Forest Gate Resources Inc.

Quarterly Financial Statements

March 31, 2005

Contents

Forest Gate Resources Inc.

Consolidated Balance Sheet

At	**March 31, 2005 $ (unaudited)**	December 31, 2004 $
Assets		
Current assets		
Cash and Cash Equivalents	**174,550**	-
Short-term investments	**7,305,675**	623,500
Accounts receivable	**72,189**	77,370
Prepaid expenses	**35,252**	34,396
Deferred financing costs	**-**	16,000
Deferred acquisition costs	**218,675**	119,175
	7,806,341	870,441
Mining properties and deferred exploration costs *[note 4]*	**1,247,278**	1,235,106
Office furniture and equipment *[note 5]*	**39,675**	33,533
	9,093,294	2,139,080
Liabilities		
Current liabilities		
Bank indebtedness	**-**	2,380
Accounts payable and accrued liabilities	**264,866**	173,549
	264,866	175,929
Shareholders' equity		
Share capital *[note 6]*	**9,668,193**	2,557,475
Warrants *[note 6]*	**134,481**	506,089
Contributed surplus *[note 6]*	**674,897**	248,768
	10,477,571	3,312,332
Deficit	**(1,649,143)**	(1,349,181)
	8,828,428	1,963,151
	9,093,294	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	Three months ended March 31	
	2005	2004
	$	$
Revenues		
Interest income	**3,726**	3,830
Expenses		
Salaries and levies *[note 6]*	**68,303**	24,714
Value of stock options granted to directors and consultants *[note 6]*	**29,127**	19,509
Professional and consulting fees	**36,201**	28,927
Rent	**11,110**	3,488
Office expenses	**13,653**	20,060
Taxes	**10,975**	4,116
Registration and filing fees	**47,783**	22,360
Telephone	**4,357**	1,907
Corporate marketing and business development	**47,301**	38,042
Investor relations	**26,630**	-
Insurance	**2,951**	7,983
Financial charges *[note 7]*	**2,745**	475
Amortization of office furniture and equipment	**2,552**	61
Equipment rental	**-**	740
	303,688	172,382
Net loss	**(299,962)**	(168,552)
Deficit at the beginning of the period	**(1,349,181)**	(785,201)
Deficit at the end of the period	**(1,649,143)**	(953,753)
Basic loss per share and diluted loss per share *[note 8]*	**0.01023**	0.00765
Weighted average number of shares outstanding	**29,334,225**	22,042,872

Forest Gate Resources Inc.

Consolidated Statement of Cash Flows (unaudited)

Period ended	Three months ended March 31	
	2005	2004
	$	$
Cash provided from (used for):		
Operating activities		
Net loss	**(299,962)**	(168,552)
Non-cash items:		
Amortization of office furniture and equipment	**2,552**	61
Non-cash stock-based compensation *[note 6]*	**29,127**	19,509
Net changes in non-cash components of operating working capital	**95,642**	(53,787)
	(172,641)	(202,769)
Financing activities		
Proceeds from the issue of equity *[note 6]*	**7,136,112**	319,915
Deferred financing costs	**16,000**	-
	7,152,112	319,915
Investing activities		
Acquisition of property and equipment	**(8,694)**	-
Short-term investments, net variation	**(6,682,175)**	(75,000)
Deferred acquisition costs	**(99,500)**	-
Mining properties and deferred exploration costs *[note 4]*	**(12,172)**	(58,907)
	(6,802,541)	(133,907)
Net increase (decrease) in cash and cash equivalents	**176,930**	(16,761)
Cash and cash equivalents - beginning	**(2,380)**	(2,582)
Cash and Cash Equivalents (Bank indebtedness) - ending	**174,550**	(19,343)

Forest Gate Resources Inc.

Notes to the Consolidated Financial Statements (unaudited)

March 31, 2005

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 information as at March 31, 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)

March 31, 2005

4. Mining properties and deferred exploration costs

	Cost of Claims $	Deferred exploration costs $	Write-off of abandoned property $	Government grant $	March 31, 2005 Net $	December 31, 2004 Net $
Saskatchewan						
Fort à la Corne	**209,980**	**378,787**	**-**	**72,260**	**516,507**	506,892
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
	595,259	**809,114**	**84,835**	**72,260**	**1,247,278**	1,235,106

Deferred exploration costs incurred during the period are as follows:

	March 31, 2005 $
Consulting	**9,874**
Travel	**1,798**
Equipment and other rentals	**500**
Total before grants	**12,172**
Government grants	**-**
Total	**12,172**

5. Office furniture and equipment

	Cost $	Accumulated Depreciation and Amortization $	March 31, 2005 Net $	December 31, 2004 Net $
Furniture and office equipment	**16,447**	**2,307**	**14,140**	14,217
Computer equipment	**22,767**	**3,448**	**19,319**	12,515
Leasehold improvements	**7,020**	**804**	**6,216**	6,801
	46,234	**6,559**	**39,675**	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**	**0**	**248,768**	**3,312,332**
Equity issued (a)	25,000,000	5,181,793	12,500,000	0				5,181,793
Stock-based compensation paid on equity issues (a)					2,500,000 (1)		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	0
Options exercised (a)	396,000	100,308			(396,000)		(40,908)	59,400
Broker options exercised (a)	383,805	74,842	191,902	0	(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**	**0**	**674,897**	**10,477,571**

(1) Broker warrants issued to the agent on the issue of 25,000,000 common shares. See note 6(a).

(a) During the quarter ended March 31, 2005, the following equity issues occurred:

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.

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).

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6. Share capital (continued)

(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 4,786,940 common shares.

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

	March 31, 2005		March 31, 2004	
	Granted	**Weighted Average Exercise Price $**	Granted	Weighted Average Exercise Price $
Balance - beginning of period	**1,776,000**	**0.15**	1,900,000	0.15
Options granted under the stock option plan (*)	**400,000**	**0.15**	25,000	0.21
Options exercised	**(396,000)**	**0.15**	(199,000)	0.15
Options cancelled	**-**	**0.15**	-	-
Balance - end of period	**1,780,000**	**0.15**	1,726,000	0.15

(*) The fair value of the options issued is estimated at $0.138, for a total of $55,200 ($19,509 in 2004), calculated as described in note 6(e). The stock-based compensation for the quarter, resulting from these issues, amounts to $29,127, of which an amount of $21,689 ($18,050 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 March 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:

Option description	Granted	Exercisable	Weighted average Exercise price $	Expiry date
	1,155,000	**1,155,000**	**0.15**	**March 2008**
	25,000	**18,750**	**0.21**	**March 2009**
	150,000	**-**	**0.15**	**June 2009**
	50,000	**12,500**	**0.17**	**September 2009**
	400,000	**150,000**	**0.15**	**January 2010**
	1,780,000	**1,336,250**	**0.15**	

(c) Warrants to brokers

During the quarter ended March 31, 2005, the company issued warrants to the broker having completed the issue described in Note 6(a). The activity and information concerning outstanding and exercisable warrants is as follows:

	Number of warrants	Weighted average exercise price $
Balance - December 31, 2004	**1,037,600**	**0.15**
Warrants granted	**2,500,000**	**0.25**
Warrants exercised	**(383,805)**	**0.15**
Balance – March 31, 2005	**3,153,795**	**0.23**

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

Description	Granted and Exercisable	Weighted average exercise price to purchase unit $	Exercise price of warrant included in unit	Expiry date
Warrants to buy units of 1 common share	**578,690**	**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**
	3,153,795	**0.23**		

...continued

6. Share capital (continued)

(d) Share purchase warrants

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

Number of warrants	Exercise price $	Expiry date
1,666,280	0.20	October 2005
85,123	0.20	November 2005
125,000	0.32	May 2006
653,125	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
15,069,528		

(e) 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 2005	March 2005
	Stock plan issues	Warrants to Agent
Risk-free interest rate	3.52%	3.38%
Expected life (years)	5	2
Expected volatility	110%	110%
Expected dividend yield	nil	nil
Weighted average grant date fair value	$0.138	$0.193

7. Supplemental disclosures of expenses and cash flow information

i) Interest paid and received

Interest paid during the period amounts to $2,503 (March 2004 quarter - nil). Interest received during the period amounts to $nil (March 2004 quarter - $3,316).

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. 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) 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.

c) 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, it proposes to transfer, by way of an assignment, 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.