Forest Gate Resources Inc.

Quarterly Financial Statements

March 31, 2006

(unaudited)

Contents

Forest Gate Resources Inc.

Balance Sheet (unaudited)

At	**March 31, 2006**	December 31, 2005 *[note 2]*
	$	$
Assets		
Current assets		
Cash	**413,025**	404,743
Short-term investments	**4,324,100**	4,604,100
Accounts receivable	**184,463**	260,303
Prepaid expenses	**16,131**	29,116
Loan receivable from former subsidiary company *[note 3]*	**1,014,448**	933,165
Deferred financing costs	**10,547**	-
Deferred acquisition costs	**1,540**	-
	5,964,254	6,231,427
Mining properties and deferred exploration costs *[note 5]*	**4,672,765**	3,813,330
Property and equipment *[note 6]*	**59,778**	58,688
	10,696,797	10,103,445
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**1,038,949**	389,828
Shareholders' equity		
Share capital *[note 7]*	**11,706,586**	12,372,541
Warrants *[note 7]*	**353,855**	353,855
Contributed surplus *[note 7]*	**62,263**	42,543
	12,122,704	12,768,939
Deficit	**(2,464,856)**	(3,055,322)
	9,657,848	9,713,617
	10,696,797	10,103,445

Approved on behalf of the board:

Signed “Michael Judson” *Director*

Signed “John Mavridis” *Director*

Forest Gate Resources Inc.

Statement of Earnings and Deficit (unaudited)

Period ended	Three months ended March 31	
	2006	2005 *[note 2]*
	$	$
Revenues		
Interest income *[note 11]*	**49,744**	3,726
Expenses		
Salaries and levies *[note 7(b)]*	**100,075**	68,303
Stock based compensation to directors and consultants *[note 7(b)]*	**109,185**	29,127
Professional and consulting fees	**26,809**	36,201
Rent	**5,125**	11,110
Office expenses	**39,471**	13,653
Taxes	**59,727**	10,975
Registration and filing fees	**13,109**	47,783
Telephone	**3,076**	4,357
Corporate marketing and business development	**54,385**	47,301
Investor relations	**15,537**	26,630
Insurance	**4,785**	2,951
Financial charges *[note 8]*	**389**	2,745
Amortization of property and equipment	**4,215**	2,552
	435,888	303,688
Loss before income taxes	**(386,144)**	(299,962)
Future income taxes recovered *[note 12]*	**(976,610)**	-
Net earnings (loss)	**590,466**	(299,962)
Deficit at the beginning of period	**(3,055,322)**	(1,349,181)
Deficit at the end of period	**(2,464,856)**	(1,649,143)

Basic earning (loss) per share and diluted earning (loss) per share *[note 9]*	**0.00812**	(0.01023)
Weighted average number of shares outstanding	**72,682,691**	29,334,225

Forest Gate Resources Inc.

Statement of Cash Flows (unaudited)

Period ended	Three Months ended March 31	
	2006	2005 *[note 2]*
	$	$
Cash provided from (used for):		
Operating activities		
Net earnings (loss)	**590,466**	(299,962)
Non-cash items:		
Future income taxes recovered *[note 12]*	**(976,610)**	**-**
Amortization of property and equipment	**4,215**	2,552
Non-cash stock-based compensation *[note 7]*	**109,185**	29,127
Net changes in non-cash components of operating working capital	**737,946**	95,642
	465,202	(172,641)
Financing activities		
Proceeds from the issue of equity *[note 7]*	**221,190**	7,136,112
Deferred financing costs	**(10,547)**	16,000
	210,643	7,152,112
Investing activities		
Loan receivable from former subsidiary company	**(81,283)**	-
Deferred acquisition costs	**(1,540)**	(99,500)
Acquisition of property and equipment	**(5,305)**	(8,694)
Short-term investments, net variation	**280,000**	(6,682,175)
Mining properties and deferred exploration costs *[note 5]*	**(859,435)**	(12,172)
	(667,563)	(6,802,541)
Net increase in cash and cash equivalents	**8,282**	176,930
Cash and cash equivalents - beginning of period	**404,743**	(2,380)
Cash and cash equivalents - end of period	**413,025**	174,550
Represented by:		
Cash with bank	**413,025**	174,550

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.

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

(a) Summary of significant accounting policies

The financial information as at March 31, 2006 is not audited. However, in the opinion of the management, all adjustments necessary to present fairly the results of these periods have been included. The adjustments made were of a normal recurring nature. Interim results may not necessarily be indicative of results anticipated for the year.

These interim financial statements are prepared in accordance with generally accepted accounting principles in Canada for the presentation of interim financial information. All disclosures required for annual financial statements have not been included in the financial statements and therefore should be read in conjunction with the company's most recent annual financial statements. These financial statements use the same accounting policies and methods in the preparation of the company's most recent annual financial statements.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The interim financial statements have, in management's opinion, been properly prepared using careful judgement within reasonable limits of materiality and within the framework of the accounting policies summarized in the most recent annual audited financial statements.

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

...continued

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

(b) Changes to accounting policies

Non-monetary transactions: The CICA reissued section 3830 of the CICA Handbook section as section 3831, *Non-Monetary Transactions*, which establishes standards for the measurement and disclosure of non-monetary transactions. It also includes criteria for defining 'commercial substance' that replace the criteria for defining 'culmination of the earnings process' in the former section. Adopting this section on January 1, 2006 did not have any effect on our financial statements.

3. Loan receivable from former subsidiary company

This loan bears interest at the company's bank prime rate plus 1.375% and has no specific repayment terms (see note 11).

4. Assets disposed in 2005

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 were charged to deficit.

The Corporation disposed of the following assets:

	$
New Brunswick properties	**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 $	March 31, 2006 Net $	December 31, 2005 Net $
Saskatchewan					
EastSide	**215,689**	**1,588,395**	**110,260**	**1,693,824**	1,621,884
SouthSide	**5,714**	**386,961**	**-**	**392,675**	376,414
WestSide	**1,021,456**	**-**	**-**	**1,021,456**	1,020,241
Quebec					
Portage	**236,909**	**1,327,901**	**-**	**1,564,810**	794,791
	1,479,768	**3,303,257**	**110,260**	**4,672,765**	3,813,330

Costs incurred during the period are as follows:

	March 31, 2006 $	March 31, 2005 $
Cost of claims	**10,874**	-
Drilling for samples and lab analysis	**633,242**	-
Surveys	**86,457**	-
Consulting	**88,645**	9,874
Travel	**506**	1,798
Equipment, other rentals and other costs	**6,428**	500
Personnel	**33,283**	-
	848,561	12,172
Total before grants	**859,435**	12,172
Government grants	**-**	-
Total	**859,435**	12,172

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 had to invest $500,000 on claim renewals and exploration by November 1, 2005, and has to invest $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 March 31, 2006, the Company has invested $1,564,810 on the Portage property.

6. Property and equipment

	Cost $	Accumulated Depreciation and Amortization $	March 31, 2006 Net $	December 31, 2005 Net $
Furniture and office equipment	**32,207**	**6,186**	**26,021**	23,536
Computer equipment	**42,331**	**12,450**	**29,881**	30,691
Leasehold improvements	**7,020**	**3,144**	**3,876**	4,461
	81,558	**21,780**	**59,778**	58,688

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, 2005	72,223,574	12,372,541	12,938,067	353,855	7,366,739	-	42,543	12,768,939
Future income taxes on flow through expenses renounced (a)	-	(976,610)	-	-	-		-	(976,610)
Warrants exercised (a)	200,000	65,639	(200,000)	-	-		-	65,639
Options exercised (a)	100,400	22,389	-	-	(100,400)		(7,329)	15,060
Broker options exercised (a)	539,071	222,627	-	-	(539,071)		(82,136)	140,491
Broker warrants issued upon exercise of broker unit options (a)	-	-	-	-	201,368		-	-
Stock-based compensation charged to operations (b)	-	-	-	-	-		109,185	109,185
Balance – March 31, 2006	73,063,045	11,706,586	12,738,067	353,855	6,928,636	-	62,263	12,122,704

(*a*) During the quarter ended March 31, 2006, the following equity issues occurred:

i) a total of 200,000 warrants, 100,400 options issued under the stock option plan and 539,071 options issued to brokers were exercised for gross proceeds of $234,234 resulting in the issue of 839,471 common shares and 201,368 broker warrants. Pursuant to an agreement with its former subsidiary, Blue Note (see note 7(e) below), the exercise of 713,296 warrants by the Corporation’s warrant holders has resulted in the payment to Blue Note in the amount of $13,044 cash. Net proceeds received amount to $221,190.

…continued

7. Share capital (continued)

ii) the company has recorded an additional share issue cost of $976,610 to account for the future tax cost of the exploration costs it has renounced in March 2006 on the flow-through shares issued in 2005. The amount has been charged to share capital.

(b) Stock option plan

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

	March 31, 2006		**March 31** 2005	
	Granted	**Weighted Average Exercise Price $**	Granted	Weighted Average Exercise Price $
Balance - beginning of period	**4,715,500**	**0.22**	**1,776,000**	**0.15**
Options granted under the stock option plan (*)	**-**	**-**	**400,000**	**0.15**
Options exercised	**(100,400)**	**0.15**	**(396,000)**	**0.15**
Balance - end of period	**4,615,100**	**0.22**	**1,780,000**	**0.15**

(*) An amount of $109,185 (March 31, 2005 - $29,127) was recorded as stock-based compensation and credited to contributed surplus for options vesting in the current period. An amount of $98,400 (March 31, 2005 - $21,689) relates to management compensation and the balance consists of compensation to consultants.

As at March 31, 2006, the outstanding options, as issued under the stock option plan to directors and shareholders for the purchase of one common share per option, are as follows:

Granted	**Exercisable**	**Weighted average Exercise price $**	**Expiry date**
940,100	**940,100**	**0.15**	**March 2008**
75,000	**75,000**	**0.15**	**June 2009**
25,000	**12,500**	**0.17**	**September 2009**
300,000	**200,000**	**0.15**	**January 2010**
3,275,000	**1,625,000**	**0.25**	**July 2010**
4,615,100	**2,852,600**	**0.22**	

...continued

7. Share capital (continued)

(c) Broker warrants

During the quarter ended March 31, 2006, the activity and information concerning outstanding and exercisable broker warrants is as follows:

	Number	Weighted average exercise price $
Balance - December 31, 2005	**2,651,239**	**0.27**
Granted	**201,368**	**0.35**
Exercised	**(539,071)**	**0.28**
Balance – March 31, 2006	**2,313,536**	**0.27**

As at March 31, 2006 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	**1,465,014**	**1,465,014**	**0.25**	**March 2007**
Warrants issued resulting from the exercise of the warrants to buy units	**406,934**	**406,934**	**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	**329,588**	**329,588**	**0.38**	**September 2007**
	2,313,536	**2,313,536**	**0.27**	

...continued

7. Share capital (continued)

(d) Share purchase warrants

The company has, as at March 31, 2006, 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
8,181,400	0.35	March 2007
2,486,667	0.40	March 2007
1,500,000	0.55	November 2007
12,738,067		

(e) Exercise of broker warrants and warrants

Pursuant to an agreement with Blue Note as part of the arrangement and effective November 10, 2005, Blue Note has agreed that, upon exercise of a warrant and broker warrants by a Forest Gate warrant holder, Blue Note will issue 0.1168 of a Blue Note share in exchange for 6.23% of the exercise price received by Forest Gate. As at March 31, 2006 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
8,181,400	0.35	March 2007	178,395
2,486,667	0.40	March 2007	61,968
1,465,014	0.25	March 2007	22,818
1,139,442	0.35	March 2007	24,845
13,954,523			299,365

8. Supplemental disclosures of expenses and cash flow information

i) Interest paid and received

Interest paid during the period amounts to $4 (March 31, 2005 - $2,503). Interest received during the period amounts to $139,381 (March 31, 2005 – nil).

ii) 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.

9. Loss per share

Due to an expected loss for the entire current year, no incremental shares are included in calculating the dilutive loss per share because the effect would be anti-dilutive.

10. 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.

11. 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 quarter ended March 31, 2006, the Corporation had the following related party transactions:

(a) *Operations*

The Corporation incurred $9,722 as consulting fees and professional services with officers. Of this amount, an amount of $2,256 is included in mining properties and deferred exploration costs, $3,500 consists of deferred financing costs, $1,100 consists of deferred acquisition costs and the balance consists of professional and consulting fees. As at March 31, 2006, an amount payable of $7,267 relating to these fees is included in accounts payable and accrued liabilities.

The Corporation also charged the former subsidiary company $14,700 (March 31, 2005 – nil) for office expenses.

(b) *Interest on loan receivable charged to former subsidiary company*

The total interest incurred on the loan receivable from the former subsidiary company amounts to $15,452 (March 31, 2005 – nil).

12. Tax losses and other expenses 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 are as follows:

	$
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)	**-**
Total amounts for which a potential tax benefit is not recorded	**1,209,000**

The 2006 future income tax liability takes 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 13) filed in March 2006 but effective December 31, 2005. As required in EIC-146, the effect of this renouncement is to be recognized in the year the renouncement is filed with the tax authorities. The liability is offset by the following losses recognized in the financial statements:

Operating losses and expiry dates	$
2007	**36,000**
2008	**156,000**
2009	**170,000**
2010	**391,000**
2014	**288,000**
2015	**1,484,000**
2016 – March 31	**380,000**
Total losses recognized	**2,905,000**

13. Contingent liabilities

a) Environmental

The company's exploration activities are subject to various federal and provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing. Environmental consequences are difficult to identify in terms of results, timetable and impact. The Corporation conducts its operations so as to protect the public health and environment and believes its operations are materially in compliance with all applicable laws and regulations.

b) Flow-through share issues

The company is partially financed through the issuance of flow-through shares, requiring that the company spend the proceeds for qualified mining exploration expenses. Moreover, tax rules regarding flow-through investments set deadlines for carrying out the exploration work, subject to penalties if the conditions are not respected. Although the Company is committed to taking all the necessary measures, refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

In 2005, the Company received $3,050,000 following two flow-through share issues. In March 2006, but effective December 31, 2005, the Corporation renounced all of its tax deductions relating to flow-through investments (see note 12).

14. Subsequent event

In April 2006 the Corporation obtained a line of credit to a maximum of $1,000,000, bearing interest at the bank's prime rate plus 1.375%, and secured by a $1,050,000 movable hypothec and pledge on the Corporation's short-term investments.