

Forest Gate Resources Inc.
Financial Statements
December 31, 2006

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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, 2006 and 2005 and the statements of earnings and deficit and cash flows for each of the years in the two-year period ended December 31, 2006. 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, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Signed by "Lippman Leebosh April"

Chartered Accountants

Montreal, Quebec
March 9, 2007

Forest Gate Resources Inc.

Balance Sheet

At December 31

	2006 \$	2005 [note 2] \$
Assets		
<i>Current assets</i>		
Cash	3 173 739	404 743
Short-term investments (fair market value - \$437 950; 2005 - \$4 604 100)	437 950	4 604 100
Accounts receivable	181 440	222 303
Tax credits and government assistance receivable [notes 6 and 17]	849 708	38 000
Loan receivable from former subsidiary company [notes 4 and 14]	55 441	933 165
Prepaid expenses	116 850	29 116
	4 815 128	6 231 427
Mining properties and deferred exploration costs [note 6]	3 042 149	3 813 330
Property and equipment [note 7]	64 026	58 688
	7 921 303	10 103 445
Liabilities		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities [note 14]	363 230	389 828
	363 230	389 828
Shareholders' equity [note 8]		
Share capital	13 424 737	12 372 541
Warrants	297 000	353 855
Contributed surplus	279 161	42 543
	14 000 898	12 768 939
Deficit	(6 442 825)	(3 055 322)
	7 558 073	9 713 617
	7 921 303	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

Year ended December 31	2006 \$	2005 [note 2] \$
Revenues		
Interest income [notes 10 and 14]	157 729	113 253
Expenses [note 14]		
Salaries and levies	390 766	355 732
Value of stock options granted to directors and consultants [note 8(c)]	271 756	521 540
Professional and consulting fees	336 345	218 400
Rent	32 389	41 687
Office expenses	130 771	124 430
Taxes	69 127	56 657
Registration and filing fees	33 403	67 118
Telephone	22 470	18 527
Corporate marketing and business development	272 749	284 471
Investor relations	52 610	77 694
Insurance	21 044	18 337
Financial charges [note 10]	8 658	6 414
Amortization of property and equipment	19 812	13 558
	1 661 900	1 804 565
Loss before write-down and income taxes	1 504 171	1 691 312
Unrealized loss on short-term investments	43 655	-
Write-down of mining properties and deferred exploration costs	2 471 862	-
Loss before income taxes	4 019 688	1 691 312
Future income taxes recovered [note 15]	(632 185)	-
Net loss	3 387 503	1 691 312
Deficit at the beginning of year	3 055 322	1 349 181
Costs incurred in the execution of the Plan of Arrangement [note 5]	-	14 829
Deficit at the end of year	6 442 825	3 055 322
Basic loss per share and diluted loss per share [note 11]	\$0.04454	\$0.03030
Weighted average number of shares outstanding	76 050 018	55 824 012

Forest Gate Resources Inc.

Statement of Cash Flows

Year ended December 31	2006 \$	2005 [note 2] \$
Cash provided from (used for):		
Operating activities		
Net loss	(3 387 503)	(1 691 312)
<i>Non-cash items:</i>		
Write-down of mining properties and deferred exploration costs	2 471 862	-
Future income taxes recovered [note 15]	(632 185)	-
Amortization of property and equipment	19 812	13 558
Unrealized loss on short-term investments	43 655	-
Value of stock options granted to directors and shareholders (non-cash stock-based compensation) [note 8]	271 756	521 540
Net changes in non-cash components of operating working capital [note 10]	(885 177)	38 626
	(2 097 780)	(1 117 588)
Financing activities		
Proceeds from the issue of equity [note 8]	1 592 388	9 660 596
Deferred financing costs	-	16 000
Loan receivable from former subsidiary company	877 724	(933 165)
	2 470 112	8 743 431
Investing activities		
Redemption of reorganization common shares under plan of arrangement [note 5]	-	(1 000 000)
Deferred acquisition costs	-	119 175
Acquisition of property and equipment	(25 150)	(38 713)
Short-term investments, net variation	4 122 495	(3 980 600)
Mining properties and deferred exploration costs [notes 6 and 10]	(1 700 681)	(2 303 753)
Costs incurred in the execution of the Plan of Arrangement [note 5]	-	(14 829)
	2 396 664	(7 218 720)
Net increase in cash and cash equivalents	2 768 996	407 123
Cash and cash equivalents (bank indebtedness)- beginning of year	404 743	(2 380)
Cash and cash equivalents - end of year	3 173 739	404 743
Represented by:		
Cash with financial institutions	3 173 739	404 743

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

1. Governing statutes and description of operations

The Company is incorporated by the Canada Business Corporations Act and operations consist of the exploration of reserve 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.

The Company has decided to expand its business into oil and gas exploration. It is currently evaluating strategic options for its mining properties including further exploration, sale of properties and exploitation partnerships. As no final decision in this regard has been made by management, the properties and deferred exploration costs continue to be shown and presented as in prior years. Management believes that the carried amount of these assets can be realized through exploitation and operation or by way of opportunities with other participants in the industry.

2. 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 judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below:

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 5). Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

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.

Short-term investments: The Company records investments at the lower of cost and fair value.

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

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

2. Summary of significant accounting policies (continued)

Mining properties and deferred exploration costs: Mining properties and deferred exploration costs are recorded at cost, less tax credits and government assistance, 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.

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. The estimated tax benefits transferred to shareholders are recorded as a future income tax liability at the time of filing of the renouncement documents with the tax authorities with a corresponding reduction in share capital.

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-based compensation: The Company has a stock option compensation plan which is described in Note 8. The Corporation follows the fair value method to record compensation expense with respect to stock options and warrants granted in exchange for goods and services. This method is applied for all awards made to non-employees and employees. The fair value of each option or warrant granted is estimated on the date of grant and a provision for the costs is provided for as contributed surplus over the term of the option agreement. Compensation expense associated with options issued to employees, consultants, officers and directors of the Corporation are expensed while compensation expense related to broker warrants issued are recorded as share issue costs and deducted from share capital. The consideration received by the Corporation on the exercise of share options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur which could result in recoveries of the compensation.

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.

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

2. Summary of significant accounting policies (continued)

Loss per share: The basic loss per share is computed by dividing the net loss by weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options, in the weighted average number of common shares outstanding during the year, if dilutive. For this purpose, the treasury stock method is used for the assumed proceeds upon the exercise of stock options that are used to purchase common shares at the average market price during the year.

3. Changes in 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 processes in the former section. Adopting this section on January 1, 2006 did not have any effect on our financial statements.

Stock-based compensation for employees: The CICA issued EIC-162 (Emerging Issues Committee) on Section 3870 related to stock-based compensation for employees eligible to retire before the vesting date. Adopting this recommendation on January 1, 2006 did not have any effect on our financial statements.

4. 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 14).

5. 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

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Forest Gate Resources Inc.

Notes to the Financial Statements

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5. Assets disposed in 2005 (continued)

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.

6. Mining properties and deferred exploration costs

	Cost of Claims \$	Deferred exploration costs \$	Write-down of abandoned property \$	Cumulative tax credits and government assistance \$	2006 Net \$	2005 Net \$
Saskatchewan						
EastSide	215 689	1 786 544	-	117 778	1 884 455	1 621 884
SouthSide	5 714	1 031 696	1 037 410	-	-	376 414
WestSide	1 021 444	136 250	-	-	1 157 694	1 020 241
Quebec						
Portage	266 236	2 038 924	1 434 452	870 708	-	794 791
	1 509 083	4 993 414	2 471 862	988 486	3 042 149	3 813 330

Costs incurred during the year are as follows:

	2006 \$	2005 \$
Cost of claims	40 189	1 264 333
Drilling for samples and lab analysis	1 545 792	790 414
Engineering	8 525	28 479
Surveys	419 409	341 322
Consulting	285 232	198 250
Travel	25 046	164 249
Equipment, other rentals and other costs	169 874	120 951
Exploration	11 714	375 713
Personnel	73 126	70 742
	2 538 718	2 090 120
Total before grants	2 578 907	3 354 453
Tax credits and government assistance [note 17]	(878 226)	(38 000)
Total	1 700 681	3 316 453
Disposal of claims and deferred costs [note 5]	(2 471 862)	(738 229)
Net variation	(771 181)	2 578 224

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

6. Mining properties and deferred exploration costs (continued)

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 8 (a) (iv).

In July 2005, the Company signed an option agreement with Majescor Resources to earn up to 55% undivided recorded and beneficial interest in Majescor's Portage property located north of Quebec's Otish Mountains. Under the terms of the agreement, 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 2005, \$800,000 by November 2006, \$1.0 million by November 2007, \$1.2 million by November 2008 and \$1.5 million by November 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, 2006, the Company has invested \$2,305,160 on the Portage property or \$1,434,452 net of tax credits and government assistance.

The Corporation has written-down certain of its mining properties and deferred exploration costs for an amount of \$2,471,862 at year-end based on the decision taken in the quarter subsequent to year-end to defer further exploration work on these properties.

7. Property and equipment

	Cost	Accumulated Depreciation	2006 Net	2005 Net
	\$	\$	\$	\$
Furniture and office equipment	32 757	10 054	22 703	23 536
Computer equipment	61 626	22 424	39 202	30 691
Leasehold improvements	7 020	4 899	2 121	4 461
	101 403	37 377	64 026	58 688

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

8. Share capital

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, 2004 (a) (c)	26 844 634	2 557 475	10 921 847	506 089	2 813 600	0	248 768	3 312 332
Equity issued	30 778 947	7 053 516	14 000 000	297 000				7 350 516
Stock-based compensation paid on unit issue					2 855 363		543 250	543 250
Warrants exercised (a)	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)	0
Warrants forfeited			(139 125)	(3 007)			3 007	0
Options exercised	760 500	205 492			(760 500)		(86 917)	118 575
Broker options exercised	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			0
Broker options forfeited					(54 540)			0
Options issued and Stock-based compensation charged to operations (a)					3 700 000		521 540	521 540
Reorganization shares issued	8 137 183							
Reorganization shares redeemed	(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	0	42 543	12 768 939
Equity issued (b)	5 741 112	1 366 959						1 366 959
Warrants exercised (b)	200 000	65 639	(200 000)					65 639
Warrants forfeited			(570 000)	(56 855)			56 855	0
Broker warrants forfeited					(90 000)			
Options exercised (b)	100 400	22 389			(100 400)		(7 329)	15 060
Broker warrants and broker unit warrants exercised (b)	561 071	229 394			(561 071)		(84 664)	144 730
Broker warrants issued upon exercise of broker unit warrants (b)					201 368			0
Options issued and Stock-based compensation charged to operations (b) (c)					200 000		271 756	271 756
Future income taxes on flow through expenses renounced (b)		(632 185)						(632 185)
Balance - December 31, 2006	78 826 157	13 424 737	12 168 067	297 000	7 016 636	0	279 161	14 000 898

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

8. Share capital (continued)

(a) *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 8(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 8(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 8(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 8(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 5, 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.

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

8. Share capital (continued)

(b) *Issues during 2006*

- i) a total of 200,000 warrants, 100,400 options issued under the stock option plan and 561,071 options issued to brokers were exercised for gross proceeds of \$238,754 resulting in the issue of 861,471 common shares and 201,368 broker warrants. Pursuant to an agreement with its former subsidiary, Blue Note (see note 8(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 \$13,325 cash. Net proceeds received amount to \$225 429.
- ii) the company has recorded an additional share issue cost of \$632,185 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.
- iii) The company closed a private placement of 3,407,786 flow-through shares at \$0.305 per share. The issue generated total gross proceeds of \$1,039,375 and net proceeds credited to share capital of \$939,216 after payment of share issue costs of \$99,321 in the June 2006 quarter and \$838 paid in the September 2006 quarter.
- iv) The company closed a private placement of 1,946,230 flow-through shares at \$0.305 per share. The issue generated total gross proceeds of \$593,600 and net proceeds credited to share capital of \$331,388 after payment of share issue costs of \$48,470 and other disbursement of \$213,742.
- v) the company closed a private placement of 387,096 flow-through shares at \$0.31 per share. The issue generated total gross proceeds of \$120,000 and net proceeds credited to share capital of \$96,355 after payment of share issue costs of \$23,645.

(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 15,298,500 common shares. This is an increase from the previous maximum of 12,321,000 after board approval was obtained in June 2006.

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

8. Share capital (continued)

(c) *Stock option plan (continued)*

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

	2006		2005	
		Weighted Average Exercise Price \$		Weighted Average Exercise Price \$
	Granted		Granted	
Balance - beginning of year	4 715 500	0.22	1 776 000	0.15
Options granted under the stock option plan (*)	200 000	0.16	3 700 000	0.24
Options exercised	(100 400)	0.15	(760 500)	0.16
Balance - end of year	4 815 100	0.22	4 715 500	0.22

(*) An amount of \$271,756 (\$521,540 in 2005) 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 \$237,575 (\$463,922 in 2005) relates to management compensation and the balance consists of compensation to consultants.

As at December 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	25 000	0.17	September 2009
	300 000	300 000	0.15	January 2010
	3 275 000	2 450 000	0.25	July 2010
	200 000	50 000	0.16	November 2011
	4 815 100	3 840 100	0.21	

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

8. Share capital (continued)

(d) Broker warrants

During the year, the activity and information concerning outstanding and exercisable broker warrants is as follows:

	Number	Weighted Average Exercise Price \$
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
Granted	201 368	0.35
Exercised	(561 071)	0.27
Reclassified	-	0.00
Forfeited	(90 000)	0.24
Balance - December 31, 2006	2 201 536	0.29

As at December 31, 2006 the company had the following broker warrants outstanding:

	Granted	Exercisable	Weighted Average Exercise Price \$	Expiry date
Warrants to buy units of 1 common share and 1/2 a warrant to purchase 1/2 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	329 588	329 588	0.38	September 2007
	2 201 536	2 201 536	0.29	

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

8. Share capital (continued)

(e) *Share purchase warrants*

The company has, as at December 31, 2006, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price \$	Expiry date
8 181 400	0.35	March 2007
2 486 667	0.40	March 2007
1 500 000	0.55	November 2007
12 168 067		

(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, 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, 2006 Forest Gate has the following warrants outstanding:

Number of Forest Gate warrants	Exercise price \$	Expiry date	Maximum proceeds to Blue Note Metals \$
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
1 139 441	0.35	March 2007	24 845
13 272 522			288 026

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

8. 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 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 \$

	Stock option plan issues during 2006	
	200 000 options	
Risk-free interest rate	3.90%	
Expected life (years)	5	
Expected volatility	85%	
Expected dividend yield	nil	
Weighted average grant date fair value	0.111 \$	

	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 \$

Warrant issues during 2006

There were no warrants issued during year 2006.

...continued

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

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 include shares and redeemable short-term deposits with financial institutions, invested at current market rates and have terms of up to one year.

10. Supplemental disclosures of expenses and cash flow information

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

	2006	2005
	\$	\$
Decrease (increase) in:		
Accounts receivable	40 863	(144 933)
Prepaid expenses	(87 734)	5 280
Tax credits and government assistance receivable	(811 708)	(38 000)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(26 598)	216 279
	(885 177)	38 626

ii) Interest paid and received

Interest paid during the year amounts to \$5,496 (2005 - \$3,973). Interest received during the year amounts to \$274,734 (2005 - \$35,393).

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 2005, 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 8 (a) (iv).

In 2005 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.

...continued

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

10. Supplemental disclosures of expenses and cash flow information (continued)

iii) Non-monetary transactions (continued)

After the plan of arrangement described in note 5, 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 5).

11. 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.

12. Segmented information

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

13. Commitments

The Company has entered into a 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.

14. 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 ended December 31, 2006, the Corporation had the following related party transactions:

(a) Operations

During the year, the Corporation incurred \$56,484 (2005 - \$52,813) of consulting fees and professional services with officers. Of this amount, an amount of \$ 2,762 (2005 - \$6,630) is included in mining properties and deferred exploration costs, \$4,937 (2005 - \$11,970) consists of financing and/or share issue costs and the balance consists of professional and consulting fees. As at December 31, 2006 no amount (2005 - \$9,000) was payable relating to these fees, were included in accounts payable and accrued liabilities.

The Corporation also charged the former subsidiary company \$40,820 (2005 - \$6,888) for office expenses and was also charged from the former subsidiary company \$37,816 (nil in 2005).

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

The total interest earned on the loan receivable from the former subsidiary company amounts to \$27,709 (2005 - \$4,356).

...continued

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

15. Tax losses and other expenses to carry forward

a) Provision for income taxes

The provision for income taxes differs from the combined Canadian federal and provincial statutory rates as follows:

	2006		
	Federal	Provincial	Combined
Loss before income taxes	(4 019 688)	(4 019 688)	(4 019 688)
Federal income tax rate	22.12%	9.90%	32.02%
Tax effect	(889 155)	(397 949)	(1 287 104)
Stock based compensation	60 112	26 904	87 016
Share issue costs	(87 516)	(39 168)	(126 684)
Amortization	4 382	1 961	6 343
Write-down of short-term investments, mining properties and deferred exploration costs	556 433	249 036	805 469
Recapture of mining exploration expenses	130 153	-	130 153
Restriction on resource losses	92 645	118 469	211 114
Other	2 308	2 861	5 169
Benefit of losses not previously recognized	(544 023)	-	(544 023)
Change in valuation allowance, tax estimates and rate changes	-	80 362	80 362
Income taxes	(674 661)	42 476	(632 185)

	2005		
	Federal	Provincial	Combined
Loss before income taxes	(1 691 312)	(1 691 312)	(1 691 312)
Federal income tax rate	22.12%	8.90%	31.02%
Tax effect	(374 118)	(150 527)	(524 645)
Stock based compensation	115 365	46 417	161 782
Share issue costs	(79 895)	(32 146)	(112 041)
Amortization	2 999	1 207	4 206
Write-down of short term-investments, mining properties and deferred exploration costs	-	-	-
Recapture of mining exploration expenses	-	-	-
Restriction on resource losses	44 185	27 351	71 536
Other	7 469	5 494	12 963
Change in valuation allowance, tax estimates and rate changes	283 995	102 204	386 199
Income taxes	-	0	0

...continued

Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

15. Tax losses and other expenses to carry forward (continued)

b) Future income tax assets and liabilities

The Corporation has exploration costs, operating losses and other costs which are being carried forward and which can reduce future taxable income. The components of the net future income tax assets (liabilities) as at December 31 were as follows:

	2006		
	Federal	Provincial	Combined
Share issue costs [see note i]	217 988	97 562	315 550
Carrying value of mining properties and deferred exploration costs in excess of tax basis	(434 818)	269 868	(164 950)
Tax cost of property and equipment in excess of carrying value	6 715	3 005	9 720
Non capital losses carried forward [see note i]	680 854	279 774	960 628
	470 739	650 209	1 120 948
Valuation allowance for future tax assets	(470 739)	(650 209)	(1 120 948)
	-	-	-
	2005		
	Federal	Provincial	Combined
Share issue costs [see note i]	267 397	107 587	374 984
Carrying value of mining properties and deferred exploration costs in excess of tax basis	(286 100)	(30 029)	(316 129)
Tax cost of property and equipment in excess of carrying value	4 101	1 650	5 751
Non capital losses carried forward [see note i]	656 743	217 961	874 704
	642 141	297 169	939 310
Valuation allowance for future tax assets	(642 141)	(297 169)	(939 310)
	-	-	-

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

15. Tax losses and other expenses to carry forward (continued)

b) Future income tax assets and liabilities (continued)

Note i: the Corporation has the following non capital losses and share issue costs available to reduce future income taxes. The losses and costs expire as follows:

Expiry date	2006	
	Federal	Provincial
2007	36 000	36 000
2008	117 000	117 000
2009	84 000	84 000
2010	325 000	320 000
2014	641 000	739 000
2015	1 284 000	1 148 000
2016	591 000	382 000
	3 078 000	2 826 000
Share issue costs (from 2007 to 2010)	985 479	985 479
Less: losses and share issue costs recognized due to exploration costs renounced to investors	(3 527 250)	(50 000)
	536 229	3 761 479

c) Exploration costs renunciations

The future income tax liability does not take into account the effect of tax deduction renunciation made in favour of investors, relating to exploration expenses in connection with the flow-through investment of \$1,752,975 for the year 2006 (see note 16), that are filed after the balance sheet date but effective December 31, 2006. The effect of this renunciation is to be recognized in the year the renunciation is filed with the tax authorities.

16. 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.

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Forest Gate Resources Inc.

Notes to the Financial Statements

December 31, 2006

16. Contingent liabilities (continued)

b) Flow-through share issues (continued)

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 15).

During the year, the Company received \$1,752,975 following flow-through share issue. After year-end, but effective December 31, 2006, the Corporation will renounce all of its tax deductions relating to flow-through investments (see note 15).

In order to meet its obligation under flow-through share program, the company must spend \$1,463,000 in Canadian exploration by December 31, 2007 in addition to the exploration expenses it has incurred to date.

17. Government grants

During 2006, the Company earned tax credits and government assistance for mineral exploration costs amounting to \$878,226 (\$38,000 in 2005), which were reduced against mining properties and deferred exploration costs (note 6).

18. Subsequent event

- (a) On February 22, 2007, the Company announced that it has entered into an Agreement to acquire a 15% working interest in off-shore international oil and gas prospect in the Celtic Sea located off the south coast of Ireland. The 15% working interest was held by a private Calgary based international oil and gas company called Arriba Capital Corporation Inc. The operator is Providence Resources P.L.C. with headquarters in Dublin, Ireland. Providence is involved in petroleum exploration licenses in Ireland, UK, West Africa and the Gulf of Mexico.

Under the terms of the Agreement and subject to regulatory approval, the Company will pay 3,600,000 common shares of Forest Gate to Arriba principals and will enter into consulting agreements with Arriba principals and grant one million options to them. As part of the Agreement, the Company paid after year-end 586,104 euros (approximately \$900,000) for outstanding cash calls on work already performed and will cover his 15% participating interest share of all future commitments including this summer drilling program.

- (b) In January 2007, a total of 500,000 stock options were issued under the stock option plan to directors and consultants. The options can be exercised for the purchase of one common share at \$0.185 over a period of five years.