Forest Gate Resources Inc.
Diamond Finders

Annual 2005
Report

President's Message

Dear Forest Gate Shareholder,

Two thousand five was a year of achievement for Forest Gate. Our financing and exploration activity helped grow our market capitalization from $2 million to $30 million.

We kicked off the year with the acquisition of the South Side Property located southeast of Prince Albert, Saskatchewan. This large land position is considered prospective thanks to its lying in a southeast direction along trend from the main field of kimberlites in Fort a la Corne, Saskatchewan. An electro-magnetic survey executed on this property last spring led to the delineation of 13 anomalies. We are planning to drill 10 of these anomalies this summer.

In March 2005, Forest Gate raised $6.5 million in an offering of shares. This financing helped put the company on a solid financial footing. We now count some 3,500 retail shareholders. These shareholders have helped make Forest Gate one of the best traded stocks on the TSX Venture Exchange.

Exploration on the company's East Side Property located in the heart of the Fort a la Corne kimberlite field yielded success. All nine holes drilled into our Dizzy Kimberlite pipe, intersected kimberlite. In addition, we discovered a new kimberlite not far from Dizzy that we called Duke, which proved to be diamondiferous.

The most successful exploration on the East Side Property was found on the 121 Kimberlite pipe. Most of 121 is owned by the DeBeers/Shore Gold joint venture. But the easternmost portion of the pipe falls on Forest Gate ground and it was there that we found 55 diamonds including 4 macros from a 110 kilogram sample. More drilling is planned on 121 this year.

Nearby, Forest Gate acquired property strategically located on the west side of the Fort a la Corne kimberlite cluster, which we called the West Side Property. We believe that a portion of 122 Kimberlite pipe, also owned by the DeBeers/Shore Gold joint venture, may fall on this property.

Across the country, we entered into a joint venture with Majescor Resources Inc. in July on a property located in the Otish Mountains of central Quebec. The Portage Property is a large land-holding consisting of 2,500 square kilometres and is adjacent to Ashton Canada and SOQUEM's joint venture Renard kimberlite complex.

Forest Gate moved quickly last fall to advance the Portage Property. Within two months an exploration program was developed, planned and executed setting what must be a new record in project turnaround time. Approximately 1,000 soil samples were gathered. Numerous lamprophyre boulders were discovered on surface on the Portage Property, some of which were diamond-bearing.

We are pleased to see our neighbours continue to make significant progress with the development of their Renard kimberlite complex, located on their Foxtrot Property. Our Portage Property is contiguous with the Foxtrot Property, which features several diamondiferous kimberlite pipes and dykes. Diamond grades and kimberlite tonnages there are considered to be promising, and in 2006 the joint venture expects to complete a 5,000 carat bulk sample. This is noteworthy because we believe their continued positive progress will ultimately affect the perception of the potential of our exploration program nearby.

Compared with other areas in Canada, the Otish Mountains Region has seen limited diamond exploration activity. Yet, the discovery and development of the Renard kimberlite complex justify otherwise. This area is closer to infrastructure than any exploration and mining development project in the Arctic or Northwest Territories. Renard's closer proximity to infrastructure will strongly affect the economics of building a mine there.

And finally, Forest Gate was pleased to see its former subsidiary, Blue Note Metals Inc. spun out as an independent, publicly-traded company in November. The spin-out enabled many Forest Gate shareholders to own shares in Canada's newest emerging metals mining company.

Forest Gate is now fully dedicated to continuing to build one of the best diamond exploration franchises in Canada. Accordingly, and with your approval as shareholders, we will change the name of the company to Forest Gate Diamonds Inc.

We thank you for your continued support and encouragement, and look forward to reaching new milestones with you through 2006.

Very sincerely,

Michael Judson
President and Chief Executive Officer
April 19, 2006

Management's Discussion and Analysis
December 31, 2005

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

November 9, 2005, Forest Gate and Blue Note Metals Inc. (Blue Note Metals Inc. then being a subsidiary of the Company) announced that effective at the close of market on November 10, 2005, holders of Forest Gate common shares at that time will receive 0.1168 shares of Blue Note Metals Inc. for each Forest Gate share pursuant to the Plan of Arrangement. Details on this transaction are in the Company's Management Information Circular dated April 15, 2005 and can be viewed at www.sedar.com.

Results of operations

For the fiscal year ended December 31, 2005, the Company incurred a net loss of $1,691,312 ($0.03 per share) compared to a net loss of $563,980 ($0.02 per share) for the same period last year. During the year the Company invested $3,354,453 in its exploration programs.

For the quarter ended December 31, 2005, the Company incurred a net loss of $350,992 ($0.005 per share) compared to a net loss of $103,816 ($0.004 per share) for the same period last year. During the period the Company invested $1,583,548 in its exploration programs.

General and administrative expenses

The Company incurred general and administrative expenses of $1,804,565 in fiscal 2005, compared to $734,087 for the same period last year. This increase is a reflection of (i) an overall increase in business activity, (ii) an increase in employment and consultant expenses to operate the business, and (iii) the grant of stock options generating a non-cash charge of $521,540.

For the quarter ended December 31, 2005, the Company incurred general and administrative expenses of $390,150, compared to $261,768 in 2004.

As a matter of policy, the Company reviews the carrying value of its mining properties and deferred exploration and development expenses. The Company has concluded that no adjustments to the carrying value of its Saskatchewan and Quebec assets are required.

We believe the internal control systems of the Company are sufficient to execute our business plan and to provide meaningful results upon which to manage our business.

Exploration Properties

The Company has two main areas of interest. The Company holds a 100% interest in the East Side, West Side and South Side diamond exploration properties located near Prince Albert, Saskatchewan. The Company has also entered into an agreement with Majescor Resources Inc. towards a joint venture on Majescor's Portage diamond property situated in the Otish Mountain region of northern Quebec.

On October 2005, Forest Gate acquired 100% interest of the West Side Property, a diamond exploration property on the central-western border with the 122 kimberlite in the Fort a la Corne forest, near Prince Albert, Saskatchewan. The West Side Property was acquired for 1.7 million shares and 1.5 million share purchase warrants of Forest Gate. The warrants are exercisable at $0.55 at any time for the next two years. This transaction has obtained regulatory approvals and the Company has fulfilled its contractual conditions.

Exploration and development programs

The Company invested $3,354,453 during the year in its exploration programs. This consisted of exploration and definition sampling on the Company's diamond properties in Saskatchewan, including its Dizzy kimberlite, Duke kimberlite and the 121 kimberlite situated on the East Side Property. The Dizzy and Duke kimberlite pipes are located approximately 4 kilometers northeast of the DeBeers-Kensington 140-141 kimberlite complex and 6 kilometers north of Shore Gold's Star kimberlite pipe. The Company also invested in the geophysical analysis of data on the South Side Property in Saskatchewan. Thirdly, the Company invested in regional and target-focused glacial till sampling on the Portage diamond property in Quebec.

In July 2005, the Company signed a memorandum of understanding ("MOU") with Majescor Resources Inc., 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 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 must invest $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 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 December 31, 2005, the Company has invested $794,791 on the Portage property.

On November 10, 2005, as part of a Plan of Arrangement under the Canada Business Corporations Act, the Company has transferred $1,000,000 of working capital and the New Brunswick properties including California Lake, Rio Road and Canoe Landing Lake, to Blue Note Metals Inc. at their book value of $738,229. Also, as part of the Plan of Arrangement, the Company transferred to Blue Note Metals, the Letter of Intent ("LOI") to acquire from Breakwater Resources Ltd. and its wholly-owned subsidiary, CanZinco Ltd., subject to various conditions, the Caribou and Restigouche Mines located near Bathurst, New Brunswick. Details on this transaction are in the Company's Management Information Circular dated April 15, 2005 and can be viewed via www.sedar.com.

Financing

In January, a total of 400,000 stock options were issued under the stock option plan to an employee and consultant. The options can be exercised for the purchase of one common share at $0.15 over a period of five years.

In March, 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.

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

In September, the Company closed a private placement of 3,947,368 flow-through shares at $0.38 per share generating gross proceeds of $1,500,000.

In October, the Company acquired 100% interest of the West Side Property for 1.7 million shares and 1.5 million share purchase warrants of Forest Gate. The warrants are exercisable at $0.55 at any time for the next two years.

In November, the company closed a private placement of 131,579 flow-through shares at $0.38 per share. The issue generated total gross proceeds of $50,000.

Pursuant to the exercise of approximately 12,224,000 warrants, 761,000 options under the stock option plan and 1,615,000 broker options, the Company issued approximately 14,600,000 common shares and 316,000 broker warrants generating gross proceeds of approximately $2,792,000 throughout 2005. The total number of shares in circulation on December 31, 2005 is 72,223,574.

At December 31, 2005, the Company had cash resources of approximately $5 million. This cash position enables the Company to execute its planned exploration program.

Detailed information with respect to the company's operations can be obtained on www.sedar.com and on its own web-site at www.forestgate.ca.

Risk factors

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

Signed: "Michael Judson"
Michael Judson
President and Chief Executive Officer
Forest Gate Resources Inc.
April 17, 2006
Westmount, Quebec

Forest Gate Resources Inc.

Financial Statements

December 31, 2005

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Comptables agréés
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AUDITORS' REPORT

To the Shareholders of
Forest Gate Resources Inc.

We have audited the balance sheet of **Forest Gate Resources Inc.** as at December 31, 2005 and 2004 and the statements of earnings and deficit and cash flows for each of the years in the two-year period ended December 31, 2005. 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 financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Signed "Lippman Leebosh April"

Chartered Accountants

Montreal, Quebec
February 23, 2006

Forest Gate Resources Inc.

Balance Sheet

At December 31	**2005**	2004
		[note 2]
	$	$
Assets		
Current assets		
Cash	**404,743**	-
Short-term investments	**4,604,100**	623,500
Accounts receivable	**260,303**	77,370
Prepaid expenses	**29,116**	34,396
Loan receivable from former subsidiary company *[notes 3 and 16]*	**933,165**	-
Deferred financing costs	**-**	16,000
Deferred acquisition costs	**-**	119,175
	6,231,427	870,441
Mining properties and deferred exploration costs *[note 5]*	**3,813,330**	1,235,106
Property and equipment *[note 6]*	**58,688**	33,533
	10,103,445	2,139,080
Liabilities		
Current liabilities		
Bank indebtedness	**-**	2,380
Accounts payable and accrued liabilities *[note 16]*	**389,828**	173,549
	389,828	175,929
Shareholders' equity		
Share capital *[note 7]*	**12,372,541**	2,557,475
Warrants *[note 7]*	**353,855**	506,089
Contributed surplus *[note 7]*	**42,543**	248,768
	12,768,939	3,312,332
Deficit	**(3,055,322)**	(1,349,181)
	9,713,617	1,963,151
	10,103,445	2,139,080

Approved on behalf of the board:

Signed "Michael Judson" Director

Signed "John Mavridis" Director

Forest Gate Resources Inc.

Statement of Earnings and Deficit

Year ended December 31	**2005**	2004
		[note 2]
	$	$
Revenues		
Interest income	**113,253**	22,064
Expenses		
Salaries and levies *[note 7(c)]*	**355,732**	144,394
Value of stock options granted to directors and consultants *[note 7(c)]*	**521,540**	58,391
Professional and consulting fees	**218,400**	161,570
Rent	**41,687**	18,318
Office expenses	**100,557**	89,223
Taxes	**56,657**	11,394
Registration and filing fees	**67,118**	23,088
Telephone	**18,527**	11,891
Corporate marketing and business development	**284,471**	127,547
Investor relations	**77,694**	63,065
Insurance	**18,337**	15,801
Financial charges *[notes 8 and 16]*	**6,414**	4,414
Relocation expenses	**21,913**	-
Amortization of property and equipment	**13,558**	4,251
Equipment rental	**1,960**	740
	1,804,565	734,087
Loss before income taxes	**1,691,312**	712,023
Future income taxes recovered	**-**	(148,043)
Net loss	**1,691,312**	563,980
Deficit at the beginning of year	**1,349,181**	785,201
Costs incurred in the execution of the Plan of Arrangement *[note 4]*	**14,829**	-
Deficit at the end of year	**3,055,322**	1,349,181
Basic loss per share and diluted loss per share *[note 12]*	**0.03030**	0.02322
Weighted average number of shares outstanding	**55,824,012**	24,284,681

Forest Gate Resources Inc.

Statement of Cash Flows

Year ended December 31	**2005**	2004 *[note 2]*
	$	$
Cash provided from (used for):		
Operating activities		
Net loss	**(1,691,312)**	(563,980)
Non-cash items:		
Future income taxes recovered	**-**	(148,043)
Amortization of property and equipment	**13,558**	4,251
Non-cash stock-based compensation *[note 7]*	**521,540**	58,391
Net changes in non-cash components of operating working capital *[note 8]*	**38,626**	(143,592)
	(1,117,588)	(792,973)
Financing activities		
Proceeds from the issue of equity *[note 7]*	**9,660,596**	792,325
Deferred financing costs	**16,000**	(16,000)
Loan receivable from former subsidiary company	**(933,165)**	-
	8,743,431	776,325
Investing activities		
Redemption of reorganization common shares under plan of arrangement *[note 4]*	**(1,000,000)**	-
Deferred acquisition costs	**119,175**	(119,175)
Acquisition of property and equipment	**(38,713)**	(37,540)
Short-term investments, net variation	**(3,980,600)**	416,500
Mining properties and deferred exploration costs *[notes 5 and 8]*	**(2,303,753)**	(242,935)
Costs incurred in the execution of the Plan of Arrangement *[note 4]*	**(14,829)**	-
	(7,218,720)	16,850
Net increase in cash and cash equivalents	**407,123**	202
Bank indebtedness - beginning of year	**(2,380)**	(2,582)
Cash and cash equivalents (bank indebtedness) - end of year	**404,743**	(2,380)
Represented by:		
Cash with bank (bank indebtedness)	**404,743**	(2,380)

1. Description of operations

The Corporation's operations consist of 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.

As part of a previously approved Plan of Arrangement in view of a spin-off of its former subsidiary company, Blue Note Metals Inc. (“Blue Note”), the Corporation disposed to Blue Note, all of its New Brunswick mineral properties and $1,000,000 of working capital (see note 4 for details of the transaction).

2. Summary of significant accounting policies and changes to accounting policies

(a) Summary of significant accounting policies

The financial statements of the Corporation 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:

Comparative financial statements: The comparative financial statements consist of consolidated financial statements, including the accounts of its wholly-owned subsidiary Blue Note Metals Inc. , which was spun-off on November 10, 2005 (see note 4).

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.

Property and equipment: Property and equipment are recorded at cost. Depreciation and amortization is calculated over the estimated useful lives of the related assets at the following rates and methods:

	Rates	Methods
Furniture and office equipment	20%	Diminishing balance
Computer equipment	30%	Diminishing balance
Leasehold improvements	Over the term of the lease	Straight-line

Mining properties and deferred exploration costs: Mining properties and deferred exploration costs are recorded at cost, less government grants, which may not reflect present or future values. Costs of exploration and related capital assets on existing projects are deferred until production commences. Mining properties and deferred exploration costs are amortized over the estimated economic life of the project if successful and written off or down to its estimated net realizable value if a project is unsuccessful or is economically unfeasible. Option payments received are applied against the related mining properties and deferred exploration costs.

...continued

2. Summary of significant accounting policies and changes to accounting policies (continued)

(a) 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 7. Any consideration paid by employees, directors and others on the exercise of stock options is credited to share capital. The Corporation 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.

(b) Changes to accounting policies

Flow-through shares: Effective March 19, 2004 the CICA released Emerging Issues Committee Abstract No.146 (EIC-146), Flow-through shares, which addresses when a future tax liability related to renounced tax deductions must be recognized. This EIC was amended May 31, 2005. The Corporation has adopted prospectively the new recommendations in 2004 and 2005. As a result of the changes in 2004, the Corporation recognized the future income tax liability related to the renouncement at the effective date of the renouncement. As a result of the 2005 amendments, the Corporation records the tax impact related to the renouncement at the date that the Corporation files the renouncement documents with the tax authorities. These changes resulted in an increase of common share issue expenses and future tax liability of $148,043 in 2004. Even though flow-through shares have been issued in 2005, no tax liability has been recorded in 2005 since the renouncement for the exploration costs related to these shares was not filed in 2005.

…continued

2. Summary of significant accounting policies and changes to accounting policies (continued)

(b) Changes to accounting policies (continued)

Financial instruments: 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 that we do not have any instruments with these characteristics, adopting this section on January 1, 2005 has not affected our financial statements.

Asset retirement obligation: Effective January 1, 2005, the Corporation adopted the CICA Handbook Section 3110, "Asset Retirement Obligations", which established standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at December 31, 2005, the Corporation has not incurred or committed any asset retirement obligations related to the development of its exploration properties.

Impairment of long-lived assets: On January 1, 2005, the Corporation adopted prospectively the recommendations of CICA Handbook Section 3063, "Impairment of Long-lived Assets" and effective March 16, 2005, the EIC-152, Mining Assets – impairment and business combinations. This section and EIC require that long-lived assets to be held and used by the Corporation be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Given that we do not have any assets as at December 31, 2005 with these characteristics, adopting this section and EIC has not affected our financial statements.

Accounting by mining enterprises for exploration costs: On January 1, 2005, the Corporation adopted prospectively EIC – 126, Accounting by mining enterprises for exploration costs, which provides guidance as to when exploration costs should be capitalized and when impairment should be assessed. This change did not have any effect on the financial statements.

3. Loan receivable from former subsidiary company

This loan bears interest at the Bank of Canada's prime rate and has no specific repayment terms (see note 16).

4. Assets disposed

Pursuant to a Plan of Arrangement approved by the shareholders of Blue Note Metals Inc. ("Blue Note") and the Corporation on May 25, 2005, Forest Gate has separated from Blue Note, its wholly-owned subsidiary, in view of a restructuring whereby its New Brunswick mineral properties were separated from its other mining properties. On the effective date of November 10, 2005, each issued and outstanding common share of Forest Gate was exchanged for one new Forest Gate common share and 0.1168 of a Forest Gate reorganization share. All of the reorganization shares were transferred by Forest Gate's shareholders to Blue Note (which was at the time a wholly-owned subsidiary of Forest Gate) in exchange for one common share of Blue Note for each reorganization share transferred. Forest Gate then redeemed all of the reorganization shares by transferring to Blue Note its New Brunswick properties and $1,000,000 of working capital. Costs incurred in the Plan of Arrangement of $14,829 have been charged to deficit.

The Corporation disposed of the following assets:

	$
New Brunswick properties *[notes 5, 7 and 16]*	**738,229**
Cash	**1,000,000**
Total assets disposed	**1,738,229**
Equity redeemed:	
8,137,183 reorganization shares for gross proceeds	**1,738,229**

Also, under the Plan of Arrangement, Forest Gate transferred to Blue Note the Letter of Intent ("LOI") to acquire from Breakwater Resources Ltd., subject to various conditions, the Caribou and Restigouche Mines located near Bathurst, New Brunswick.

5. Mining properties and deferred exploration costs

	Cost of Claims $	**Deferred exploration costs $**	**Government grants** *[note 14]* **$**	**2005 Net $**	2004 Net $
Saskatchewan					
EastSide	**209,980**	**1,522,164**	**110,260**	**1,621,884**	506,892
SouthSide	**3,264**	**373,150**	**-**	**376,414**	-
WestSide	**1,020,241**	**-**	**-**	**1,020,241**	-
Quebec					
Portage	**235,409**	**559,382**	**-**	**794,791**	-
New Brunswick	**-**	**-**			
CanoeLandingLake	**-**	**-**	**-**	**-**	311,649
CaliforniaLake	**-**	**-**	**-**	**-**	314,075
RioRoad	**-**	**-**	**-**	**-**	102,490
	1,468,894	**2,454,696**	**110,260**	**3,813,330**	1,235,106

…continued

5. Mining properties and deferred exploration costs (continued)

Costs incurred during the year are as follows:	**2005** **$**	2004 $
Cost of claims	**1,264,333**	96,422
Drilling for samples and lab analysis	**790,414**	190,483
Engineering	**28,479**	45,134
Surveys	**341,322**	36,271
Consulting	**198,250**	7,554
Travel	**164,249**	5,255
Equipment, other rentals and other costs	**191,504**	4,674
Line cutting	**-**	6,636
Exploration	**375,713**	3,280
Permits and fees	**189**	1,236
	2,090,120	300,523
Total before grants	**3,354,453**	396,945
Government grants	**(38,000)**	(72,260)
Total	**3,316,453**	324,685
Disposal of claims and deferred costs *[note 4]*	**(738,229)**	-
Net variation	**2,578,224**	324,685

During 2004, 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 7(a)(ii).

During 2005, the total cost of claims includes an amount of $1,012,700 for the acquisition of the West Side diamond property in Fort a la Corne. For details, see note 7 (b)(iv).

In July 2005, the Company signed a memorandum of understanding ("MOU") with Majescor Resources Inc., 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 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 must invest $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 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 December 31, 2005, the Company has invested $794,791 on the Portage property.

6. Property and equipment

	Cost **$**	**Accumulated Depreciation and Amortization** **$**	**2005 Net** **$**	2004 Net $
Furniture and office equipment	**28,452**	**4,916**	**23,536**	14,217
Computer equipment	**40,781**	**10,090**	**30,691**	12,515
Leasehold improvements	**7,020**	**2,559**	**4,461**	6,801
	76,253	**17,565**	**58,688**	33,533

7. 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		Broker Warrants and 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**
Equity issued (a)	2,975,000	228,887	825,000	79,550	-	-	-	308,437
Stock-based compensation paid on unit issue (a)	40,000	-	312,500	-	-	-	37,695	37,695
Warrants exercised (a)	2,532,667	501,775	(2,333,667)	(49,932)	-	-	(57,416)	394,427
Options exercised (a)					(199,000)		(14,527)	(14,527)
Options forfeited	-	-	-	-	(600,000)	-	-	-
Stock based compensation charged to operations (c)	-	-	-	-	675,000		58,391	58,391
Balance - December 31, 2004	**26,844,634**	**2,557,475**	**10,921,847**	**506,089**	**2,813,600**	**-**	**248,768**	**3,312,332**
Equity issued (b)	30,778,947	7,053,516	14,000,000	297,000	-	-	-	7,350,516
Stock-based compensation paid on unit issue (b)		-		-	2,855,363	-	543,250	543,250
Warrants exercised (b)	12,224,185	2,836,225	(12,224,185)	(450,466)	-	-	(30,326)	2,355,433
Warrants reclassified			(112,000)	4,239	112,000		(4,239)	
Warrants forfeited			(139,125)	(3,007)			3,007	
Options exercised (b)	760,500	205,492			(760,500)		(86,917)	118,575
Broker options exercised (b)	1,615,308	471,783	491,530	-	(1,615,308)	-	(166,261)	305,522
Broker warrants issued upon exercise of broker unit options (a)					316,124			
Broker options forfeited					(54,540)			-
Options issued and Stock-based compensation charged to operations (c)	-	-	-	-	3,700,000		521,540	521,540
Reorganization shares issued (b)	8,137,183							
Reorganization shares redeemed (b)	(8,137,183)	(751,950)					(986,279)	(1,738,229)
Balance - December 31, 2005	**72,223,574**	**12,372,541**	**12,938,067**	**353,855**	**7,366,739**	**-**	**42,543**	**12,768,939**

…continued

7. Share capital (continued)

(a) Issues during 2004

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 7(g).

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 7(g).

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 7(g).

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.

...continued

7. Share capital (continued)

(b) Issues during 2005

i) a total of 12,224,185 warrants, 760,500 options issued under the stock option plan and 1,615,308 options issued to brokers were exercised for gross cash proceeds of $2,791,527 resulting in the issue of 14,599,993 common shares and 316,124 broker warrants. Pursuant to an agreement with Blue Note (see note 7(e) below), the exercise of 730,848 warrants by the Corporation's warrant holders has resulted in the payment to Blue Note in the amount of $11,997 cash. Net proceeds received amount to $2,779,530.

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 $5,066,695 after payment of shares issue costs of $950,805 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 and is calculated as described in note 7(g).

iii) the company closed a private placement of 3,947,368 flow-through shares at $0.38 per share. The issue generated total gross proceeds of $1,500,000 and net proceeds credited to share capital of $1,235,145 after payment of shares issue costs of $204,105 and a stock-based compensation of $60,750 to the agent paid in the form of 355,363 warrants to acquire a non-flow-through common share at $0.38 over a period of two years. The fair value of these warrants was estimated at $0.171 and is calculated as described in note 7(g).

iv) the Company completed its acquisition of the West Side diamond property in Fort a la Corne. As consideration paid on the transaction, the company issued 1,700,000 common shares and 1,500,000 warrants for a value of $715,700 and $297,000 each. The fair value of the common shares was based on the fair market value prevailing at the negotiation date. Each warrant issued with this transaction and having a fair value of $0.198, calculated as described in note 7(g), can be exercised to purchase a share at $0.55 per share over a period of 2 years.

v) the company closed a private placement of 131,579 flow-through shares at $0.38 per share. The issue generated total gross proceeds of $50,000 and net proceeds credited to share capital of $35,976 after payment of shares issue costs of $14,024.

vi) pursuant to the Plan of Arrangement discussed in note 4, effective November 10, 2005, 8,137,183 reorganization common shares were issued to Forest Gate shareholders. Each of the issued and outstanding Forest Gate reorganization shares were transferred by Forest Gate's shareholders to Blue Note (which was at the time a wholly-owned subsidiary of Forest Gate) in exchange for one common share of Blue Note. Under the plan of arrangement, Forest Gate redeemed all of the reorganization shares held by Blue Note with payment consisting of the transfer of its New Brunswick mineral properties with a book value of $738,229 and $1,000,000 of working capital. The total credited to share capital and contributed surplus amounts to $1,738,229.

…continued

7. Share capital (continued)

(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 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:

	2005		2004	
	Granted	**Weighted Average Exercise Price $**	Granted	Weighted Average Exercise Price $
Balance - beginning of year	**1,776,000**	**0.15**	**1,900,000**	**0.15**
Options granted under the stock option plan (*)	**3,700,000**	**0.24**	**675,000**	**0.15**
Options exercised	**(760,500)**	**0.16**	**(199,000)**	**0.15**
Options cancelled	**-**	**-**	**(600,000)**	**0.15**
Balance - end of year	**4,715,500**	**0.22**	**1,776,000**	**0.15**

(*) An amount of $521,540 ($58,391 in 2004) was recorded as stock-based compensation and credited to contributed surplus for options vesting in the current year and issued either in the current or prior year. An amount of $463,922 ($52,906 in 2004) relates to management compensation and the balance consists of compensation to consultants.

As at December 31, 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:

Granted	**Exercisable**	**Weighted average Exercise price $**	**Expiry date**
1,040,500	**1,040,500**	**0.15**	**March 2008**
75,000	**75,000**	**0.15**	**June 2009**
25,000	**12,500**	**0.17**	**September 2009**
300,000	**100,000**	**0.15**	**January 2010**
3,275,000	**800,000**	**0.25**	**July 2010**
4,715,500	**2,028,000**	**0.22**	

...continued

7. Share capital (continued)

(d) Broker warrants

During the year, the Corporation issued warrants to brokers having completed the issues described in Note 7(b).

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

	Number	Weighted average exercise price $
Balance - December 31, 2003		
Granted	1,037,600	0.15
Expired	-	-
Balance - December 31, 2004	1,037,600	0.15
Granted	3,171,487	0.27
Exercised	(1,615,308)	0.19
Reclassified	112,000	0.24
Forfeited	(54,540)	0.15
Balance - December 31, 2005	2,651,239	0.27

As at December 31, 2005, the company had the following broker warrants outstanding:

Description	Granted	Exercisable	Weighted Average Exercise price $	Expiry date
Warrants to buy units of 1 common share and ½ a warrant to purchase ½ a share at $0.35 per share	1,867,752	1,867,752	0.25	March 2007
Warrants issued resulting from the exercise of the option	316,124	316,124	0.35	March 2007
Warrants to buy one common share	77,000	77,000	0.26	October 2006
Warrants to buy one common share	35,000	35,000	0.18	October 2006
Warrants to buy one common share	355,363	355,363	0.38	September 2007
	2,651,239	2,651,239	0.27	

...continued

7. Share capital (continued)

(e) Share purchase warrants

The company has, as at December 31, 2005, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price $	Expiry date
125,000	0.32	May 2006
445,000	0.26	October 2006
8,381,400	0.25	March 2007
2,486,667	0.40	March 2007
1,500,000	0.55	November 2007
12,938,067		

(f) 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. As of record date of November 10, 2005, 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 December 31, 2005 Forest Gate has the following warrants outstanding:

Number of Forest Gate warrants	Exercise price $	Expiry date	Maximum proceeds to Blue Note Metals $
125,000	0.32	May 2006	2,492
445,000	0.26	October 2006	7,208
35,000	0.18	October 2006	392
77,000	0.26	October 2006	1,247
8,381,400	0.35	March 2007	182,756
2,486,667	0.40	March 2007	61,968
1,867,752	0.25	March 2007	29,090
1,250,000	0.35	March 2007	27,256
14,667,819			312,409

7. Share capital (continued)

(g) 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 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

	Stock option plan issues during 2005	
	400,000 options	**3,300,000 options**
Risk-free interest rate	**3.52%**	**3.27%**
Expected life (years)	**5**	4
Expected volatility	**110%**	**100%**
Expected dividend yield	**nil**	**nil**
Weighted average grant date fair value	**$0.138**	**$0.219**

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

	Warrant issues during 2005		
	To Agent		
	25,000,000 share issue	**3,947,368 flow-through share issue**	**On acquisition of West Side**
Risk-free interest rate	**3.38%**	**3.31%**	**3.31%**
Expected life (years)	**2**	**1**	**2**
Expected volatility	**110%**	**100%**	**100%**
Expected dividend yield	**nil**	**nil**	**nil**
Weighted average grant date fair value	**$0.193**	**$0.171**	**$0.198**

...continued

8. Supplemental disclosures of expenses and cash flow information

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

	2005 **$**	2004 $
Decrease (increase) in:		
Accounts receivable	**(182,933)**	(41,412)
Prepaid expenses	**5,280**	(31,771)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**216,279**	(70,409)
	38,626	(143,592)

ii) Interest paid and received

Interest paid during the year amounts to $3,973 (2004 - $2,669). Interest received during the year amounts to $35,393 (2004 - $22,064).

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 and warrants have been issued in the acquisition of the West Side diamond property in Fort à la Corne for a total value of $1,012,700. A full description of these transactions can be found in notes 7(b)(iv).

A non-monetary transaction occurred upon the repayment of the loan receivable from subsidiary company, by receiving 7,199,900 common shares of the former subsidiary company in partial repayment of the loan. Subsequently these shares were redeemed and the loan was re-instated for a total of $119,150.

Under the plan of arrangement described in note 4, the Corporation redeemed the 8,137,183 reorganization common shares held by its former subsidiary Blue Note after Forest Gate shareholders exchanged their Forest Gate reorganization shares for Blue Note shares. The redemption price was paid by transferring to Blue Note all of its New Brunswick mineral properties at a cost of $738,229 and $1,000,000 of cash (see note 4).

9. Financial instruments, credit and price risk management

a) Fair values

The carrying amount of financial instruments, including the loan to former subsidiary, 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 consist of redeemable short-term deposits with financial institutions, invested at current market rates and have terms of up to one year.

10. Losses to carry forward

The Corporation has exploration costs, operating losses and other costs 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 unrecorded future income tax deductions (additions) are as follows:

Operating losses and expiry dates	$
2006	**5,000**
2007	**36,000**
2008	**156,000**
2009	**170,000**
2010	**391,000**
2014	**288,000**
2015	**1,484,000**
Total losses	**2,530,000**
Share issue expenses	**1,209,000**
Exploration and claim costs - net book value in excess of tax value (tax value is reduced by renouncements filed at year-end)	**(376,000)**
Total amounts for which a potential tax benefit is not recorded	**3,363,000**

The future income tax liability does not take into account the effect of tax deduction renouncements made in favour of investors, relating to exploration expenses in connection with the flow-through investment of $3,050,000 (see note 11), that are filed after the balance sheet date but effective December 31, 2005. As required in EIC-146 (note 2), the effect of this renouncement is to be recognized in the year the renouncement is filed with the tax authorities.

11. 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.

During the year, the Company received $3,050,000 ($477,250 in 2004) following two flow-through share issues. After year-end, but effective December 31, 2005, the Corporation renounced all of its tax deductions relating to flow-through investments (see note 10).

12. 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.

13. 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.

14. Government grants

During 2005, the company earned and received government grants for mineral exploration costs amounting to $38,000 ($72,260 in 2004).

15. 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.

16. Related party transactions

Some of the Corporation's officers are also shareholders of the Corporation, as well as officers and shareholders of the former subsidiary company. Transactions with the former subsidiary company and 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.

During the year, the Corporation had the following related party transactions:

(a) Asset disposition

As described in note 4, the Corporation disposed of the New Brunswick mining rights and deferred exploration costs to its former subsidiary company. The disposal has been recorded at cost as required by Canadian generally accepted accounting principles for related party transactions. This cost approximates the fair value of the properties.

(b) Operations

During the year, the Corporation incurred $52,813 as consulting fees and professional services with officers. Of this amount, an amount of $6,630 is included in mining properties and deferred exploration costs, $11,970 consists of share issue costs and the balance consists of professional and consulting fees. As at December 31, 2005, an amount payable of $9,000 relating to these fees is included in accounts payable and accrued liabilities.

The Corporation also charged the former subsidiary company $6,888 for office expenses (nil in 2004).

(c) Interest on loan receivable charged to former subsidiary company

The total interest incurred on the loan receivable from the former subsidiary company amounts to $4,356 (nil in 2004).

Forest Gate Resources Inc.
Diamond Finders

Board Of Directors

Michael Judson
President and Chief Executive Officer

André Audet
Director

Jean Girard
Director

John Mavridis
Director and Secretary

Company Information

Symbol and Stock Exchange: FGT - V
Shares Outstanding: 73 Million

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FGT-V

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