Forest Gate Resources Inc.

Financial Statements

June 30, 2004

Contents

Forest Gate Resources Inc.

Balance Sheet

At	**June 30, 2004 $ (unaudited)**	December 31, 2003 $
Assets		
Current assets		
Cash and Cash Equivalents	**3,740**	-
Short-term investments	**924,000**	1,040,000
Sundry receivables	**15,983**	35,958
Prepaid expenses	**-**	2,625
	943,724	1,078,583
Mining properties and deferred exploration costs	**1,096,940**	910,421
Fixed Assets ***[net of accumulated amortization of $791 (2003 - $730)]***	**751**	244
	2,041,414	1,989,248
Liabilities		
Current liabilities		
Bank indebtedness	**-**	2,582
Accounts payable and accrued liabilities	**177,805**	243,958
	177,805	246,540
Shareholders' equity		
Share capital ***[note 4]***	**2,357,828**	1,826,813
Warrants ***[note 4]***	**394,648**	476,471
Contributed surplus ***[note 4]***	**248,415**	224,625
	3,000,891	2,527,909
Deficit	**(1,137,282)**	(785,201)
	1,863,609	1,742,708
	2,041,414	1,989,248

Approved on behalf of the board:

……………………………………………………………Director

……………………………………………………………Director

Forest Gate Resources Inc.

Statement of Earnings and Deficit (Unaudited)

Period ended June 30,	Three months ended 2004 $	Three months ended 2003 $	Six months ended 2004 $	Six months ended 2003 $
Revenues				
Interest income	**4,484**	3,740	**8,313**	4,228
Expenses				
Management fees, salaries and levies	**42,727**	9,359	**85,491**	19,612
Professional and consulting fees	**61,144**	36,420	**91,530**	42,756
Rent	**3,639**	2,178	**7,127**	6,937
Office expenses	**33,147**	19,486	**53,207**	21,726
Taxes	**2,492**	3,652	**6,608**	3,652
Registration and filing fees	**6,565**	3,314	**28,925**	6,966
Telephone	**1,747**	1,757	**3,654**	2,122
Travel, advertising and business development	**33,205**	2,482	**71,987**	4,909
Insurance	**757**	-	**8,740**	-
Bank charges and interest	**2,478**	2,871	**2,952**	2,948
Amortization of fixed assets	**112**	61	**173**	122
	188,013	81,580	**360,394**	111,750
Net loss	**183,529**	77,840	**352,081**	107,522
Deficit at the beginning of period	**953,753**	428,183	**785,201**	398,501
Deficit at the end of period	**1,137,282**	506,023	**1,137,282**	506,023
Basic loss per share and diluted loss per share ***[note 7]***	**0.00772**	0.0056	**0.01537**	0.00968
Weighted average number of shares outstanding	**23,784,239**	13,730,034	**22,913,555**	11,105,389

Forest Gate Resources Inc.

Statement of Cash Flows (Unaudited)

	Three months ended		Six months ended	
Period ended June 30,	**2004**	2003	**2004**	2003
	$	$	**$**	$
Cash flows from (used for):				
Operating activities				
Net loss	**(183,529)**	(77,840)	**(352,081)**	(107,522)
Non-cash items:				
Amortization of fixed assets	**112**	61	**173**	122
Non-cash stock based compensation *[note 4]*	**18,808**	-	**38,317**	-
Net change in non-cash components of operating working capital	**10,234**	113,858	**(43,553)**	14,493
	(154,375)	36,079	**(357,144)**	(92,907)
Financing activities				
Proceeds from the issue of units of share capital and warrants	**-**	-	**-**	814,816
Proceed from the issue of share capital *[note 4]*	**33,000**	-	**352,915**	-
Share issue costs and professional fees	**-**	-	**-**	(124,158)
Deferred financing costs	**-**	-	**-**	74,927
Due to a director	**-**	-	**-**	(18,055)
Due to an affiliated company	**-**	(10,873)	**-**	(50,873)
	33,000	(10,873)	**352,915**	696,657
Investing activities				
Additions to fixed assets	**(680)**	-	**(680)**	-
Short-term investments	**191,000**	135,000	**116,000**	(465,000)
Mining properties and deferred exploration costs	**(45,862)**	(139,134)	**(104,769)**	(139,134)
	144,458	(4,134)	**10,551**	(604,134)
Net increase (decrease) in cash and cash equivalents	**23,083**	21,072	**6,322**	(384)
Cash and cash equivalents - beginning of period	**(19,343)**	(14,747)	**(2,582)**	6,709
Cash and cash equivalents - end of period	**3,740**	6,325	**3,740**	6,325
Represented by:				
Cash with bank	**3,740**	6,325	**3,740**	6,325

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 financial information as at June 30, 2004 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 these 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 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.

3. Comparative figures and changes in accounting policies

a) Effective January 1, 2004, the company retroactively adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants (the "CICA") with respect to impairment of long-lived assets, as outlined in the CICA Handbook Section 3063. The prior year figures have not been restated as a result of the change in accounting policy because the effect of the change on the current year's and prior year's earnings is not material.

b) Effective January 1, 2004, the company adopted the new accounting recommendations of the CICA with respect to asset retirement obligations, as outlined in the CICA Handbook Section 3110. The adoption of this section had no impact on the prior year financial statements.

c) Certain comparative 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.

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4. Share capital

The company is incorporated under the Canada Business Corporations Act.

Authorized: An unlimited number of common shares with no par value

	Share capital		Warrants		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**
Shares issued (a)	**250,000**	**64,500**	**-**	**-**	**-**	-	**-**	**64,500**
Warrants/Options exercised (a)	**2,352,767**	**466,515**	**(2,153,767)**	**(99,073)**	**(199,000)**	-	**(14,527)**	**352,915**
Warrants issued (a)	**-**	**-**	**125,000**	**17,250**	-	-	**-**	**17,250**
Stock-based compensation charged to operations (b)	**-**	**-**	**-**	**-**	**25,000**	-	**38,317**	**38,317**
Balance–June 30, 2004	**23,899,734**	**2,357,828**	**10,089,247**	**394,648**	**2,763,600**	-	**248,415**	**3,000,891**

(a) Stock issues

During the March 2004 quarter, 1,933,767 warrants and 199,000 options were exercised for proceeds of $319,915, resulting in the issue of 2,132,767 common shares.

During the June 2004 quarter, 220,000 warrants were exercised for proceeds of $33,000, resulting in the issue of 220,000 common shares. In addition, 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.

(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 no less than the closing market price of the shares of the company of the business day before the company notifies the stock exchanges of the grant of the option. The number of shares which may be granted to any one person shall not exceed 5% (2% for consultants) over a twelve-month period. The options will vest from the date of the grant to 18 months and expire within 5 years, as determined by the board. The company is authorized to issue a maximum of 2,760,000 common shares. The company is awaiting approval to increase this maximum to 4,786,940.

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4. Share capital (continued)

The option activity, including options issued under the share option plan, and information concerning outstanding and exercisable options as at June 30, 2004 is as follows:

	Options outstanding		Weighted Average Exercise Price
	Available for Grant	Granted	$
Balance - December 31, 2003	**860,000**	**1,900,000**	**0.15**
Options granted under the stock option plan (*)	**(25,000)**	**25,000**	**0.21**
Options exercised	**-**	**(199,000)**	**0.15**
Options cancelled	**-**	**-**	**-**
Balance - June 30, 2004	**835,000**	**1,726,000**	

(*) The fair value of the options granted is estimated as described below in note 4(c), is recorded as stock-based compensation and is included in consulting fees.

Stock-based compensation during the quarter amounts to $18,808.

(c) Fair value

The fair value of options issued were estimated at their respective grant dates using the Black-Scholes pricing model using the following assumptions:

	Stock option plan issue	Warrant Issue
Risk-free interest rate	**2.37%**	**2.81%**
Expected life (years)	**3**	**2**
Expected volatility	**50%**	**104%**
Expected dividend yield	**Nil**	**Nil**
Weighted average grant date fair value	**$0.112**	**$0.138**

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4. Share capital (continued)

d) Share purchase warrants

The company has, as at June 30, 2004, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of shares	Exercise price $	Expiry date
6,893,081	0.15	March 2005
3,016,666	0.20	October 2005
54,500	0.20	November 2005
125,000	0.32	May 2006
10,089,247		

e) Options

(i) As at June 30, 2004, the company had the following options outstanding, excluding the options described below in note 4(e)(ii) :

Option description	Granted	Exercisable	Weighted average Exercise price $	Expiry date
Stock options issued under the stock option plan to directors and consultants for the purchase of 1,900,000 common shares	1,701,000	1,226,000	0.15	March 2008
	25,000	6,250	0.21	March 2009
	1,726,000	1,232,250		
Options to buy units of 1 common share and _ a warrant to purchase _ a share	901,250	901,250	0.15	October 2005
	136,350	136,350	0.15	November 2005
	1,037,600	1,037,600		
	2,763,600	2,269,850		

(ii) As at June 30, 2004, the company has issued 600,000 stock options, each option allowing the purchase of a common share at $0.15 per share. The related compensation costs of $20,775 will be recorded once TSX approval is obtained.

5. Supplemental disclosures of expenses and of cash flow information:

i) Interest paid and received

Interest paid during the six month period amounts to $1,942 (2003 - $1,490). Interest received during the six month period amounts to $4,453 (2003 - $nil).

ii) Non-cash transactions

All non-cash transactions relate to stock-based compensation for the issue of stock options and acquisition of the remaining 15% interest in the East Side diamond property in Fort a la Corne. A full description can be found in Note 4.

6. Income taxes

The Corporation has exploration costs of approximately $161,000 and losses, as detailed below, which are being carried forward and which can reduce future taxable income. The related potential future tax reduction is not recorded in these financial statements. The losses expire as follows:

	$
2006	**5,000**
2007	**36,000**
2008	**156,000**
2009	**169,000**
2010	**324,000**
2011	**170,000**
	860,000

7. 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.

8. Segmented information

The company has only one reportable segment. All of the company's operations are in one geographic location, Canada, and all relate to mining exploration.