate Resources Inc.

## Notes to the Consolidated Financial Statements

December 31, 2004

### 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.

# Forest Gate Resources Inc.

## Notes to the Consolidated Financial Statements

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### 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.

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### 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.