

Forest Gate Resources Inc.

Metals & Mining

August 3, 2005

TSXV:FGT \$0.21
Recommendation: SPECULATIVE BUY
12-Month Target: \$0.90

Ronald Wortel, mba, p.eng
 rwortel@northern.si.com
 (416) 644-8121

Dizzy with Diamonds in Saskatchewan

Event:

- Initiating Coverage.

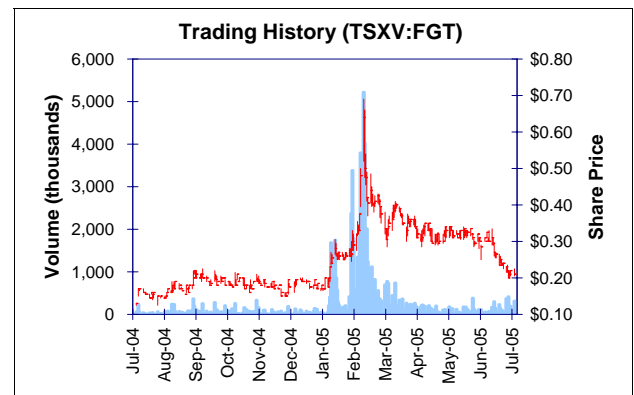
Highlights:

- Forest Gate's East Side property contains the diamondiferous Dizzy kimberlite.
- Additional kimberlite bodies are expected to be found on the property with the 2005 drilling program.
- The Company is well funded with over \$6 million – \$2 million in exploration is planned for 2005. It should have sufficient funds for the next three years.
- Forest Gate is among the top three landholders in the Fort à la Corne diamond camp.
- The large South Side property could cover an extension of this large diamondiferous kimberlite field.
- The Company expanded its exploration portfolio into Quebec's Otish Mountains diamond camp.
- Forest Gate is trading at a significant discount to our estimated implied value, based on their East Side property. The South Side property could provide additional success.

Investment Conclusion:

- We are recommending the shares of Forest Gate Resources Inc. as a **SPECULATIVE BUY**, based on its success and its current discount to our estimated implied value per share. **Our 12-month target is \$0.90.**

| | |
|-----------------------|-----------------------|
| 52-week High-Low | \$0.69-\$0.12 |
| Shares outstanding | 61.6 million |
| Market capitalization | \$12.9 million |
| Fiscal year end | December 31 |
| Major shareholders | Lawrence & Co.: 9.8% |
| | MM Capital: 2.6% |
| | K2 & Associates: 2.6% |
| | Other Funds: 11.6% |



Source: Bloomberg

Company Description

Forest Gate Resources Inc. is a Canadian junior exploration and development company, which is currently focusing on exploration for diamond bearing kimberlites on its large land package in the Fort a la Corne diamond camp of central Saskatchewan. The Company's East Side property is already known to host the diamond bearing Dizzy kimberlite and its South Side property greatly expands its land position around this large kimberlite field. The Company transferred its New Brunswick resource assets into its wholly owned subsidiary Blue Note Metals Inc.

Investment Opinion Definition

| | |
|-------------------------|--|
| STRONG BUY: | NSI expects the share price to appreciate 30% or more over the next 12 months. |
| BUY: | NSI expects the share price to appreciate 10% to 30% over the next 12 months. |
| HOLD: | NSI expects the share price to appreciate 10% or less over the next 12 months. |
| SELL: | NSI expects the share price to have a negative rate of return over the next 12 months. |
| SPECULATIVE BUY: | NSI expects the share price to appreciate substantially over the next 12 months, but with a high level of inherent risk. |

Note: Percentages are approximate and ratings are at the analyst's discretion.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst in this report.

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Material Disclosures

The analyst responsible for preparing this research report receives compensation that is based upon various factors, including investment banking revenues of Northern Securities Inc.

Within the past 12 months, Northern Securities Inc. managed or co-managed a public offering of securities for Forest Gate Resources Inc.

The analyst responsible for preparing this research report visited the Company's projects in Fort à la Corne, Saskatchewan in June 2005. 90% of the travel expenses incurred by the analyst during these visits was paid by Forest Gate Resources Inc.

Northern Securities Inc. may receive or may seek compensation for investment banking services from all companies under research coverage within the next three months.

Recommendation

We are recommending the shares of the Forest Gate Resources (“Forest Gate” or the “Company”) as a **SPECULATIVE BUY** for risk tolerant investors looking for an alternative avenue for exposure to diamond exploration in the Fort à la Corne, Saskatchewan diamond camp and the Otish Mountain region of Quebec.

Dizzy kimberlite contains diamonds

Forest Gate Resources holds the East Side diamond property in Saskatchewan where it discovered the Dizzy kimberlite. The project is contiguous with those of Shore Gold Inc. and the Cameco-Kensington Resources-De Beers joint venture. These projects are located over the largest group of diamond bearing kimberlites in the world. The Company’s property shows great promise with this discovery and additional targets. The Company holds a 100% interest in the East Side property. Forest Gate greatly expanded its land position in the region by staking the over 42,000 hectare South Side property in 2004.

Base metal projects spun out making Forest Gate a pure diamond play

The Company recently transferred its properties located in New Brunswick within the Bathurst mining camp to its wholly owned subsidiary Blue Note Metals Inc (“Blue Note”). These include the Rio Road gold property, where several interesting anomalies and previous work provide targets for a drilling program. The California Lake silver property hosts a silver prospect with other targets suggesting the possibility of a VMS base metal deposit. Canoe Lake Landing is the third property in the region and it hosts a VMS base metal deposit with significant precious metal content. These projects all contain drill ready targets and have characteristics that correlate well with other significant deposits in the Bathurst mining camp. Forest Gate also holds an agreement to acquire a 100% interest in the idled Caribou mine operation that is also located in the Bathurst camp. This asset, if acquired, would also be transferred to Blue Note.

At this time, new investors in Forest Gate will also receive an interest in Blue Note as a share dividend sometime in the fall of 2005, as part of its listing on a public exchange. This gives investors possible upside with exposure to metal exploration and development.

The Company recently completed a private placement for proceeds of \$6.5 million. Exploration expenditures are expected to be approximately \$2 million over the course of 2005, which are well covered by the Company’s current cash position.

We believe the market is undervaluing the shares of the Company at this time, with respect to its neighbours in Saskatchewan and diamond explorers at a similar stage of exploration elsewhere in Canada. Forest Gate is well financed to add to its success in Saskatchewan. **We have a 12-month target price of \$0.90 per share for Forest Gate.**

We expect Forest Gate to gain additional recognition as part of the Fort à la Corne diamond play and generate interest with its corporate plans.

The Company

Forest Gate will be part of the significant developments in the Fort à la Corne diamond camp

Forest Gate was incorporated as a private mineral exploration company in 1999 and began trading as a public company in March 2003. The Company now trades on the TSX Venture Exchange under the symbol FGT. Forest Gate was formed to acquire, explore and develop mineral properties with characteristics that indicate geological significance. In its current portfolio of projects, the Company holds properties targeted for the discovery of diamonds, base and precious metals. Forest Gate owns a 100% interest in the East Side diamond property located near Fort à la Corne, Saskatchewan. Here, the Company discovered the Dizzy kimberlite. Forest Gate also identified other magnetic anomalies, possibly indicative of kimberlite bodies elsewhere on its property. Forest Gate

Forest Gate's projects are still at an early stage and have room for discovery and development

transferred a 100% interest in three precious and base metals properties in New Brunswick, Canada to Blue Note. The properties are located in the Bathurst mining camp, an active producing region since the 1910s. The New Brunswick properties are at an intermediate stage in their exploration and all hold the potential of becoming major discoveries.

Acquisition of the Caribou Mine interest would give the Company's subsidiary a near-term production asset

Blue Note also holds a Letter of Intent to acquire a 100% interest in the idled Caribou mine operation that is also located in the Bathurst camp. The Caribou mine is a past producing zinc-lead-silver operation.

The Company's expenditures on its projects to date total just over \$515,600. Most of this being spent on the acquisition of its properties with very little new exploration of the properties so far. This is changing. Recent financings should allow the Company to advance its projects that already show promise from existing exploration activity.

Projects

East Side Property – Saskatchewan Diamond Exploration

Forest Gate's East Side diamond property is situated near Fort à la Corne, Saskatchewan, the location of the largest field of diamondiferous kimberlite pipes in the world. The East Side property is held 100% by Forest Gate. The property consists of five claims covering 1,024ha and adjoins the De Beers-Kensington joint venture property on its east side. Shore Gold Inc.'s claims almost surround the property on the south, east and north sides. The Company holds two other claims located to the southeast of the East Side property with a combined area of 1,088ha. These claims lie along the projected trend of the kimberlite field (see figure 1).

A 10-carat diamond was recovered from the region recently

Forest Gate discovered the Dizzy kimberlite through geophysical surveys and one drill hole. The property also hosts an undrilled magnetic anomaly and a known diamond showing. Also, the edge of De Beers-Kensington pipe 121 extends at least to the western boundary of the East Side property. The East Side property is approximately four kilometres northeast of the De Beers-Kensington 140-141 kimberlite, where a 10-carat stone was recovered from a recent mini-bulk sample. Approximately six kilometres to the south of the Dizzy kimberlite is Shore Gold's Star kimberlite into which a 4.5 metre vertical shaft to a depth 130m was excavated for bulk sampling purposes. Results from this sampling program generated significant market interest in this diamond camp and highlighted the potential for development of additional Canadian diamond mines.

The East Side Property is located along the trend of the largest field of diamondiferous kimberlite pipes in the world

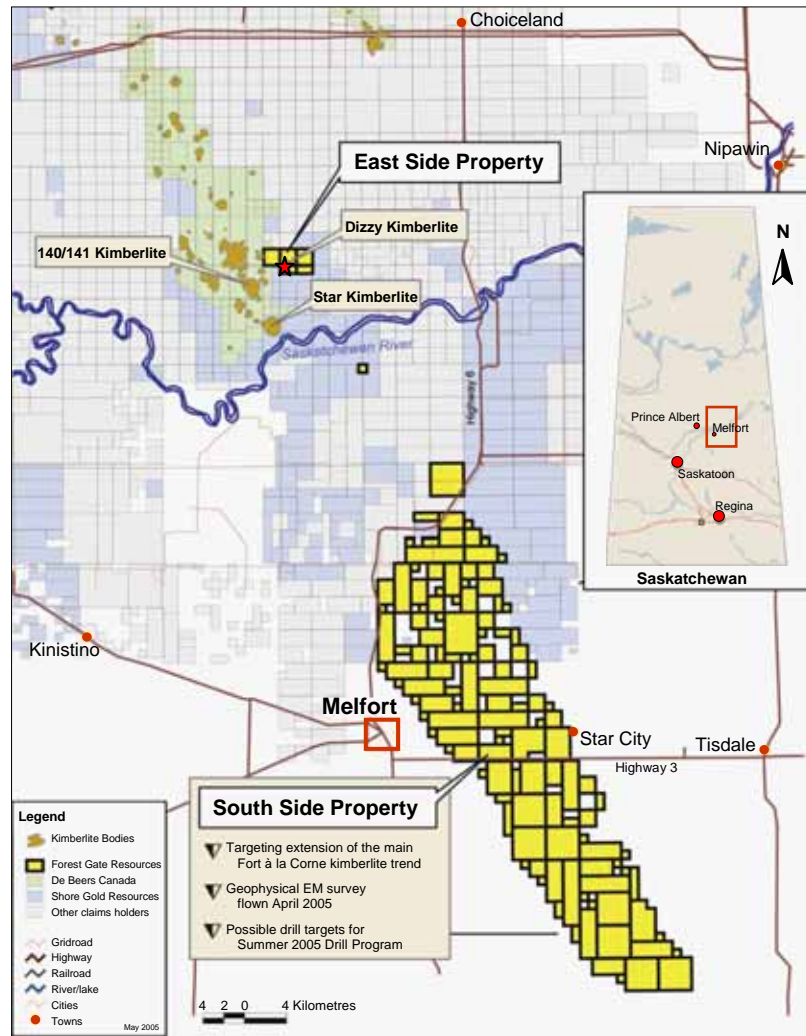
One of the many elements that make the Fort à la Corne kimberlites exceptional is their size. At 500 million tonnes (using a 30 metre cutoff) Shore Gold's Star kimberlite is one of the largest kimberlites in the world. This can be explained by the fact that, unlike many other areas in the world where kimberlites are found, the glaciers did not scrape off the upper crater portion of the kimberlites in Fort à la Corne. This is illustrated in figure 2. Another positive for development in the area is that it benefits from close proximity to power, water, skilled labour and road infrastructure that will help in lowering mining costs. In addition, based on results from the neighboring De Beers-Kensington 140/141 kimberlite, average diamond values in the Fort à la Corne kimberlite may be twice that of the average world values.

Forest Gate is at an early stage in its exploration of the East Side property but already intersected diamondiferous kimberlite. Initial analysis of the geophysical response for the Dizzy kimberlite suggests it has a diameter of 250m and a thickness of 100m. The area is characterized by deep overburden, around 100m, that makes drilling and sampling expensive and often problematic.

Figure 1: East Side Property Map

Known kimberlite field

South Side property on trend



Source: Company reports

Approximately \$1.25 million has been spent on the East Side property in geophysics and drilling by Forest Gate and the previous owner, Rhonda Mining Corp. In 2003, Forest Gate drilled a total of 1,000 metres in 5 NQ (47.6mm) holes. All holes intersected kimberlite, with widths ranging from 7 to 97 metres. A total of 37 diamonds were recovered from a 485-kilogram sample, with at least 8 diamonds being considered macrodiamonds, having at least one side measuring more than 0.50 millimetres. The sample was recovered from a preliminary five-hole drill program that was designed to probe the Dizzy kimberlite and get an initial understanding of the pipe's size and geology.

Recent re-examination of the Dizzy drill core has identified several brecciated and coarse-grained olivine-rich kimberlite units that commonly bear higher grade and larger diamond populations. Additionally, this review has confirmed that drill-hole FG03-05 was stopped prematurely while still in kimberlite and that the total kimberlitic intersection of this hole now stands at 105 metres and, apparently, is still open at depth.

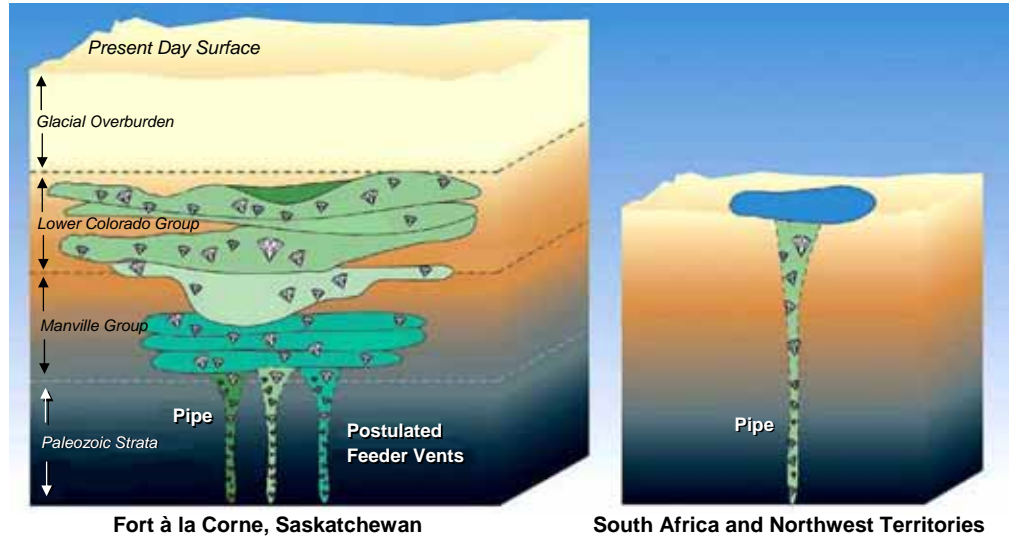
The East Side Property will benefit from the continued development of kimberlites on the adjacent projects

The 2005 exploration drill program has two purposes: to further delineate the geometry of Dizzy and to further assess its diamond potential. The Company will also explore the western boundary and southern boundary drill targets. The southern boundary drill target consists of a sizeable geophysical anomaly straddling a shared border with Shore Gold. Drilling on the western boundary will follow up drilling done by Rhonda Mining Corp. in

1993, which intersected kimberlite in two holes, near kimberlite pipes 121-119, owned by the Kensington and De Beers joint venture. This program was underway when we visited the project in June 2005.

Figure 2: Comparison of Fort à la Corne Kimberlites

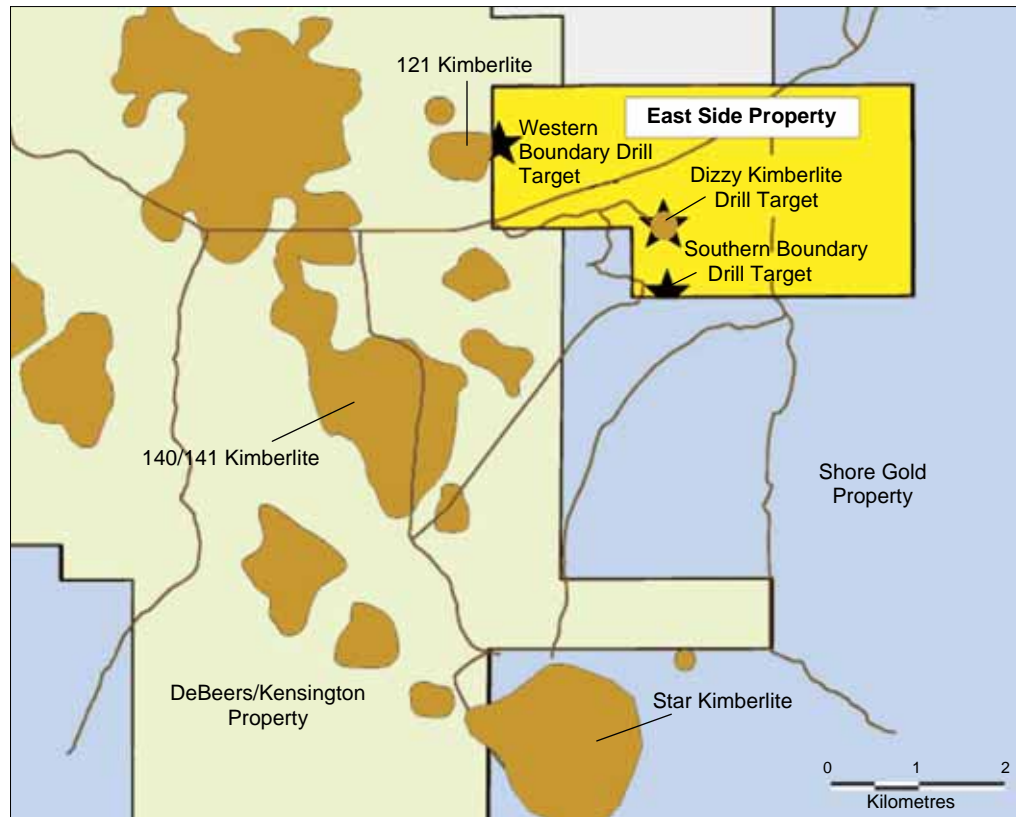
A lack of glacial erosion left the crater facies of these kimberlites



Source: Company reports

Figure 3: East Side Property in Relation to Neighbouring Kimberlites

East Side property is located within this large kimberlite field



Source: Company reports

South Side Property

Forest Gate staked 42,368 hectares of land to the southeast of the Fort à la Corne kimberlite field, proximal to the town of Melfort. Forest Gate's new property, known as The South

The South Side property could cover an extension of this large kimberlite field

Side Property, is on strike with the major southeast-northwest trending kimberlite field that also hosts its East Side property's diamondiferous Dizzy kimberlite pipe, the De Beers-Kensington 140-141 kimberlite complex and Shore Gold's Star kimberlite pipe.

The decision to stake such a large land package, kilometres away from the last known kimberlite, is based on science and geological intuition. Regional structures that control the alignment of the Fort à la Corne kimberlite field appear to also continue their trend through the South Side property. Satellite images bear this out in the magnetic and gravity fields. As a general rule, kimberlite pipes will exploit the path of least resistance while ascending from the earth's depths and a deep-seated regional structure will make an ideal conduit. The 100% owned South Side property, approximately 30 km in length and 10 km in width, has the geological potential of hosting an additional field of kimberlite pipes.

Forest Gate is currently undertaking an exploration program consisting of airborne geophysics followed by ground geophysics for target development.

Neighbouring Diamond Properties

De Beers-Kensington Joint Venture

Initial valuations range from US\$115 to US\$148 per carat, higher than Canada's existing mines

The De Beers-Kensington joint venture has spent \$30 million in exploration 4 km away from Forest Gate's property, completing 300 drill holes in 69 proven kimberlite bodies, sampling 4,362 tonnes of kimberlite and recovering 1,844 macrodiamonds. De Beers-Kensington recently indicated it was increasing its 2005 exploration budget on the property to \$26.5 million.

The 140/141 "super" kimberlite is currently estimated at over 500 million tonnes and has produced large stones including diamonds weighing 10.23 carats, 3.61 carats, 3.33 carats, 2.595 carats, 2.57 carats, and 1.82 carats. More recently, two significantly higher-grade enriched zones were defined. The 2003/2004 drilling program of 9 HQ cores helped to delineate the extent of the higher-grade zones and to recover 1,159 microdiamonds from 595 kilograms of kimberlite (of which 7 were macrodiamonds greater than 0.5 millimetres, and one high-quality clear 0.77 carat diamond). This kimberlite body remains a priority for the joint venture. A preliminary resource of 35 million carats, contained within 369 Mt of high grade zones of 3 pipes, is estimated.

Shore Gold's Star Diamond Project

Shore Gold owns 100% of the Star Diamond Project located approximately 6 km south of Forest Gate's East Side diamond property.

The Star Diamond Project contains a bulk tonnage diamond-bearing kimberlite. The early geophysical signature and early stage drilling have indicated a kimberlite body in the 500 million tonne range. The Star kimberlite averages 88 metres thick and covers an area of over 4 square kilometres (2 by 1.5 kilometres). The kimberlite is covered by 90 metres of overburden, consisting mostly of sand, mudstone, and glacial till.

Diamonds close to 20 carats recovered

Shore Gold's cumulative sample is now 27,836.59 tonnes of kimberlite with 4,048.81 carats of diamonds for a grade of 0.145 carats per tonne of rock. The samples continue to contain large diamonds with the largest two diamonds weighing nearly 20 carats.

Recent per carat modeling value performed by WWW International Diamond Consultants Limited determined from the 3,050 carat parcel of diamonds recovered from the Star kimberlite, a per carat value of US\$135. In addition, this sample was also valued by three other companies; R. Steinmetz and Sons N.V, Rio Tinto Diamonds N.V and BHP Billiton Diamonds (Belgium) N.V. The average of all four valuations was US\$110 per carat (for further information refer to Shore Gold's press release dated February 23, 2005).

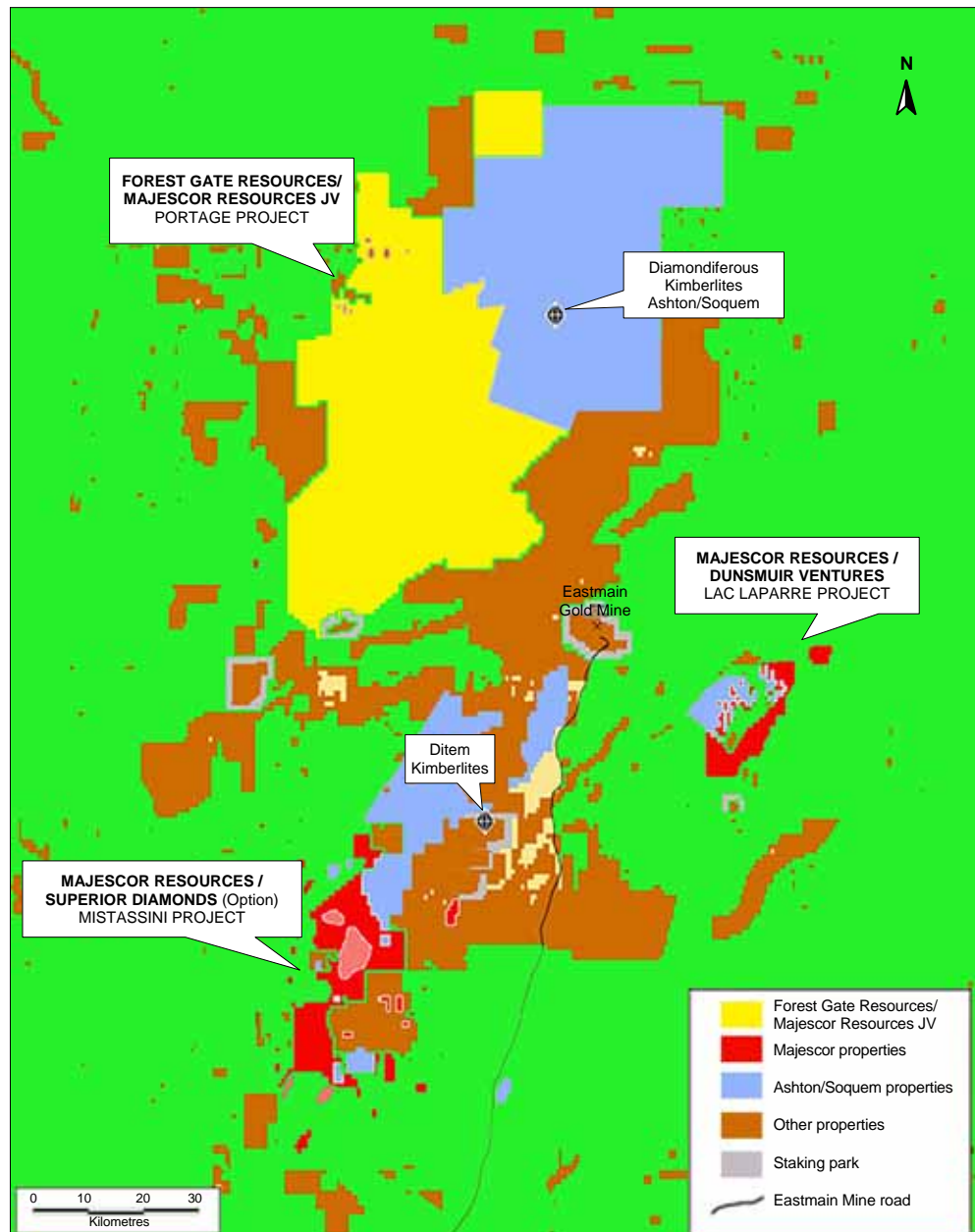
Otish Mountains Joint Venture

Forest Gate holds an agreement with Majescor Resources Inc. to earn up to a 55% working interest in Majescor’s Portage property, located in Quebec’s Otish Mountain diamond exploration play.

The Portage property contains a kimberlite sill discovered by Majescor. The property is contiguous and to the west and southwest of Ashton’s property hosting the Renard kimberlite cluster.

Figure 4: Portage Property Location

Portage property is adjacent to Ashton/Soquem’s Renard kimberlites



Source: Courtesy, Majescor Resources Inc.

Expanded land position in another known diamond bearing kimberlite region

Forest Gate can earn 50% through exploration expenditures, totaling \$5 million over five years. The initial commitment is \$500,000 in 2005 on claim renewal and exploration. An additional 5% can be earned by funding a 200 tonne bulk sampling and analysis program on a kimberlite body. The Company entered into this area due to its belief that more

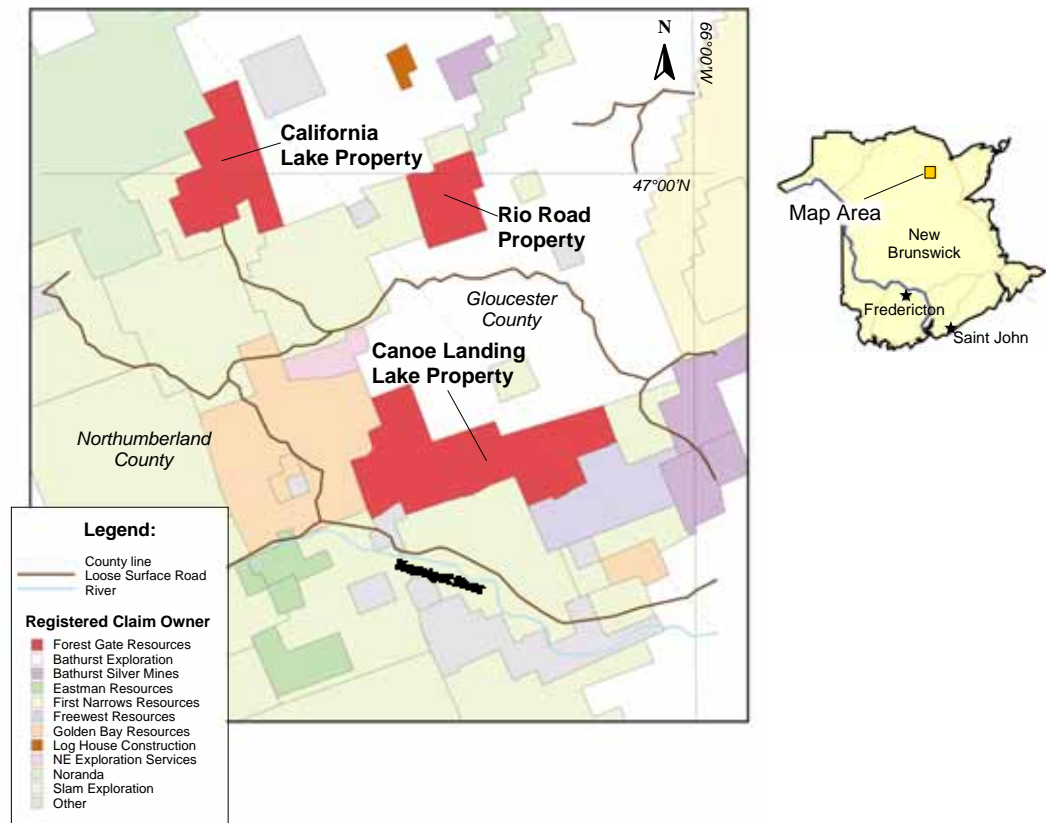
kimberlites are to be found and the lower overall exploration costs of this region, when compared to the high arctic diamond plays.

Blue Note Metals Inc. – New Brunswick Projects

Base metal subsidiary formed

Forest Gate transferred its 100% interest in three properties in the Bathurst mining district of northeastern New Brunswick to its wholly owned subsidiary Blue Note Metals Inc. The Bathurst mining camp is primarily a base metal-producing region from volcanogenic massive sulphide (VMS) deposits. However, the deposits also contain gold and silver in significant amounts. A total of 45 known VMS deposits are found in the Bathurst Camp where mining started in the 1907. With such a long history of discovery and development, Forest Gate entered the area to look for new discoveries in the shadows of the head frames. This long history of exploration, development and mining provides information for understanding the Company’s properties, the mineralization present and exploration targeting. Forest Gate’s properties also host a history of exploration that is being used by the Company to forward its exploration.

Figure 5: Location of New Brunswick Properties



Source: Company reports

Canoe Landing Lake Polymetallic Deposit

Property lies within the right stratigraphic horizon associated with large VMS deposits in the Bathurst camp

The Canoe Landing Lake polymetallic deposit totals 92 claims covering 1,472 hectares. The deposit, according to the records of the New Brunswick Department of Natural Resources and Energy has a “geological resource” (not NI 43-101 compliant) of 22.8 million tons of sulphide rock containing 0.03 oz/ton gold, 0.94 oz/ton silver, 0.56% copper, 1.82% zinc and 0.64% lead. Other lenses of higher grade mineralization have been identified on the property. The Company has conducted geophysical surveys over

Other lenses of higher-grade mineralization have been identified on the property

the deposit to delineate new zones of mineralization. The program, which included magnetic, electromagnetic and induced polarization with resistivity surveys, has defined drill worthy targets.

California Lake Silver Property

The California Lake Silver Property consists of 18 contiguous mineral claims totaling 288 hectares in addition to 26 new claims from the Forty Mile Brook Claim Group. The California Lake Silver Property hosts an epigenetic breccia and vein system, which has been outlined with 32 widely spaced diamond drill holes along a strike length in excess of 400 metres. Grades of up to 203.81 ounces and 117.45 ounces of silver per ton were intersected in narrow widths.

Rio Road Gold Property

Gold grades increase with depth

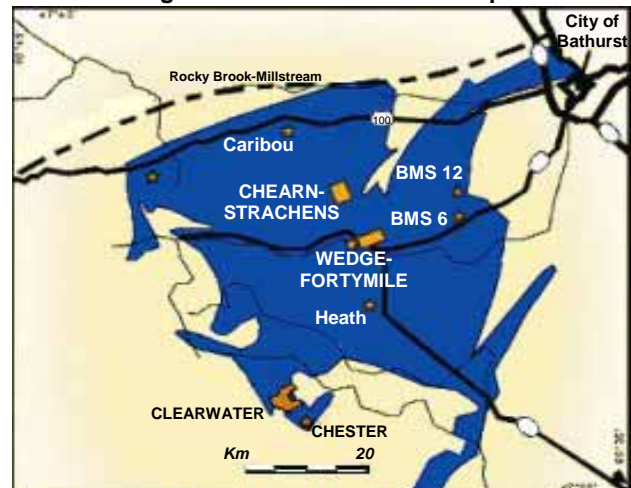
The Rio Road Gold Property consists of 25 contiguous mineral claims totalling 400 hectares. This is a gold occurrence consisting of volcanics stratigraphically equivalent to the footwall rocks of Noranda's Number 6 and 12 mines. The Company's two hole drill program on this property intersected an alteration zone of interest that should be further explored.

Caribou Zinc-Lead-Silver Mine

Caribou is a past producing zinc-lead mine

Blue Note holds a Letter of Intent (LOI) to acquire a 100% interest in the Caribou and Restigouche mines from a wholly owned subsidiary of Breakwater Resources Ltd. Blue Note can acquire this mine and mill operation by replacing the reclamation deposit of approximately \$7.2 million with the New Brunswick government and issuing to Breakwater's subsidiary a \$15 million, 5-year convertible debenture. This debenture can be converted back into a 20% interest in the mine operation within one year from the start of commercial production. Blue Note will also spend \$1.5 million on exploration within this one year time frame.

Figure 6: Caribou Mine Site Map



Source: Courtesy, Breakwater Resources Ltd.

The Caribou mine consists of an underground mine and mill located in Restigouche County in northeastern New Brunswick, located 50 kilometres west of Bathurst, and includes an underground mine, a 3,000 tonne per day mill complex and a permitted tailings facility.

Table 1: Summary of Mineral Resources and Mineral Reserves at the Caribou Mine

| As at December 31, 2003 | Tonnes (000) | Zn (%) | PH (%) | AG (g/t) |
|----------------------------------|--------------|--------|--------|----------|
| Proven and Probable Reserves | 5,057 | 6.5 | 3.4 | 90 |
| Measured and Indicated Resources | 5,152 | 7.4 | 3.9 | 95 |
| Inferred Resources | 4,163 | 6.7 | 3.2 | 98 |

Measured and Indicated Resources include Proven and Probably Resources

Source: Courtesy, Breakwater Resources Ltd.

Breakwater commenced production at Caribou in July 1997. However, mechanical difficulties and design shortcomings prevented the operation from attaining commercial production. The metallurgical performance of the Caribou mill improved steadily throughout 1998, but fell short of the levels anticipated by the feasibility study. As a result of declining metal prices and performance shortcomings, shutdown commenced in August 1998.

Table 2: Caribou Mine Past Production Summary

| Tonnes | 1998 | 1997 |
|-------------------------------|---------|---------|
| Milled | 494,449 | 322,827 |
| Concentrate Production | | |
| Zinc | 40,501 | 18,328 |
| Lead | 38,266 | 11,446 |
| Metal in Concentrates | | |
| Zinc | 18,748 | 8,286 |
| Lead | 12,580 | 3,994 |

Caribou mine operated for at least 28 months on an intermittent basis, starting in 1971

Source: Courtesy, Breakwater Resources Ltd.

A re-opening plan was developed by Breakwater in 1999 and was updated in 2000. The plan called for an increase in production from the underground mine to 1,650 tonnes per day from 1,350.

Re-Opening Plan

The Caribou mine is currently on care and maintenance and will need significant work and capital to re-open. Once the acquisition of Caribou is completed and financing arranged, Blue Note will first need to dewater the mine and refurbish the mill and some other buildings on site. Concurrently, Blue Note will implement the development and production plan as developed by Breakwater in 1999 and updated in 2000.

Management and Directors

Michael Judson, *President*

Mr. Judson founded Forest Gate in 1999 as a private company, which subsequently was taken public in 2003. Mr. Judson was previously President of Judson Woods Inc., a corporate development consultancy company for which he served over fifteen years. At Judson Woods, Mr. Judson worked extensively with junior mining companies of all stages of development, and also worked extensively with members of the investment community. Mr. Judson graduated from Concordia University with a Bachelor of Arts.

Steve Roebuck, *VP, Exploration*

Mr. Roebuck has over 10 years of experience in the exploration and mining industry, the last four of which were spent working on BHP Billiton's EKATI Diamond Mine in the Northwest Territories. As production geologist, he was responsible for supplying EKATI's 15,000 tonne-per-day processing plant with blended, high quality ore feed from three of EKATI's open pit mines. Prior to joining BHP Billiton, Mr. Roebuck worked for six years with Royal Oak Mines and other companies as an exploration and mine geologist. Mr. Roebuck graduated from Concordia University with a Bachelor of Science with a major in Geology.

Ralph Newson, *Exploration Consultant*

Mr. Newson has over 40 years of experience in the junior exploration industry. In addition to being an independent consulting geologist for almost 20 years, he also served as VP, Exploration of Indomin Resources from 1995 to 1996, prior to which he was President of Golden Marling Resource, a predecessor company to Indomin. Mr. Newson

Strong exploration team

graduated from Queens University with a Bachelor of Geological Sciences and a Masters of Science.

Andre Audet, Director

Mr. Audet is Chairman and Chief Executive Officer of Majescor Resources, a diamond exploration company with properties in Quebec, Nunavut, the U.S. and Madagascar. Mr. Audet is also President of Everton Resources, a gold exploration company. Prior to forming Majescor in 1999, he was a Vice-President at Nesbitt Burns where he specialized in private portfolio and mining investments. Mr. Audet graduated from the University of Ottawa with a Bachelor of Commerce.

Jean Girard, Director

Mr. Girard has over 25 years of experience as a geologist and geological engineer. He has been credited with the discovery of the Langlois mine in Quebec operated by Breakwater Resources. Currently an independent consultant, Mr. Girard was VP, Exploration for GeoNova Explorations, a subsidiary of Campbell Resources, from 1994 to 2001. Mr. Girard graduated from Laval University with a Bachelor of Science in Geology and a Bachelor of Applied Science in Geological Engineering and also graduated from Ecole Polytechnique with a Masters of Engineering.

John Mavridis, Director

Mr. Mavridis is a corporate lawyer and has acted as counsel to exploration and mining companies for the past ten years. Mr. Mavridis graduated from the University of Montreal with an LLB and LLM.

Financial Position

The Company's outstanding shares total 61.6 million and 81.0 million on a fully diluted basis. Management and close associates of the Company hold approximately 4% of the shares on an outstanding basis. The float is 57 million shares. Approximately 4.6 million shares are insider-escrowed-stock that will be released over the next 30 months.

The Company recently closed a private placement with aggregate proceeds of \$6.5 million. The Company holds approximately \$7.3 million in cash. Planned exploration expenditures total approximately \$2 million, well covered by the cash position. Warrants from the recent financings could bring in an additional \$5 million. \$356,000 are currently in the money. The Company is well financed to advance its projects over the next few years.

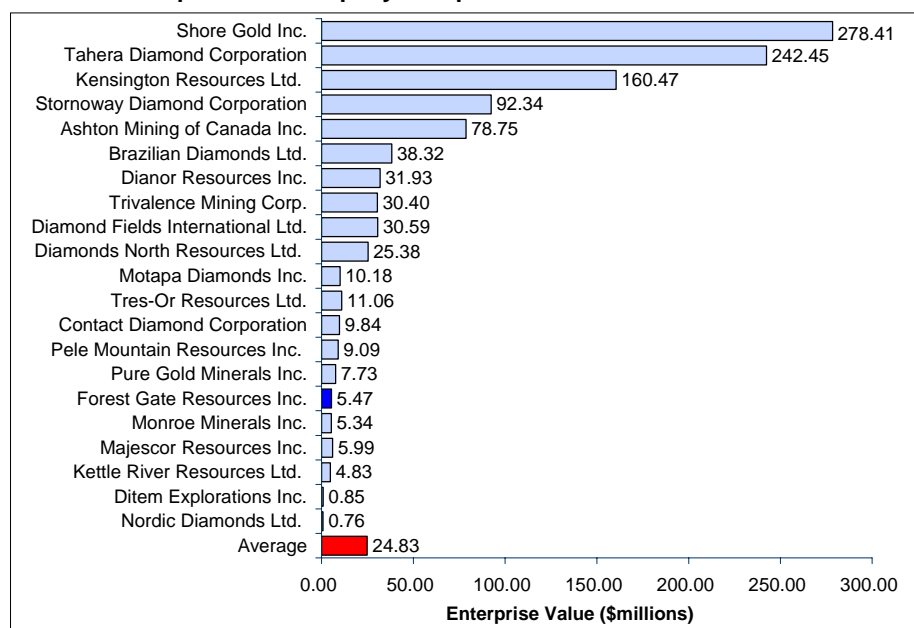
*Company is well
financed for exploration
and operations*

Valuation

Forest Gate is a junior explorer with at least one discovery of diamondiferous kimberlite on its East Side property. This puts the Company in very select company. Figure 7 presents a group of such companies operating in Canada. Their enterprise values (EV) range from \$0.5 million to \$278 million. Forest Gate, at \$5.47 million is at the lower end of this range. The average for this group is close to \$25 million. This comparison is the first indication of the value that remains in Forest Gate's shares. Companies at the higher end of this range include Forest Gate's neighbours Shore Gold and Kensington Resources.

Forest Gate trades at approximately one-quarter of the average and lower than some exploration companies that have not found a diamondiferous kimberlite.

Figure 7: Diamond Exploration Company Comparables – Kimberlite Found



Source: Company reports and NSI estimates

Implied *in situ* values for neighbouring projects range up to US\$6 billion

Shore Gold holds the Star kimberlite that is estimated at over 500 million tonnes. The recent bulk sampling work provided a preliminary grade for the sampled zones of 14.54 carats per hundred tonnes (cpht) and a value of US\$135 per carat. This implies an *in situ* net asset value (NAV) value for our estimated higher grade zone (50% of 500mt) of \$6.14 billion. This value is further discounted 50% to reflect our level of confidence at this time. Shore Gold's market cap at this time is close to \$421 million, thus Shore Gold is trading at only 14% of its implied *in situ* value, based on our analysis.

Kensington Resources states a preliminary resource of 369 million tonnes, containing 35 million carats from the higher grade zones of three kimberlites. This implies a grade of 9.5 cpht. Valuations range from US\$115 to US\$148 per carat from preliminary samples. Kensington's analysis also included a distribution of stones. Based on this, the *in situ* implied NAV ranges from US\$3.06 billion to US\$3.87 billion for the whole project. Kensington's 42.25% then equates to \$808.6 million to \$1.02 billion at a 50% confidence level. Therefore, Kensington is trading at a range of 16% to 20% of its implied NAV.

These examples from the Fort à la Corne camp provide a starting point for valuation expectations of Forest Gate. The East Side property is expected to contain portions of three diamondiferous kimberlites. This reflects its central location in the known kimberlite field. We expect that 121 and southern anomaly to add kimberlite tonnage to the known Dizzy kimberlite body.

Based on drilling information, geophysical interpretation and discussions with the project geologist, we derived our expectations for the properties' expected resource. Preliminary carat values and grades from the neighbours are then used to determine an implied NAV with our expectations of success. Based on this analysis, we see an implied value ranging from \$229 million to \$394 million for our estimated resource with an expected implied NAV of \$300 million. Using the current trading ranges of Kensington Resources and Shore Gold of market capitalization to implied NAV, we would expect Forest Gate to trade between \$0.67 and \$0.99 on its current share base, with an expected value of \$0.82 per share.

Forest Gate is funded to significantly advance its projects

We believe there is also value in the shares associated with the large South Side property. Should the geophysics indicate any kimberlite anomalies, they will be tested rapidly. An

intersection of kimberlite would generate significant interest in this land package and value for the shareholders. We are adding an additional \$0.08 per share or approximately \$5 million in value for this property. Our estimated NAV per share is thus \$0.90. We believe the shares should trade at this value within the next 12 months with positive exploration results and continued interest in the Fort à la Corne diamond camp.

Table 3: Valuation Summary

| Dizzy | Value | 121 Extension | Value | South Anomaly | Value | Implied Value Range (millions) |
|-------------------------------|---------------------|----------------------|----------------|-----------------------|----------------|--------------------------------|
| Configuration: 250m dia. | \$150.00 \$84.00 | 2% (60% probability) | \$15.00 | 30% (60% probability) | \$154.60 | \$229.37 |
| 175mx200m | \$107.00 \$60.00 | 5% (40% probability) | \$37.50 | 40% (40% probability) | \$206.20 | \$393.79 |
| Expected Implied Value | \$101.05 | | \$24.00 | | \$175.3 | \$299.42 |

Source: NSI estimates

Table 4: Net Asset Value Summary

| | Comparable Ratios to Forest Gate Expected Implied Value | Expected Market Cap. (millions) | NAV Per Share | Multiple to Current Value |
|-----------------------------|---|---------------------------------|---------------|---------------------------|
| Kensington Resources – Low | 6.2 | \$48.93 | \$0.78 | 3.7x |
| Kensington Resources – High | 4.9 | \$61.60 | \$0.99 | 4.7x |
| Shore Gold | 7.2 | \$40.49 | \$0.67 | 3.4x |
| | | average | \$0.82 | 3.9x |
| | | South Side | \$0.08 | |
| | | Target Price | \$0.90 | 4.3x |

Source: NSI estimates

We are not including any value to the Company's shares for its ownership of Blue Note Metals. This ownership basically provides an option on base metal exploration and potential production from the Caribou mine and its other properties. Any production would require significant financing commitments. As well, the agreement with Breakwater for the Caribou assets is not finalized and requires a vote of shareholders for approval. Once this agreement is final, we will address this situation.

Risk Factors

Forest Gate is a junior exploration and development company and it is subject to several risks associated with this business and the market within which it operates. Its projects are still at the exploration stage and are working towards defining an initial estimated resource, which, when recovered, could show variation in grade and tonnage. The valuation is based on commodity prices that could be different at the time of production than those used at this time for the valuation. Discovering a mineral resource and realizing its value in production takes significant capital and time and is subject to many risks during this process.

The current government of Saskatchewan indicated their support for mine development at the Fort à la Corne diamond camp at a recent business summit. The Minister of Industry and Resources stated that his government will not take any action that will prevent the development of a new diamond mine. They will also work with the operating diamond companies on infrastructure assistance once a development decision is made.

Forest Gate could advance the East Side property significantly in the next year

The Saskatchewan government supports the development of the Fort à la Corne diamond deposits into productive mines

Market Conditions

Positive outlook for the diamond market

The outlook on the market is based on information published by DeBeers. Current market demand is above historical growth trends based on new products and expansion into new markets. This is happening while DeBeers' rough diamond inventories are at historical lows. DeBeers expects its 2005 full year sales to reach a new record, with first half sales up 8%. There are increased sales in China and higher prices in traditional markets. DeBeers is forecasting a 6% increase in global demand for diamond jewelry in its markets. DeBeers is also starting to rebuild their stock pile, based on their outlook for increasing demand and higher pricing.

On the supply side, there are few mines coming on stream in the near term to meet this growing demand. This leaves a supply gap that would be partially met with the limited stock piles. There is also an opportunity to bring on new mines to meet this production. We believe the Fort à la Corne diamond camp will benefit from this market scenario.

Conclusion

Over \$70 million in exploration and development work should generate additional interest in the Fort à la Corne diamond play and Forest Gate

The Company is focusing on its diamond project in Saskatchewan, where significant interest is being generated in the market by the recent discovery of 10-carat and 20-carat stones by its neighbours. The success on the East Side property allowed the Company to raise funds for exploration of the South Side property as well. We believe these projects have significant potential and will draw the attention of the market with exploration results over the next several months. These projects are backed up with the activity and news generated by the other explorers and developers in the camp. The three largest land holders, one of which is Forest Gate, plan to spend over \$70 million starting in 2005 on this diamond play. **We are recommending the shares of the Company as a SPECULATIVE BUY** as part of a portfolio of junior explorers for risk tolerant investors.



Northern Securities Inc.

Member of the Investment Dealers Association of Canada, the Canadian Investor Protection Fund and a Participating Organization of the Toronto Stock Exchange

Principal Offices

150 York Street
Suite 1800
Toronto, ON M5H 3S5

Tel: (416) 644-8100
Fax: (416) 644-0270

Suite 2050, One Bentall Centre
505 Burrard Street
Vancouver, BC V7X 1M6

Tel: (604) 668-1800
Fax: (604) 668-1816

639 Fifth Avenue SW
Suite 1940
Calgary, AB T2P 0M9

Tel: (403) 398-7390
Fax: (403) 313-5642

Key Contacts

Equity Research

research@northernsi.com

| | | |
|---------------------------|----------------------------|--------------|
| Sarah C. Alemao | Retail & Consumer Products | 416-644-8179 |
| Marcel Brichon, cfa, fcsi | Special Situations | 604-668-1888 |
| David Doig | Oil & Gas | 403-313-5962 |
| Ronald Wortel, mba, p.eng | Metals & Mining | 416-644-8121 |
| Massimo Voci | Research Associate | 416-644-8129 |

Institutional Equity Sales

| | | |
|-----------------------|---------|--------------|
| Rod de Courcy-Ireland | Toronto | 416-644-8116 |
| Michael Boulter | Toronto | 416-644-8178 |
| Timothy J. Dalton | Toronto | 416-644-8137 |
| Paul J. Macdonald | Toronto | 416-644-8177 |

Institutional Equity Trading

| | | |
|-------------------|---------|--------------|
| Jonathan Thompson | Toronto | 416-644-8140 |
| Bill Walsh | Toronto | 416-644-8141 |

Equity Trading

| | | |
|----------------|-----------|--------------|
| Mike Ellis | Vancouver | 604-668-1967 |
| Darryl Ritchie | Calgary | 403-313-5969 |

Retail Distribution

| | | |
|------------------|------------------------------|--------------|
| George C. Garner | Executive VP, Private Client | 416-644-8150 |
| Paul A. Thornton | Toronto | 416-644-8109 |
| Robert Fong | Calgary | 403-313-5968 |
| David W. Murdoch | Vancouver | 604-668-1778 |

Executive Office

| | | |
|-------------------|--------------------------------|--------------|
| Vic Alboini | Chairman & CEO | 416-644-8110 |
| Chris Shaule | Chief Financial Officer | 416-644-8171 |
| Brian D. Driscoll | Chief Compliance Officer | 416-644-8155 |
| Tony Millo | VP, Finance | 416-644-8170 |
| Ann Krallisch | Director, Business Development | 416-644-8113 |

Investment Banking

| | | |
|--------------------|--------------------------------|--------------|
| Richard Pinkerton | MD, Head of Investment Banking | 416-644-8108 |
| G. Trevor Conway | MD, Investment Banking | 403-313-5960 |
| Adam E. Adamou | VP, Investment Banking | 416-644-8111 |
| Andrea Mae Matthew | VP, Investment Banking | 416-644-8119 |
| David R. Maughan | Investment Banking | 416-644-8159 |
| Paul Reid | Investment Banking | 416-644-8125 |
| Lorissa Chan | Associate, Investment Banking | 403-313-5961 |
| Salman Malik | Analyst, Investment Banking | 416-644-8175 |