FOREST GATE RESOURCES INC.

NOTICE OF MEETING

AND

MANAGEMENT INFORMATION CIRCULAR

FOR

ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 25, 2005

APRIL 15, 2005

Neither the TSX Venture Exchange Inc. nor any securities regulatory authority has in any way passed upon the merits of the transaction described in this information circular.

April 15, 2005

Dear Shareholders:

You are cordially invited to attend the annual and special general meeting (the "Meeting") of the holders of common shares of Forest Gate Resources Inc. (the "Company"). The Meeting will be held at the Royal York Hotel, Manitoba Room, 100 Front Street West, Toronto, Ontario, commencing at 10:00 a.m. (Toronto time) on May 25, 2005.

In addition to the usual annual meeting resolutions, the purpose of the Meeting is to seek your authorization and approval for a statutory procedure known as an arrangement (the "Arrangement"). Pursuant to the Arrangement, each issued and outstanding common share of the Company will be exchanged for one new common share and 0.1168 of a reorganization share of the Company, all the reorganization shares will be transferred by shareholders to a subsidiary of the Company, Blue Note Metals Inc. ("Blue Note"), in exchange for one common share of Blue Note to be issued to shareholders by Blue Note for each reorganization share, and the Company will redeem all of the reorganization shares by the transfer to Blue Note of its New Brunswick mineral properties and an amount of working capital. The Company's Saskatchewan diamond properties and the balance of its working capital will remain with the Company. As a result of these steps, upon completion of the Arrangement holders of common shares of the Company will end up holding common shares in both the Company and Blue Note. Blue Note will own all of the New Brunswick mineral properties currently owned by the Company, with the Company retaining the Saskatchewan diamond properties.

The purpose of the Arrangement is to restructure the Company by separating its New Brunswick mineral properties from its Saskatchewan diamond properties. The Company believes this will be beneficial, as the separate identity created for each of the Company and Blue Note will facilitate future financing and maximize shareholder value in the Company's diverse portfolio of mineral properties.

As described above, on the Effective Date of the Arrangement, which is expected to be on or about June 6, 2005, your common shares of the Company will be exchanged for the same number of new common shares of the Company and through a series of steps common shares of Blue Note. Application will be made to the TSX Venture Exchange to list the new common shares of the Company in place of the existing common shares and to list the common shares of Blue Note.

The Arrangement is subject to such listings being obtained, however there is no assurance that a public market will continue in the new common shares of the Company or that there will be a public market for the common shares of Blue Note after the Arrangement. This is explained in more detail in the information circular for the Meeting which accompanies this letter.

The Board of Directors of the Company unanimously believes that the Arrangement is in the best interests of the Company and its shareholders, and recommends that you vote in favour of the resolutions relating to this transaction. Without the prescribed approval of the holders of common shares of the Company, the proposed Arrangement cannot take place. It should be noted that the Arrangement also requires the approval of the Quebec Superior Court.

Details of the Arrangement and its effects are contained in the information circular accompanying this letter, and reference should be made to that document for complete information.

It is important that your shares be represented at the Meeting. Whether or not you are able to attend in person, your representation will be assured if you complete, sign and date the enclosed proxy form and return it in the envelope provided.

Yours sincerely,

"Michael C. Judson"

Michael C. Judson,
President and Chief Executive Officer
Forest Gate Resources Inc.

FOREST GATE RESOURCES INC.

NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that an annual and special general meeting (the "Meeting") of shareholders of Forest Gate Resources Inc. (the "Company") will be held at the Royal York Hotel, Manitoba Room, 100 Front Street West, Toronto, Ontario, on May 25, 2005, at the hour of 10:00 a.m. (Toronto time) for the following purposes:

1. To receive the Report of the Directors, the financial statements of the Company for the fiscal year ended December 31, 2004, and the report of the auditors thereon.

2. To elect directors.

3. To appoint auditors and to authorize the directors to fix the remuneration of the auditors.

4. To consider and, if thought fit, pass a resolution approving an amendment to the Company's incentive stock option plan to increase the number of options available to be granted under the plan, as more particularly described in the accompanying information circular (the "Circular").

5. To consider and, if thought fit, pass a resolution confirming the amendment to By-Law 1(d) of the Company, as more particularly described in the Circular.

6. Pursuant to an order (the "Interim Order") dated April 28, 2005, of the Quebec Superior Court to consider and, if thought fit, pass a resolution (the "Arrangement Resolution") to approve an arrangement (the "Arrangement") under section 192 of the *Canada Business Corporations Act* involving the Company and Blue Note Metals Inc., the full text of which resolution is set out in Schedule A to, and all as more particularly described in, the Circular.

7. To consider other matters, including without limitation such amendments or variations to any of the foregoing resolutions, as may properly come before the Meeting or any adjournment thereof.

The texts of the Arrangement Resolution and the agreement in respect of the Arrangement are set forth in Schedule A and Schedule B, respectively, to the Circular.

Pursuant to the Interim Order, holders of common shares of the Company have been granted the right to dissent and to be paid the fair value of their common shares of the Company in respect of the Arrangement Resolution in accordance with the terms of the Interim Order and section 190 of the *Canada Business Corporations Act*. This right is described in the Circular.

Only holders of record of common shares of the Company at the close of business on March 31, 2005, will be entitled to vote in respect of the matters to be voted on at the Meeting or any adjournment thereof.

Your vote is important regardless of the number of common shares of the Company you own. Shareholders who are unable to attend the Meeting in person are asked to sign, date and return the enclosed form of proxy relating to the common shares of the Company held by them in the envelope provided for that purpose.

To be effective, the proxy must be duly completed and signed and then deposited with either the Company's registrar and transfer agent, Pacific Corporate Trust Company, 10th Floor, 625 Howe Street, Vancouver, B.C., V6C 3B8 (Fax no. (604) 689-8144), or at the office of the Company, 2 Place Alexis Nihon, 3500 de Maisonneuve West, Suite 1110, Westmount, Quebec, H3Z 3C1 (Fax no. (514) 486-1317), before 10:00 a.m. (Toronto time) on May 24, 2005.

DATED at Westmount, Quebec, this 15th day of April, 2005.

Forest Gate Resources Inc.
By Order of the Board

"Michael C. Judson"

Michael C. Judson,
President and Chief Executive Officer

INFORMATION CIRCULAR

as at April 15, 2005

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GLOSSARY OF TERMS

For the assistance of Shareholders, the following is a glossary of terms used frequently throughout this Circular and the summary hereof.

Arrangement	The proposed arrangement under the CBCA, among the Company and the Shareholders and Blue Note and its shareholders, as described under the heading "The Arrangement - Details of the Arrangement".
Arrangement Agreement	The arrangement agreement made as of April 15, 2005, between the Company and Blue Note, a copy of which is set forth in Schedule B attached to this Circular, and any amendments made thereto.
Arrangement Resolution	The resolution, the full text of which is set forth in Schedule A attached to this Circular, to be considered, and if deemed advisable, passed, with or without variation, by the Shareholders at the Meeting.
Articles of Arrangement	The articles of arrangement to be issued by the Director giving effect to the Arrangement.
Beneficial Shareholder	A shareholder holding its Common Shares through a Intermediary, or otherwise not in its own name
Blue Note	Blue Note Metals Inc., a subsidiary of the Company which will acquire the NB Mineral Properties under the Arrangement.
Blue Note Common Shares	The common shares without par value in the capital of Blue Note.
Blue Note Units	The Units to be sold by Blue Note pursuant to the Private Placement. Each Blue Note Unit will consist of one Convertible Share and one Blue Note Warrant.
Blue Note Warrants	The warrants included as part of the Blue Note Units. Each Blue Note Warrant will entitle the holder thereof to purchase one Blue Note Common Share at a price of $0.30 for a period of two years from the Effective Date.
Board of Directors	The board of directors of the Company.
Breakwater	Collectively Breakwater Resources Inc. and its subsidiary, CanZinco Ltd.
Breakwater LOI	The letter of intent dated October 3, 2004 between the Company and Blue Note and Breakwater. See "Information Concerning Blue Note – Description of NB Mineral Properties – Acquisition of Caribou Mine."

CBCA	The *Canada Business Corporations Act*, R.S.C. 1985, c. C-44, as amended from time to time.
Circular	This Information Circular.
Common Shares	The common shares without par value in the capital of the Company issued and outstanding immediately prior to the implementation of the Arrangement on the Effective Date.
Company	Forest Gate Resources Inc.
Convertible Shares	The non-voting convertible shares without par value in the capital of Blue Note which will be automatically converted into Blue Note Common Shares immediately after the Effective Date.
Court	The Quebec Superior Court.
Diamond Properties	The diamond mineral properties located in Saskatchewan, currently owned by the Company as described under "Information Concerning the Company - Description of Diamond Mineral Properties" in the Circular.
Director	The Director appointed under section 260 of the CBCA.
Dissenting Shareholder	A Shareholder who delivers a Notice of Dissent and validly exercises the right of dissent provided with respect to the Arrangement, as described under "Rights of Dissent."
Effective Date	The date the certified copy of the Final Order is accepted for filing by the Director to give effect to the Arrangement.
Exchange	TSX Venture Exchange.
Final Order	The order of the Court approving the Arrangement.
Financial Statements	The audited consolidated financial statements of the Company for the period ended December 31, 2004, together with the auditors report thereon.
Interim Order	The interim order of the Court outlined in paragraphs 1 through 16 of the Judgment of the Court dated April 28, 2005, providing, among other things, for the calling and holding of the Meeting, a copy of which is attached as Schedule C to this Circular.
Intermediary	A broker, intermediary, trustee or other person holding Common Shares on behalf of a Shareholder.
ITA	The *Income Tax Act* (Canada), as amended, and the regulations thereunder.

Meeting	The annual and special general meeting of Shareholders to be held on May 25, 2005.
NB Mineral Properties	The mineral properties located in New Brunswick which are currently owned by the Company and which will be transferred to Blue Note as part of the Arrangement, as described under "Information Concerning Blue Note - Description of New Brunswick Mineral Properties" in the Circular.
New Common Shares	The new common shares without par value in the capital of the Company to be issued as part of the Arrangement.
Notice of Dissent	A validly delivered written objection to the Arrangement Resolution, as described under "Rights of Dissent."
Option Plan	The Company's Inventive Stock Option Plan, as described under "Annual Meeting Business - Amendment to Inventive Stock Option Plan."
Plan of Arrangement	The plan of arrangement set out as Exhibit I to the Arrangement Agreement which is attached as Schedule B to this Circular, and any amendments or variation thereto.
Private Placement	The contemplated issuance of 8,000,000 Blue Note Units at a price of $0.25 per Blue Note Unit on a private placement basis, as described under "Information Concerning Blue Note – Available Funds and Principal Purposes for Use – Private Placement."
Record Date	March 31, 2005.
Reorganization Shares	The Reorganization Shares without par value in the capital of the Company, which will be issued as part of the Arrangement as set forth in the Arrangement Agreement.
SEC	The United States Securities and Exchange Commission.
Shareholders	Holders of one or more Common Shares.
Transfer Agent	Pacific Corporate Trust Company.
1933 Act	The United States *Securities Act of 1933*.

SUMMARY OF INFORMATION CIRCULAR

This summary is qualified in its entirety by the more detailed information appearing elsewhere in this Circular, the Arrangement Agreement and the Plan of Arrangement in Schedule B to the Circular, and the financial statements attached as Schedules F and G to this Circular, which are incorporated herein and form part of this Circular.

References in this Circular to a fiscal or financial year are to the year ended December 31, 2004. References in this Circular are to Canadian dollars unless otherwise indicated.

The Meeting

The Meeting will be held at the Royal York Hotel, Manitoba Room, 100 Front Street West, Toronto, Ontario, on May 25, 2005, commencing at the hour of 10:00 a.m. (Toronto time).

At the Meeting, Shareholders will be asked to elect directors (see "Annual Meeting Business - Election of Directors"), appoint auditors (see "Annual Meeting Business - Appointment of Auditor") and approve an amendment to the Company's incentive stock option plan (see "Annual Meeting Business – Amendment to Incentive Stock Option Plan"). Shareholders will also be asked to consider, and if deemed advisable, approve the Arrangement Resolution authorizing the Arrangement, and to consider such other matters as may properly come before the Meeting.

The Arrangement

The purpose of the Arrangement is to restructure the Company by separating the NB Mineral Properties from the Diamond Properties, through a new company, Blue Note. The Arrangement will provide both the Company and Blue Note with flexibility to utilize and exploit their respective assets. Management also feels that by separating its assets into two companies and providing Shareholders with interests in both of those companies, Shareholder value will be maximized.

By resolution dated April 15, 2005, the Board of Directors approved the Arrangement and authorized the making of an application to the Court for the calling of the Meeting. Provided all conditions to implement the Arrangement are satisfied, the appropriate votes of Shareholders' authorizing the implementation of the Arrangement are obtained and the Final Court Order is obtained, the following steps will occur as an arrangement as contemplated in Section 192 of the CBCA, one immediately after the other:

(a) The Company will alter its share capital by creating an unlimited number of New Common Shares and Reorganization Shares, and will attach rights and restrictions to the New Common Shares and Reorganization Shares.

(b) Each issued and outstanding Common Share (other than Common Shares held by Dissenting Shareholders) will be exchanged with Shareholders for one New Common Share and 0.1168 of a Reorganization Share, and the Common Shares will be cancelled. The Company will not issue any fractional Reorganization

Shares, and any fractional Reorganization Shares resulting from the exchange will be cancelled.

(c) All of the Reorganization Shares will be transferred by Shareholders to Blue Note in exchange for Blue Note Common Shares, on the basis of one Blue Note Common Share for each Reorganization Share.

(d) The Company will redeem all of the Reorganization Shares from Blue Note and will satisfy the redemption amount of such shares by the transfer to Blue Note of the NB Mineral Properties and $1,000,000 of working capital, which will be sufficient to enable Blue Note to satisfy Exchange listing requirements. The transfer will be effected at a price equal to the fair market value of such assets.

Immediately following the implementation of the Arrangement on the Effective Date the Convertible Shares will be automatically converted into Blue Note Common Shares, on the basis of one Blue Note Common Share for each Convertible Share. See “Information Concerning Blue Note – Available Funds and Principal Purposes for Use – Private Placement.”

As a result of the foregoing, on the Effective Date two companies will exist, the Company and Blue Note. Blue Note will own the NB Mineral Properties and the Company will own the Diamond Properties, and Shareholders (other than Dissenting Shareholders) will own both New Common Shares and Blue Note Common Shares.

Approval by and Recommendation of the Board of Directors

By resolution dated April 15, 2005, the Board of Directors unanimously approved the Arrangement subject to certain conditions, and authorized submission of the Arrangement to the Shareholders for consideration and approval and to the Court for approval.

The decision of the Board of Directors to approve the Arrangement for submission to the Shareholders and to the Court was reached after consideration of a number of factors, including the following:

1. Under the terms of the Arrangement, all participating Shareholders will be treated equally.

2. The Arrangement will benefit Shareholders generally through providing them with ownership positions in two publicly traded companies:

    (i) Blue Note, a new company owning the NB Mineral Properties, which will be better able to utilize and exploit those assets; and

    (ii) a continuing interest in the Company, which is retaining ownership of the Diamond Properties.

3. The Arrangement must be approved by two-thirds of the votes cast at the Meeting by Shareholders and by the Court which, the Company is advised, will consider, among other things, the fairness of the Arrangement to Shareholders (see “The Arrangement - Plan of Arrangement and Conditions to the Arrangement Becoming Effective”).

4. The Interim Order and the Arrangement include provisions to the effect that Shareholders who are opposed to the Arrangement may, upon compliance with certain conditions, dissent from the approval of the Arrangement Resolution in accordance with the CBCA and be paid the fair value of their Common Shares as provided therein (see “Dissenting Shareholders”).

See “The Arrangement - Recommendations of Board of Directors” for other factors considered by the Board of Directors in reaching its decision.

The Board of Directors has unanimously concluded that the Arrangement is in the best interests of the Company and fair to all Shareholders and recommends that all Shareholders vote in favour of the Arrangement Resolution, thereby approving the implementation of the Arrangement. Implementation of the Arrangement is subject to fulfillment of certain conditions. See “The Arrangement - Plan of Arrangement and Conditions to the Arrangement Becoming Effective”.

Shareholder Approval

The Interim Order provides that in order for the Arrangement to be implemented, the Arrangement Resolution must be passed, with or without variation, by at least two-thirds of the votes cast in respect of the Arrangement Resolution by Shareholders present or voting by proxy at the Meeting.

Court Approval

The Arrangement requires Court approval under the CBCA. Prior to the mailing of this Circular, the Interim Order was obtained from the Court providing for the calling and holding of the Meeting and certain other procedural matters. Following approval of the Arrangement by the Shareholders at the Meeting, the Company will make application to the Court for the Final Order. The Notice of Petition for the Final Order is attached as Schedule D to this Circular. It is anticipated that the Company will make application to the Court for the Final Order at 9:45 a.m. (Montreal time) on or about June 1, 2005, or as soon thereafter as counsel may be heard. Miller Thomson LLP, legal counsel to the Company, has advised that in hearing the petition for the Final Order the Court will consider, among other things, the fairness of the Arrangement to Shareholders. Shareholders and interested parties have the right to appear at such hearing and present evidence. See “The Arrangement - Court Approval of Arrangement.”

Dissenting Shareholders’ Rights on Arrangement

A Shareholder has the right to dissent in respect of the Arrangement and to be paid the fair value for its Common Shares by the Company, however dissent rights procedures must be strictly followed. See the description under “Rights of Dissent”, and the relevant sections of the CBCA which have been reproduced in Schedule E to this Circular.

Brief Summary of Canadian Federal Income Tax Considerations About the Arrangement for Shareholders

The following is a general summary of the principal Canadian federal income tax considerations under the ITA generally applicable to holders of Common Shares who, for the purposes of the ITA, are resident in Canada, deal at arm’s length with the Company and hold their Common

Shares as capital property. It is not intended to be, and it should not be construed to be, advice to any particular person. Holders should consult with their own tax advisors with respect to their particular circumstances.

Generally, a holder of Common Shares will not realize a capital gain or capital loss on the Common Shares as a result of the implementation of the Arrangement, unless the holder chooses to recognize a capital gain or capital loss in the holder's income tax return for the year in which the Arrangement is implemented. Where a holder does not realize a capital gain or capital loss on its Common Shares as a result of the Arrangement, the holder's adjusted cost base of its Common Shares must be allocated between the New Common Shares and the Blue Note Common Shares. The allocation should be made on the basis of their relative fair market values.

For a more detailed description of the Canadian federal income tax considerations, see "Canadian Federal Income Tax Considerations About the Arrangement for Shareholders".

Investment Considerations

Investments in development stage resource companies such as the Company and Blue Note are highly speculative and subject to numerous and substantial risks which should be considered by prospective purchasers. There is no assurance that a public market will continue in the New Common Shares or that there will be a public market for the Blue Note Common Shares after the Effective Date. See "Information Concerning the Company - Risk Factors" and "Information Concerning Blue Note - Risk Factors".

Applications to TSX Venture Exchange

The Company has applied to the Exchange to approve the listing of the New Common Shares in place of the existing Common Shares and to approve the listing of the Blue Note Common Shares upon implementation of the Arrangement, subject to the fulfillment of the usual requirements of the Exchange. The approval of the Exchange is a condition of the Arrangement proceeding. The Company has also applied to the Exchange for the temporary listing of the Reorganization Shares to facilitate completion of the Arrangement.

Failure to Complete Arrangement

In the event the Arrangement Resolution is not passed by Shareholders, the Court does not approve the Arrangement or the Arrangement does not proceed for some other reason, the NB Mineral Properties and working capital will remain with the Company and the Company will carry on business as it is currently carried on. In such a case the Private Placement will not proceed, the Breakwater LOI will be assumed by the Company and Blue Note will likely remain a dormant subsidiary of the Company.

GENERAL INFORMATION FOR MEETING

Solicitation of Proxies

This Circular is furnished in connection with the solicitation of proxies by management of the Company for use at the Meeting, and at any adjournment thereof. The solicitation will be by mail and possibly supplemented by telephone or other personal contact to be made without special compensation by regular officers and employees of the Company. No solicitation will be made by specifically engaged employees or soliciting agents. No solicitation will be made by specifically engaged employees or soliciting agents. The cost of solicitation will be borne by the Company. The Company does not reimburse Shareholders, nominees or agents for the costs incurred in obtaining from their principals authorization to execute forms of proxy.

Appointment of Proxies

The persons named in the accompanying form of proxy are directors and/or officers of the Company, and are proxyholders nominated by the Board of Directors. **A Shareholder has the right to appoint a person to attend and act on its behalf at the Meeting other than the persons named in the enclosed instrument of proxy**. To exercise this right, a Shareholder must strike out the names of the nominees of management named in the instrument of proxy and insert the name of its nominee in the blank space provided on the proxy. A person appointed as a proxyholder need not be a shareholder of the Company.

A form of proxy will only be valid if it is duly completed and signed as set out below and then deposited with either the office of the Transfer Agent at 10th Floor, 625 Howe Street, Vancouver, British Columbia, V6C 3B8 (Fax no. (604) 689-8144), or at the office of the Company at 2 Place Alexis Nihon, 3500 de Maisonneuve West, Suite 1110, Westmount, Quebec, H3Z 3C1 (Fax no. (514) 486-1317), at least 48 hours, excluding Saturdays, Sundays and holidays, prior to the commencement of the Meeting or any adjournment thereof.

An instrument of proxy must be signed by the shareholder or its attorney in writing, or, if the Shareholder is a corporation, it must either be under its common seal or signed by a duly authorized officer.

Advice to Beneficial Shareholders

The information set forth in this section is of significant importance to many Shareholders, as many Shareholders do not hold their Shares in their own name. Beneficial Shareholders should note that only proxies deposited by Shareholders appearing on the records maintained by the Company's transfer agent as registered Shareholders will be recognized and allowed to vote at the Meeting. If a Shareholder's Common Shares are listed in an account statement provided to the Shareholder by a broker, in all likelihood those shares are **not** registered in the Shareholder's name and that Shareholder is a Beneficial Shareholder. Such shares are most likely registered in the name of the Shareholder's broker or an agent of that broker. In Canada the vast majority of such shares are registered under the name of CDS & Co., the registration name for The Canadian Depository for Securities, which acts as nominee for many Canadian brokerage firms. Common Shares held by brokers (or their agents or nominees) on behalf of a broker's client can only be voted at the Meeting at the direction of the Beneficial Shareholder. Without specific instructions, brokers and their agents and nominees are prohibited from voting Common Shares for the broker's clients. **Therefore, each Beneficial Shareholder should ensure that voting instructions are communicated to the appropriate party well in advance of the Meeting.**

Regulatory policies require Intermediaries to seek voting instructions from Beneficial Shareholders in advance of shareholder meetings. Beneficial Shareholders have the option of not objecting to their Intermediary disclosing certain ownership information about themselves to the Company (such Beneficial Shareholders are designated as non-objecting beneficial owners, or "NOBOs") or objecting to their Intermediary disclosing ownership information about themselves to the Company (such Beneficial Shareholders are designated as objecting beneficial owners, nor "OBOs").

In accordance with the requirements of National Instrument 54-101 of the Canadian Securities Administrators, the Company has elected to send the notice of Meeting, this Circular, the instrument of proxy, the Financial Statements and other related materials (collectively, the "Meeting Materials") directly to the NOBOs and indirectly through Intermediaries to the OBOs. The Intermediaries (or their service companies) are responsible for forwarding the Meeting Materials to OBOs.

Meeting Materials sent to Beneficial Shareholders are accompanied by a request for voting instructions (a "VIF"), instead of a proxy. By returning the VIF in accordance with the instructions noted on it, a Beneficial Shareholder is able to instruct the Intermediary (or other registered shareholder) how to vote the Beneficial Shareholder's Common Shares on the Beneficial Shareholder's behalf. For this to occur, it is important that the VIF be completed and returned in accordance with the specific instructions noted on the VIF.

The vast majority of Intermediaries now delegate responsibility for obtaining instructions from Beneficial Shareholders to ADP Investor Communications ("ADP") in Canada. ADP typically prepares a machine-readable VIF, mails these VIFs to Beneficial Shareholders and asks Beneficial Shareholders to return the VIFs to ADP, usually by way of mail, the Internet or telephone. ADP then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be represented at the Meeting by proxies for which ADP has solicited voting instructions. A Beneficial Shareholder who receives an ADP VIF cannot use that form to vote shares directly at the Meeting. The VIF must be returned to ADP (or instructions respecting the voting of shares must otherwise be communicated to ADP) well in advance of the Meeting in order to have the shares voted. If you have any questions respecting the voting of Common Shares held through an Intermediary, please contact that Intermediary for assistance.

In either case, the purpose of this procedure is to permit Beneficial Shareholders to direct the voting of the Common Shares which they beneficially own. **A Beneficial Shareholder receiving a VIF cannot use that form to vote Common Shares directly at the Meeting – Beneficial Shareholders should carefully follow the instructions set out in the VIF including those regarding when and where the VIF is to be delivered.** Should a Beneficial Shareholder who receives a VIF wish to attend the Meeting or have someone else attend on their behalf, the Beneficial Shareholder may request a legal proxy as set forth in the VIF, which will grant the Beneficial Shareholder or their nominee the right to attend and vote at the Meeting.

All references to shareholders in this Circular and the accompanying instrument of proxy and notice of Meeting are to registered Shareholders unless specifically stated otherwise.

These Meeting Materials are being sent to both registered and non-registered holders of the Common Shares. If you are a Beneficial Shareholder and the Company or its agent has sent these Meeting Materials directly to you, your name and address and information about your holdings of the Company's securities have been obtained in accordance with applicable securities regulatory requirements from the Intermediary holding on your behalf. By choosing to send these Meeting Materials to you directly, the Company (and not the Intermediary holding on your behalf) has assumed responsibility for (i) delivering these Meeting Materials to you and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the VIF.

Revocation of Proxies

A proxy may be revoked by:

(a) Signing a proxy bearing a later date and depositing it at the place and within the time aforesaid.

(b) Signing and dating a written notice of revocation (in the same manner as the proxy is required to be executed, as set out in the notes to the proxy) and either delivering the same to the registered office of the Company, located at 2 Place Alexis Nihon, 3500 de Maisonneuve West, Suite 1110, Westmount, Quebec, H3Z 3C1, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof at which the proxy is to be used, or to the Chairman of the Meeting on the day of the Meeting or any adjournment thereof.

(c) Attending the Meeting or any adjournment thereof and registering with the Scrutineer thereat as a shareholder present in person, whereupon such proxy shall be deemed to have been revoked.

(d) In any other manner provided by law.

Only registered Shareholders have the right to revoke a proxy. A non-registered Shareholder who wishes to change its vote must, at least seven days before the Meeting, arrange for its Intermediary to revoke its proxy on its behalf

Voting of Shares and Exercise of Discretion of Proxies

If a Shareholder specifies a choice with respect to any matter to be acted upon, the Common Shares represented by proxy will be voted or withheld from voting by the proxyholder in accordance with those instructions on any ballot that may be called for. In the enclosed form of proxy, in the absence of any instructions in the proxy, it is intended that such shares will be voted by the proxyholder, if a nominee of management, in favour of the motions proposed to be made at the Meeting as stated under the headings in the Notice of Meeting to which this Circular is attached. If any amendments or variations to such matters, or any other matters, are properly brought before the Meeting, the proxyholder, if a nominee of management, will exercise its discretion and vote on such matters in accordance with its best judgment.

The instrument of proxy enclosed, in the absence of any instructions in the proxy, also confers discretionary authority on any proxyholder other than the nominees of management named in the instrument of proxy with respect to the matters identified herein, amendments or variations to those matters, or any other matters which may properly be brought before the Meeting. To enable a proxyholder to exercise its discretionary authority a Shareholder must strike out the names of the nominees of management in the enclosed instrument of proxy and insert the name of its nominee in the space provided, and not specify a choice with respect to the matters to be acted upon. This will enable the proxyholder to exercise its discretion and vote on such matters in accordance with its best judgment.

At the time of printing this Circular, management of the Company is not aware that any amendments or variations to existing matters or new matters are to be presented for action at the Meeting.

Voting Shares and Principal Holders Thereof

Only those Shareholders of record on the Record Date will be entitled to vote at the Meeting or any adjournment thereof, in person or by proxy. On the Record Date, 61,034,537 Common Shares were issued and outstanding, each Common Share carrying the right to one vote.

The Record Date should be distinguished from the Effective Date, which is expected to be on or about June 6, 2005. Shareholders must be Shareholders on the Effective Date, and not the Record Date, to participate in the Arrangement.

To the best knowledge of the directors and senior officers of the Company, no shareholder beneficially owns, directly or indirectly, or exercises control or discretion over, shares carrying more than 10% of the voting rights attached to all outstanding shares of the Company.

Executive Compensation

Summary Compensation Table

The following table sets forth all annual and long term compensation for services in all capacities to the Company and its subsidiaries for the three most recently completed financial years (to the extent required by applicable securities legislation) in respect of (i) the Company's chief executive officer as at December 31, 2004; (ii) the Company's chief financial officer (which it did not have); (iii) the other three most highly compensated executive officers of the Company as at December 31, 2004, whose individual total compensation for the most recently completed financial year exceeded $150,000 (of which there were none); and (iv) any individual who would have satisfied these criteria but for the fact that individual was not serving as such an officer at the end of the most recently completed financial year (collectively the "Named Executive Officers" or "NEOs").

Annual Compensation					Long Term Compensation			
					Awards		Payouts	
Name and Principal Position	Fiscal Year Ended	Salary ($)	Bonus ($)	Other Annual Compen -sation	Securities Under Options Granted (#)	Shares/ Units Subject to Resale Restric- tions ($)	LTIP Payouts ($)	All Other Compen- sation $
Michael Judson President and CEO	Dec. 31, 2004 Dec. 31, 2003 Dec. 31, 2002	90,000 39,500 20,000	Nil Nil Nil	Nil Nil Nil	Nil 1,000,000 Nil	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil

Long Term Incentive Plans

The Company does not have a Long Term Incentive Plan pursuant to which it provides compensation intended to motivate performance over a period greater than one financial year.

Termination of Employment, Change in Responsibilities and Employment Contracts

During the most recently completed financial year there were no employment contracts between the Company or its subsidiaries and a NEO, and no compensatory plans, contracts or arrangements where a NEO is entitled to receive more than $100,000 from the Company or its subsidiaries, including periodic payments or instalments, in the event of:

(a) The resignation, retirement or any other termination of the NEO's employment with the Company and its subsidiaries;

(b) A change of control of the Company or any of its subsidiaries; or

(c) A change in the NEO's responsibilities following a change in control.

Pension and Retirement Benefit Plans

No pension or retirement benefit plans have been instituted by the Company, and none are proposed at this time.

Options

The following table summarizes the share options granted to the Named Executive Officers during the fiscal year ended December 31, 2004:

Name	Options Granted (#shares)	% of Total Options Granted	Exercise Price ($/share)	Market Value of Shares Underlying Options at Date of Grant ($/share)	Expiry Date
Michael Judson President and CEO	Nil	N/A	N/A	N/A	N/A

The following table sets forth a summary of share options exercised by and remaining outstanding to the Named Executive Officers for the fiscal year ended December 31, 2004:

Name	Shares Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options at FY-End	$ Value of Unexercised In-the-Money Options [(1)]
Michael Judson President and CEO	49,000	$6,598	951,000	$42,795

Note:

[(1)] *Value of unexercised in-the-money options calculated using the closing price of common shares of the Company on the Exchange on December 31, 2004, less the exercise price of in-the-money options.*

Compensation of Directors

During the most recently completed financial year there were no standard or other arrangements pursuant to which directors were compensated by the Company for services provided in their capacity as directors, nor are any such arrangements currently proposed.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets out, as of the end of the Company's fiscal year ended December 31, 2004, all required information with respect to compensation plans under which equity securities of the Company are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securityholders	4,786,940	$0.15	1,776,000
Equity compensation plans not approved by securityholders	Nil	Nil	Nil
Total	4,786,940	$0.15	1,776,000

Audit Committee

General

The Audit Committee is a standing committee of the Board of Directors, the primary function of which is to assist the Board of Directors in fulfilling its financial oversight responsibilities, which will include monitoring the quality and integrity of the Company's financial statements and the independence and performance of the Company's external auditor, acting as a liaison between the Board of Directors and the Company's external auditor, reviewing the financial information that will be publicly disclosed and reviewing all audit processes and the systems of internal controls management and the Board of Directors have established.

Terms of Reference for the Audit Committee

The Board of Directors has adopted Terms of Reference for the Audit Committee, which sets out the Audit Committee's mandate, organization, powers and responsibilities. The Audit Committee's Terms of Reference is attached as Schedule H to this information circular.

Composition

The Audit Committee consists of the following three directors. Also indicated is whether they are 'independent' and 'financially literate'.

Name of Member	Independent[(1)]	Financially Literate[(2)]
Jean Girard	Yes	Yes
André Audet	Yes	Yes
John Mavridis	No	Yes

Notes:

(1) *A member of the Audit Committee is independent if he has no director or indirect 'material relationship' with the Company. A material relationship is a relationship which could, in the view of the Board of Directors, reasonably interfere with the exercise of a member's independent judgment. An executive officer of the Company, such as the President or Secretary, is deemed to have a material relationship with the Company.*

(2) *A member of the Audit Committee is financially literate if he has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.*

Because the shares of the Company are listed on the Exchange, it is categorized as a venture issuer. As a result, Multilateral Instrument 52-110 *Audit Committees* ("MI 52-110") exempts the members of the Company's Audit Committee from being independent.

Audit Committee Oversight

Since the commencement of the Company's most recently completed financial year, there has not been a recommendation of the Audit Committee to nominate or compensate an external auditor which was not adopted by the Board of Directors.

Reliance on Certain Exemptions

Since the commencement of the Company's most recently completed financial year, the Company has not relied on the exemption in section 2.4 (*De Minimis Non-audit Services*) of MI 52-110 or an exemption from MI 52-110, in whole or in part, granted under Part 8 (*Exemptions*) of MI 52-110.

Pre-Approval Policies and Procedures

The Audit Committee has not adopted specific policies and procedures for the engagement of non-audit services, however, as provided for in MI 52-110, the Audit Committee must pre-approve all non-audit services to be provided to the Company or its subsidiaries, unless otherwise permitted by MI 52-110.

External Auditor Service Fees (By Category)

Financial Year Ending	Audit Fees[(1)]	Audit Related Fees[(2)]	Tax Fees[(3)]	All Other Fees[(4)]
December 31, 2004	$27,500	$1,000	$6,500	Nil
December 31, 2003	$25,000	$5,000	$6,200	Nil

Notes:

(1) *The aggregate fees billed by the Company's auditor for audit fees.*

(2) *The aggregate fees billed for assurance and related services by the Company's auditor that are reasonably related to the performance of the audit or review of the Company's financial statements and are not disclosed in the 'Audit Fees' column.*

(3) *The aggregate fees billed for professional services rendered by the Company's auditor for tax compliance, tax advice and tax planning. These services involved the auditor's provision of a tax opinion in connection with a flow-through share financing undertaken by the Company and the filing of the Company's annual tax returns.*

(4) *The aggregate fees billed for professional services other than those listed in the other three columns.*

Exemption

Pursuant to section 6.1 of MI 52-110, the Company is exempt from the requirements of Part 3 *Composition of the Audit Committee* and Part 5 *Reporting Obligations* of MI 52-110 because it is a venture issuer.

Indebtedness of Directors and Senior Officers

None of the directors or executive officers of the Company or any subsidiary thereof, or any associate or affiliate of the above, is or has been indebted to the Company at any time since the beginning of the last completed financial year of the Company.

Interest of Certain Persons or Companies in Matters to be Acted Upon

The Company is not aware of any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, of each of the following persons in any matter to be acted upon at the Meeting other than the election of directors or the appointment of auditors:

(a) Each person who has been a director or executive officer of the Company at any time since the beginning of the Company's last financial year;

(b) Each proposed nominee for election as a director of the Company; and

(c) Each associate or affiliate of any of the foregoing.

Interest of Informed Persons in Material Transactions

Unless otherwise disclosed herein, no informed person or proposed nominee for election as a director, or any associate or affiliate of any of the foregoing, has or has had any material interest, direct or indirect, in any transaction or proposed transaction since the commencement of the Company's most recently completed financial year, which has materially affected or will materially affect the Company or any of its subsidiaries, other than as disclosed by the Company during the course of the year or as disclosed herein.

ANNUAL MEETING BUSINESS

Financial Statements

The Financial Statements will be presented to Shareholders at the Meeting. The Financial Statements are being mailed to shareholders of record with this Circular. Copies of the Financial Statements will also be available from the Transfer Agent or the Company's office at 2 Place Alexis Nihon, 3500 de Maisonneuve West, Suite 1110, Westmount, Quebec, H3Z 3C1, prior to the Meeting.

Appointment of Auditor

The persons named in the enclosed instrument of proxy will vote for the re-appointment of Lippman Leebosh April, Chartered Accountants, as auditors for the Company to hold office until the next annual general meeting of Shareholders, at a remuneration to be fixed by the Board of Directors. Lippman Leebosh April were first appointed auditors of the Company in 2001.

Election of Directors

The Board of Directors presently consists of four directors, and it is anticipated that four directors will be elected for the coming year. The term of office for persons elected at the Meeting will expire at the next annual general meeting of Shareholders of the Company, unless a director resigns or is otherwise removed in accordance with the CBCA.

The persons named below will be presented at the Meeting for election as directors as nominees of management, and the persons named in the enclosed instrument of proxy intend to vote for the election of these nominees.

It should be noted that the names of further nominees for election as director may come from the floor during the Meeting.

The following table sets out the names of the persons to be presented for election as director as nominees of management, all other positions and offices with the Company now held by them, their principal occupation or employment, the year in which they became a director of the Company and the number of shares of the Company beneficially owned, directly or indirectly, or over which control or direction is exercised, by each of them, if any, as at the date hereof:

Name of Nominee, Municipality of Residence and Present Position with the Company	Principal Occupation	Year First Became a Director	No. of Common Shares Beneficially Owned
Michael Judson Westmount, Quebec	President of the Company since 1999. President of Judson Woods	1999	Common Shares: 1,513,378

Name of Nominee, Municipality of Residence and Present Position with the Company	Principal Occupation	Year First Became a Director	No. of Common Shares Beneficially Owned
President, Chief Executive Officer and Director	Inc., an investment relations firm, since 1997.		
Jean Girard[1] Lonqueuil, Quebec Director	Self-employed geological consultant since 2000. Vice-president, Exploration of Geo Nova Exploration Inc., a mineral resource company, from 1994 to 2002.	2002	Common Shares: Nil
André Audet[1] Ottawa, Ontario Director	Chairman and Chief Executive Officer of Majescor Resources Inc., an exchange listed diamond exploration company, since 1999	2004	Common Shares: Nil
John Mavridis[1] Montreal, Quebec Secretary and Director	Lawyer with Lavery de Billy from 1995 to 2001, and with Brouillette Charpentier Fortin from 2001 to 2004. Director of corporate affairs for a private high-technology company from 2004 to 2005. President of Newhouse Strategic Counsel Inc., a business advisory and professional services firm, since February 2005.	2002	Common Shares: 20,000

(1) Members of the Audit Committee

Unless otherwise stated, each of the above proposed directors has held the principal occupation or employment indicated for the past five years.

The above information has been furnished by the respective directors individually.

No proposed director:

(a) Is, as at the date of this Circular, or has been, within 10 years before the date of this Circular, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity,

(i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;

(ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or

(iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

(b) Has, within the 10 years before the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

(c) Has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

Amendment to Incentive Stock Option Plan

The Company presently has in place an incentive stock option plan (the “Option Plan”) pursuant to which a maximum of 4,786,940 options to purchase Common Shares may be issued. At the time the Option Plan was implemented by the Company, the number of options available under the Option Plan represented approximately 20% of the Common Shares which were then outstanding. The Option Plan previously received shareholder approval as required by the policies of the Exchange.

The Company currently has 61,606,537 Common Shares outstanding, and it would like to increase the maximum number of options which may be granted under the Option Plan to a number equal to approximately 20% of that number. The Company therefore proposes to amend the Option Plan by increasing the number of options which may be granted under the Option Plan from 4,786,940 to 12,321,000, which will represent just under 20% of the 61,606,537 Common Shares currently outstanding.

A draft of the proposed Option Plan as amended will be available for inspection at the Meeting and at the Company’s office, located at 2 Place Alexis Nihon, 3500 de Maisonneuve West, Suite 1110, Westmount, Quebec, during regular business hours up to the day before the Meeting.

As the number of shares reserved for issuance under options granted to insiders of the Company under the Option Plan may exceed 10% of the Company’s outstanding shares, the policies of the Exchange provide that the amendment to the Option Plan must receive “disinterested shareholder approval”, which is defined as being approval by a majority of votes cast by all shareholders at the Meeting excluding votes attached to shares beneficially owned by insiders of the Company and their associates.

The text of the resolution approving the amendment to the Option Plan to be considered and, if thought fit, approved at the Meeting is substantially as follows:

"BE IT RESOLVED THAT:

1. The amendment to the incentive stock option plan of the Company to increase the maximum number of options eligible to be granted under the incentive stock option plan to 12,321,000, together with any required consequential amendments, be and is herby ratified, confirmed and approved.

2. Any one director or officer of the Company be and is hereby authorized to do any things and execute all instruments necessary or desirable to give effect to this resolution.

3. Notwithstanding that this resolution has been duly passed by the shareholders of the Company, the directors of the Company be and are hereby authorized and empowered to revoke this resolution at any time prior to the effective date hereof."

In addition to disinterested shareholder approval, the amendment to the Option Plan will also require the final approval of the Exchange. As set out in the text of the resolution, notwithstanding its approval, the Board of Directors may determine not to proceed with the amendment to the Plan at any time prior to its implementation.

The Board of Directors recommends that the Shareholders vote in favour of the approval of the amendment to the Option Plan, and the persons named in the enclosed form of proxy intend to vote for such approval at the Meeting unless otherwise directed by the Shareholders appointing them.

Amendment to By-Law 1(d)

The Company's By-Law 1(d) currently provides, among other things, that a quorum is present at a meeting of Shareholders if the holders of more than 20% of the issued Common Shares are present in person or represented.

This By-Law was originally drafted when the Company was a private company, and is a suitable quorum threshold for private companies. Now that the Company is a public, listed company, however, a 20% quorum threshold is inordinately high. Shareholder turnout at meetings of public companies frequently runs well below 20%, and if the quorum threshold is set at that level it can at times be difficult to achieve. Failure to achieve the requisite quorum threshold would require the Company to adjourn or re-schedule a Shareholders' meeting, resulting in the Company incurring additional costs.

Management of the Company feels that it is in the best interests of the Company and the Shareholders to reduce the quorum requirement for Shareholder meetings, to one which is much more readily achievable. The quorum requirement proposed by management is 5% instead of 20%, which is in line with the quorum requirement for most public companies in Canada today.

On March 30, 2005, the Board passed a resolution amending By-Law 1(d) to reduce the quorum requirement from 20% to 5%. By-Law 1(d) as amended now reads as follows:

> “(d) Quorum
>
> A quorum is present at a meeting of shareholders if at least two shareholders holding more than 5% of the issued and outstanding shares of the capital stock of the Company carrying voting rights at such time (“voting shares”), are present in person or represented by proxy. If there is no such quorum present, a majority of the shareholders so present or represented may adjourn the meeting from time to time, without notice other than an announcement at the meeting, until a quorum is reached. At such adjourned meeting at which a quorum shall be so present or represented, any business may be transacted which might have been transacted at the meeting as originally called.”

Section 103(2) of the CBCA requires that Shareholders must now confirm, reject or amend this amendment, and so at the Meeting Shareholders will accordingly be asked to pass a resolution confirming the amendment to By-Law 1(d) so that it reads as set out above.

The text of the resolution approving the amendment to By-Law 1(d) to be considered and, if thought fit, approved at the Meeting is substantially as follows:

“BE IT RESOLVED THAT:

1. The amendment to By-Law 1(d) of the Company as approved by the directors of the Company, whereby the quorum required to be present at a meeting of shareholders of the Company is reduced from 20% to 5%, be and is herby ratified, confirmed and approved.

2. Any one director or officer of the Company be and is hereby authorized to do any things and execute all instruments necessary or desirable to give effect to this resolution.

3. Notwithstanding that this resolution has been duly passed by the shareholders of the Company, the directors of the Company be and are hereby authorized and empowered to revoke this resolution at any time.”

As set out in the text of the resolution, notwithstanding its approval, the Board of Directors may determine not to proceed with the amendment to the By-Law at any time.

The Board of Directors recommends that the Shareholders vote in favour of the approval of the amendment to By-Law 1(d), and the persons named in the enclosed form of proxy intend to vote for such approval at the Meeting unless otherwise directed by the Shareholders appointing them.

THE ARRANGEMENT

Purpose of the Arrangement

The purpose of the Arrangement is to restructure the Company by separating the NB Mineral Properties from the Diamond Properties, through a new company, Blue Note. The Arrangement will provide both the Company and Blue Note with flexibility to utilize and exploit their respective assets. Management also feels that by separating its assets into two companies and providing Shareholders with interests in both of those companies, Shareholder value will be maximized.

Proposed Timetable for Arrangement

The anticipated timetable for the completion of the Arrangement and the key dates as proposed are as follows:

Meeting:	May 25, 2005
Final Court Approval:	June 1, 2005
Effective Date:	June 6, 2005

The Effective Date is an anticipated date. The Board of Directors will determine the Effective Date, based on its determination of when all conditions to the completion of the Arrangement are satisfied. Notice of the actual Effective Date will be given to Shareholders through a press release when all conditions to the Arrangement have been met and the Board of Directors is of the view that all elements of the Arrangement will be completed.

The New Common Shares and the Blue Note Common Shares are anticipated to commence trading on the Exchange one business day after the Effective Date.

The foregoing dates may be amended at the discretion of the Company.

Details of the Arrangement

The following description of the Arrangement is qualified in its entirety by reference to the full text of the Plan of Arrangement, which is included as Exhibit 1 to the Arrangement Agreement, a copy of which is attached as Schedule B to this Circular.

Pursuant to the Arrangement Agreement, the Company has agreed to transfer the NB Mineral Properties and $1,000,000 of its working capital to Blue Note. This transfer will be effected pursuant to the Arrangement. Under the Arrangement, the existing Shareholders, in exchange for their Common Shares, will receive one New Common Share and 0.1168 of one Blue Note Common Share for every existing Common Share held.

By resolution dated April 15, 2005, the Board of Directors approved the Arrangement and authorized the making of an application to the Court for the calling of the Meeting. Provided all conditions to implement the Arrangement are satisfied, the appropriate votes of Shareholders authorizing the implementation of the Arrangement are obtained and the Final Court Order is obtained, the following steps will occur as an arrangement pursuant to Section 192 of the CBCA, one immediately after the other:

(a) The Company will alter its share capital by creating an unlimited number of New Common Shares and Reorganization Shares, and will attach rights and restrictions to the New Common Shares and Reorganization Shares.

(b) Each issued and outstanding Common Share (other than Common Shares held by Dissenting Shareholders) will be exchanged with Shareholders for one New Common Share and 0.1168 of a Reorganization Share, and the Common Shares will be cancelled. The Company will not issue any fractional Reorganization Shares, and any fractional Reorganization Shares resulting from the exchange will be cancelled.

(c) All of the Reorganization Shares will be transferred by Shareholders to Blue Note in exchange for Blue Note Common Shares, on the basis of one Blue Note Common Share for each Reorganization Share.

(d) The Company will redeem all of the Reorganization Shares from Blue Note and will satisfy the redemption amount of such shares by the transfer to Blue Note of the NB Mineral Properties and $1,000,000 of working capital, which will be sufficient to enable Blue Note to satisfy Exchange listing requirements. The transfer will be effected at a price equal to the fair market value of such assets.

Immediately following the implementation of the Arrangement on the Effective Date the Convertible Shares will be automatically converted into Blue Note Common Shares, on the basis of one Blue Note Common Share for each Convertible Share. See “Information Concerning Blue Note – Available Funds and Principal Purposes for Use – Private Placement.”

As a result of the foregoing, on the Effective Date two companies will exist, the Company and Blue Note. Blue Note will own the NB Mineral Properties and the Company will own the Diamond Properties, and Shareholders (other than Dissenting Shareholders) will own both New Common Shares and Blue Note Common Shares.

The transactions comprising the Arrangement will occur on a tax-deferred basis for most Shareholders who are residents of Canada. See “Canadian Federal Income Tax Considerations About the Arrangement for Shareholders.”

Assuming the Shareholders and the Court approve the Arrangement, the Board of Directors will still have discretion as to whether to complete the Arrangement. At the present time, the Board of Directors do not anticipate that this discretion will be exercised, and intend to complete the Arrangement. See “The Arrangement - Amendment and Termination of the Arrangement Agreement.”

Fairness of Arrangement

The Arrangement was determined to be fair to the Shareholders by the Board of Directors, based upon, but not limited to, the following factors:

(a) Under the terms of the Arrangement, all Shareholders (other than Dissenting Shareholders) will be treated equally as to participation in the Arrangement.

(b) The Arrangement will benefit Shareholders generally through providing them with ownership positions in two publicly traded companies:

(i) Blue Note, a new company owning the NB Mineral Properties, which will be better able to utilize and exploit those assets; and

(ii) a continuing interest in the Company, which is retaining ownership of the Diamond Properties.

(c) The Arrangement must be approved by two-thirds of the votes cast at the Meeting by Shareholders and by the Court which, the Company is advised, will consider, among other things, the fairness of the Arrangement to Shareholders (see "The Arrangement - Plan of Arrangement and Conditions to the Arrangement Becoming Effective").

(d) The Interim Order and the Arrangement include provisions to the effect that Shareholders who are opposed to the Arrangement may, upon compliance with certain conditions, dissent from the approval of the Arrangement Resolution in accordance with the CBCA and be paid the fair value of their Common Shares as provided therein (see "Dissenting Shareholders").

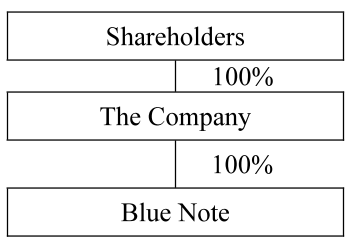
Recommendations of Board of Directors

As set out above the Board of Directors has reviewed the terms and conditions of the Arrangement and concluded that the terms thereof are fair and reasonable to, and in the best interests of, the Shareholders. The Board of Directors has therefore authorized the submission of the Arrangement to the Shareholders and the submission of the Arrangement Agreement to the Court for approval.

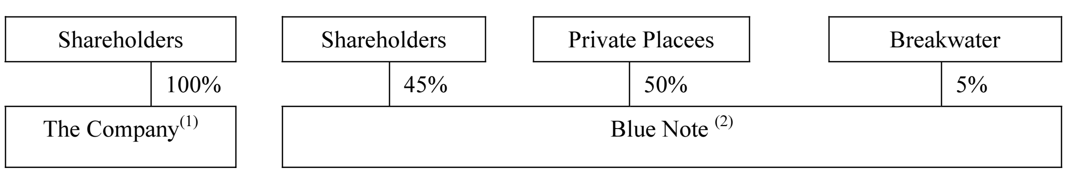
Corporate Structure

Presented below is the anticipated corporate structure of the Company before and after completion of the Arrangement:

(a) Corporate structure prior to the Arrangement:



(b) Corporate structure following completion of the Arrangement and assuming completion of the Private Placement (see "Information Concerning Blue Note – Availability of Funds and Principal Purposes for Use – Private Placement") and issuance of shares to Breakwater pursuant to the Breakwater LOI (see "Information Concerning Blue Note – Description of NB Mineral Properties – Acquisition of Caribou Mine"):



Notes:

(1) Holding the Diamond Properties.

(2) Holding the NB Mineral Properties.

Plan of Arrangement and Conditions to the Arrangement Becoming Effective

The directors of each of the Company and Blue Note have authorized the entering into, and both companies have entered into, the Arrangement Agreement. A copy of the Arrangement Agreement is attached to this Circular as Schedule B and a copy of the Plan of Arrangement is attached as Exhibit 1 to the Arrangement Agreement.

Pursuant to the Arrangement Agreement, the respective obligations of the Company and Blue Note to complete the Arrangement and to file a certified copy of the Final Order and such other documentation required by the Director in order to issue the Articles of Arrangement are also subject to the satisfaction of the following conditions, among other things:

(a) The Arrangement must receive the approval of the Shareholders, as described under "The Arrangement - Shareholder Approval of Arrangement".

(b) The Arrangement must be approved by the Court, as described under "The Arrangement - Court Approval of Arrangement".

(c) No action has been instituted and continuing on the Effective Date for an injunction to restrain, a declaratory judgment in respect of, or damages on account of or relating to the Arrangement, and no cease trading or similar order with respect to any securities of the Company or Blue Note has been issued and remains outstanding.

(d) The Company and Blue Note have received all necessary orders and rulings from various securities commissions and regulatory authorities in the relevant provinces of Canada, where required.

(e) The New Common Shares are listed for trading on the Exchange and the Blue Note Common Shares have been conditionally listed for trading on the Exchange, subject to compliance with the listing requirements of the Exchange.

(f) All other consents, waivers, orders and approvals, including regulatory approvals and orders necessary for the completion of the Arrangement, have been obtained or received.

(g) None of the consents, waivers, orders or approvals contemplated herein will contain conditions or require undertakings considered unsatisfactory or unacceptable by the Company.

(h) The Arrangement Agreement has not been terminated as provided for therein.

Management of the Company believes that all consents, orders, regulations, approvals or assurances required for the completion of the Arrangement will be obtained prior to the Effective Date in the ordinary course and upon application therefor.

Upon fulfillment of the foregoing conditions, the Board of Directors intends to file with the Director a certified copy of the Final Order, amendments to the Articles of the Company and such other materials as may be required by the Director in order for the Director to issue the Articles of Arrangement. The Effective Date will be the date set out in such filings.

The obligations of each of the Company and Blue Note to complete the transactions contemplated by the Arrangement Agreement are further subject to the condition, which may be waived by any such party without prejudice to its right to rely on any other condition in its favour, that each and every one of the covenants of the other party thereto to be performed on or before the Effective Date pursuant to the terms of the Arrangement Agreement will have been duly performed and that, except as affected by the transactions contemplated by the Arrangement Agreement, the representations and warranties of such other party thereto will be true and correct in all material respects as at such Effective Date, with the same effect as if such representations and warranties had been made at and as of such time, and each such party will have received a certificate, dated the Effective Date, of a senior officer of each other party confirming the same.

Shareholder Approval of Arrangement

As provided in the Interim Order, before the Arrangement can be implemented the Arrangement Resolution must be passed with or without variation by the Shareholders present at the Meeting, either in person or by proxy, by at least two-thirds of the votes cast at the Meeting. A copy of the Arrangement Resolution is attached as Schedule A to this Circular.

The Board of Directors unanimously recommends that Shareholders vote in favour of the Arrangement Resolution, and the persons named in the enclosed form of proxy intend to vote for such approval at the Meeting unless otherwise directed by the Shareholders appointing them.

At the present time the sole voting shareholder of Blue Note is, and prior to implementation of the Arrangement the sole voting shareholder will continue to be, the Company, which has approved the Arrangement.

Court Approval of Arrangement

The CBCA requires that an arrangement obtain court approval. Prior to the mailing of this Circular, the Company obtained the Interim Order providing for the calling and holding of the Meeting and other procedural matters. A copy of the Interim Order is attached to this Circular as Schedule C. The Notice of Petition for the Final Order is attached to this Circular as Schedule D.

As provided in the Notice of Petition, the hearing in respect of the Final Order is scheduled to take place on June 1, 2005, before the Court, subject to Shareholder approval of the Arrangement at the Meeting. At this hearing, all Shareholders who wish to participate or be represented or present evidence or argument may do so, subject to filing a notice of appearance and satisfying other requirements. A Shareholder wishing to appear before the Court should seek legal advice.

The Company has been advised by Miller Thomson LLP, counsel to the Company, that the Court has broad discretion under the CBCA when making orders in respect of the Arrangement and that the Court will consider, among other things, the fairness and reasonableness of the Arrangement. The Court may approve the Arrangement either as proposed or as amended in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court thinks fit.

Amendment and Termination of the Arrangement Agreement

The Arrangement Agreement provides that it may be amended in a manner not materially prejudicial to the Shareholders by written agreement of the Company and Blue Note before or after the Meeting, but prior to the Effective Date, without further notice to the Shareholders.

The Arrangement Agreement may, at any time before or after the holding of the Meeting but no later than the Effective Date, be terminated by the Board of Directors without further notice to, or action on the part of, Shareholders.

Without limiting the generality of the foregoing, the Board of Directors may terminate the Arrangement Agreement:

(a) If immediately prior to the Effective Date, Dissenting Shareholders holding 10% or more of the outstanding Common Shares have not abandoned the right of dissent provided for in the Plan of Arrangement.

(b) If prior to the Effective Date there is any material change in the business, operations, property, assets, liabilities or condition, financial or otherwise, of the Company or Blue Note, or any change in general economic conditions, interest rates or any outbreak or material escalation in, or the cessation of, hostilities or any other calamity or crisis, or there should develop, occur or come into effect any occurrence which has a material effect on the financial markets of Canada and the Board of Directors determines in its sole judgment that it would be inadvisable in such circumstances for the Company to proceed with the Arrangement.

Failure to Complete Arrangement

In the event the Arrangement Resolution is not passed by Shareholders, the Court does not approve the Arrangement or the Arrangement does not proceed for some other reason, the NB Mineral Properties and working capital will remain with the Company and the Company will carry on business as it is currently carried on. In such a case, the Private Placement will not proceed, the Breakwater LOI will be assumed by the Company and Blue Note will likely remain a dormant subsidiary of the Company.

Existing Share Commitments

The Company currently has outstanding warrants and incentive share options entitling warrantholders, directors, officers and employees to purchase up to an aggregate of 13,735,447 Common Shares at exercise prices ranging from $0.15 to $0.32 per share and expiring on dates ranging from April, 2005 to March, 2010. See "Information concerning the Company - Share Capital - Options to Purchase Shares."

To participate in the Arrangement, holders of such warrants and options must exercise their warrants and options so that they are Shareholders as of the Effective Date.

Delivery of Share Certificates

The Certificates currently representing the Common Shares will continue to represent the New Common Shares upon completion of the Arrangement. If the Arrangement is completed on or about June 6, 2005, Blue Note will mail to Shareholders of record on or about the Effective Date the certificates representing the Blue Note Common Shares which the Shareholders are entitled to receive under the Arrangement.

U.S. Securities Laws

Under existing interpretations of the SEC's Division of Corporation Finance, the proposed issuances of New Common Shares, Reorganization Shares and Blue Note Common Shares to the Shareholders are considered to be "offers" or "sales" of securities. The Company and Blue Note therefore seek to rely upon the securities registration exemption set forth in Section 3(a)(10) of the 1933 Act with respect to the various issuances of securities in the Arrangement. The consequences to Shareholders are set out below.

In the event that the Arrangement is completed, the resulting issuance of New Common Shares, Reorganization Shares and Blue Note Common Shares to Shareholders will not be registered under the 1933 Act or the securities laws of any state of the United States, but will instead be effected in reliance on the registration exemption provided by Section 3(a)(10) of the 1933 Act and exemptions provided under applicable state securities laws.

New Common Shares, Reorganization Shares and Blue Note Common Shares received by a Shareholder who is an "affiliate" of the Company or Blue Note after the Arrangement will be subject to certain resale restrictions imposed by the 1933 Act. As defined in Rule 144 under the 1933 Act, an "affiliate" of an issuer is a person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such issuer. Typically, persons who are executive officers, directors or major shareholders of an issuer are considered to be its "affiliates."

With respect to New Common Shares issued to Shareholders upon completion of the Arrangement, persons who are not affiliates of the Company prior to the Arrangement and who are not affiliates of the Company after the Arrangement may, subject to applicable Canadian requirements, resell such securities without restriction under the 1933 Act. The same is true with respect to Blue Note Common Shares and persons who are not affiliates of Blue Note after the Arrangement.

Persons who are affiliates of the Company or Blue Note after the Arrangement may not, as to their respective affiliated issuer(s), resell their New Common Shares and/or Blue Note Common Shares in the absence of registration under the 1933 Act, unless, as discussed below, an exemption from registration is available, such as the exemption contained in Rule 145(d) under the 1933 Act, or unless registration is not required pursuant to the exclusion from registration provided by Regulation S under the 1933 Act.

In general, under Rule 145(d), as currently in effect, persons who are affiliates of the Company prior to the Arrangement, and persons who are affiliates of either the Company or Blue Note after the Arrangement, will, as to their respective affiliated issuer(s), be entitled to resell in the United States, during any three-month period, that number of New Common Shares and/or Blue Note Common Shares that does not exceed the greater of 1% of the then outstanding securities of such class (as such class is determined under the SEC's rules), or, if such securities become listed on a United States securities exchange or traded on NASDAQ (and for the foreseeable future it is not anticipated that they will be), the average weekly trading volume of such securities during the four-week period preceding the date of sale, subject to certain restrictions on manner of sale, notice requirements, aggregation rules and the availability of public information about the Company and/or Blue Note (as to which there can be no assurance). Former affiliates of the Company who are not affiliates of the Company or Blue Note after the Arrangement, and who, as to their respective affiliated issuer(s), hold their New Common Shares and/or Blue Note Common Shares for a period of one year after the Arrangement, may resell such securities without regard to the volume and manner of sale limitations set forth in the preceding sentence, subject to the availability of certain public information about the Company and/or Blue Note (as to which there can be no assurance). Former affiliates of the Company who are not affiliates of the Company or Blue Note after the Arrangement and who hold their New Common Shares and Blue Note Common Shares for a period of two years after the Arrangement may resell such securities without regard to the above-described restrictions, provided that such persons have not been an affiliate of the Company and/or Blue Note, as the case may be, during the three-month period preceding the resale.

Subject to applicable Canadian requirements and the following described U.S. imposed limitations, all holders of New Common Shares and Blue Note Common Shares may immediately resell such securities outside the United States without registration under the 1933 Act pursuant to Regulation S thereunder.

Holders of New Common Shares who are not affiliates of the Company, or who are affiliates of the Company solely by virtue of serving as an officer or director of the Company, may, under the securities laws of the United States, resell their New Common Shares in an “offshore transaction” within the meaning of Regulation S (which would include a sale through the Exchange that is not pre-arranged with a United States buyer) if neither the seller nor any person acting on the seller’s behalf engages in “directed selling efforts” in the United States and, in the case of a person who is an affiliate of the Company solely by virtue of serving as an officer or director, no selling commission, fee or other remuneration is paid in connection with such offer or sale other than a usual and customary broker’s commission. The same is true with respect to Blue Note Common Shares and persons who are affiliates of Blue Note after the Arrangement.

For purposes of Regulation S, an “offshore transaction” is a transaction that meets the following requirements: (i) the offer is not made to a person in the United States; (ii) either (A) at the time the buy order is originated, the buyer is outside the United States, or the seller and any person acting on its behalf reasonably believe that the buyer is outside the United States, or (B) the transaction is executed in, on or through the facilities of a designated offshore securities market (which would currently include the Exchange) and neither the seller nor any person acting on its behalf knows that the transaction has been pre-arranged with a buyer in the United States; and (iii) offers and sales are not specifically targeted at identifiable groups of U.S. citizens abroad. However, should the common shares of the Company or Blue Note not be listed on the Exchange, then it would be difficult for U.S. holders to sell such issuer’s respective securities in an “offshore transaction” within the meaning of Regulation S. While the Company and Blue Note have applied to the Exchange for the listing of the New Common Shares and Blue Note Common Shares upon completion of the Arrangement, and believe that such listing will be obtained in the ordinary course, there can be no assurance that such a listing will be obtained or that it will be maintained.

For purposes of Regulation S “directed selling efforts” means “any activity undertaken for the purpose of, or that could reasonably be expected to have the effect of, conditioning the market in the United States for any of the securities being offered” in the resale transaction.

Certain additional Regulation S restrictions are applicable (i) to a holder of the Company’s or Blue Note’s securities who will be an affiliate thereof other than by virtue of his or her status as an officer or director, or (ii) if such issuer does not qualify as a “foreign issuer” as defined in Regulation S at the time of sale. Although upon completion of the Arrangement both the Company and Blue Note will each qualify as a “foreign issuer,” and management anticipates that each will remain as such for the foreseeable future, there can be no guarantee that one or both will always remain “foreign issuers” as defined in Regulation S.

The exemption provided by Section 3(a)(10) of the 1933 Act will not be available for the issuance of shares upon exercise of warrants or options issued by either the Company or Blue Note. As a result such warrants and options may not be exercised by or on behalf of a person in the United States, and the shares issuable upon exercise thereof may not be offered or sold in the United States unless an exemption from the registration requirements under the 1933 Act and the securities laws of all applicable states of the United States is available for such exercise and resale. Subject to applicable Canadian requirements, holders of shares issued upon exercise of any such options or warrants may also resell such shares under SEC Regulation S, as discussed above.

The foregoing discussion is only a general overview of certain requirements of United States federal securities laws applicable to the New Common Shares and Blue Note Common Shares received upon completion of the Arrangement. Holders of such securities may be subject to additional restrictions, including, but not limited to, restrictions under written contracts, agreements or instruments to which they are parties or are otherwise subject, and restrictions under applicable United States state securities laws. All holders of the Company’s and Blue Note’s securities are urged to consult with counsel to ensure that the resale of their securities complies with applicable securities legislation.

This solicitation of proxies is not subject to the requirements of Section 14(a) of the United States *Securities Exchange Act of 1934*. Accordingly, this Circular has been prepared in accordance with the disclosure requirements of Canadian law. Such requirements are different than those of the United States applicable to registration statements under the 1933 Act and proxy statements under the United States *Securities Exchange Act of 1934*. The financial statements included herein have been prepared in accordance with Canadian GAAP, are subject to Canadian auditing and auditor-independence standards, and may not be comparable in all respects to financial statements of United States companies.

The securities to be issued in connection with the Arrangement have not been approved or disapproved by the United States Securities and Exchange Commission or securities regulatory authorities of any state of the United States, nor has the United States Securities and Exchange Commission or securities regulatory authority of any state in the United States passed on the adequacy or accuracy of this circular. Any representation to the contrary is a criminal offence.

Stock Exchange Listing

The Common Shares are currently listed on the Exchange. The Arrangement will not be implemented unless the New Common Shares are listed on the Exchange in place of the existing Common Shares and the Blue Note Common Shares are listed on the Exchange. The Company has applied to the Exchange for approval to the listing of the New Common Shares and for approval to the listing of the Blue Note Common Shares, and for the temporary listing of the Reorganization Shares to facilitate completion of the Arrangement.

Canadian Federal Income Tax Considerations About the Arrangement for Shareholders

Miller Thomson LLP has prepared the following summary of the principal Canadian federal income tax considerations generally applicable to Shareholders who are individuals (other than trusts, including trusts that govern deferred income plans under the ITA such as registered retirement savings plans) or corporations who are not exempt from Canadian federal income tax, who deal at arms' length with the Company and who hold their Common Shares as capital property. This summary deals with a Shareholder who is either a resident or a non-resident of Canada and either participates in the Arrangement or is a Dissenting Shareholder in relation to the Arrangement.

This summary is based on the current provisions of the ITA, the regulations thereunder, all proposals to amend the ITA or the regulations publicly announced by the federal Minister of Finance prior to the date hereof, and Miller Thomson LLP's understanding of the current administrative practices of the Canada Revenue Agency ("CRA"). The Company has not applied, and does not propose to apply, for an advance income tax ruling from CRA regarding any of the income tax considerations summarized below.

This summary is not exhaustive of all Canadian federal income tax considerations applicable to a Shareholder who proposes to participate in or dissent in relation to the Arrangement. Other than publicly-announced proposals to amend the ITA or the regulations, this summary does not take into account or anticipate changes in the ITA, the regulations or the administrative practices of CRA. Nor does this summary take into account provincial, territorial, or foreign tax considerations.

This summary is of a general nature only and is not intended to be, nor should it be considered to be, legal or tax advice to any particular person. Therefore, Shareholders should consult their own tax advisors with respect to their particular circumstances.

Shareholders not resident in Canada should consult their own tax advisors with respect to the tax laws of all of the jurisdictions in which they are citizens, are residents or are domiciled. For example only, Shareholders who are citizens or residents of the United States should consider the United States tax implications of participating in or dissenting in relation to the Arrangement.

This summary does not address income tax considerations applicable to holders of options or warrants in relation to the exercise thereof to acquire Common Shares or the expiry or disposition thereof, applicable to Shareholders who are directors, officers or other insiders in relation to the Company or related companies, or applicable to Shareholders who hold their Common Shares as inventory or stock in trade (i.e., not as capital property).

Shareholders Resident in Canada Who Participate in the Arrangement

This part of the summary applies generally to Shareholders who, for the purposes of the ITA, are resident in Canada and who participate in the Arrangement.

On the exchange of Common Shares for Reorganization Shares and New Common Shares, Shareholders who hold their Common Shares as capital property will be deemed to dispose of the Common Shares for proceeds, and to acquire the Reorganization Shares and New Common Shares at an aggregate cost, equal to the adjusted cost base of their Common Shares.

The Company will allocate that aggregate cost between the Reorganization Shares and the New Common Shares on the basis of their relative fair market values. The Company advises that the Reorganization Shares will have an aggregate fair market value which equals the best estimate of the fair market value of the consideration to be received on their redemption as part of the Arrangement, that the New Common Shares have an aggregate fair market value equal to the aggregate fair market value of the Common Share less the aggregate fair market value of the Reorganization Shares and that the allocation of those values between those classes of shares is reasonable. However, such allocation is not binding on CRA.

On the exchange of Reorganization Shares for Blue Note Common Shares, a Shareholder who holds its Reorganization Shares as capital property will be deemed to dispose of the Reorganization Shares for proceeds, and to have acquired the Blue Note Common Shares at a cost, equal to the cost of the Reorganization Shares if, at the time immediately following the exchange, it deals at arm's length with Blue Note and, either alone or together with persons with whom it deals on a non-arm's-length basis, would neither control Blue Note nor beneficially own shares of Blue Note having a fair market value of more than 50% of the fair market value of all the issued and outstanding shares of Blue Note at that time.

Despite the preceding paragraph, a Shareholder may choose to recognize a capital gain or capital loss on the exchange of the Reorganization Shares for Blue Note Common Shares by recognizing the gain or loss in calculating its income tax liability for the year in which the exchange occurs.

Dissenting Shareholders Resident in Canada

This part of the summary applies generally to Shareholders who, for the purposes of the ITA, are resident in Canada and who do not participate in the Arrangement.

A Dissenting Shareholder who receives a payment for the sale of its Common Shares equal to the fair market value of its Common Shares generally will be deemed to have received a dividend equal to the amount, if any, by which the payment exceeds the paid-up capital of the Common Shares. If the dividend is so deemed received by an individual, the individual must include 125% of the dividend in income but will be entitled to claim a dividend tax credit against federal taxes payable equal to 13 1/3% of the amount included in income. If a taxable Canadian corporation receives the dividend, the dividend generally will be deductible in computing income under Part I of the ITA, but may be subject to a special refundable tax under Part IV of the ITA.

The Dissenting Shareholder will realize also on the sale of its Common Shares a capital gain (or a capital loss) to the extent that the amount of the payment received, less the amount of the deemed dividend and of any costs of disposition, exceeds (or is exceeded by) the adjusted cost base of such shares to the Dissenting Shareholder.

Shareholders Not Resident in Canada Who Participate in the Arrangement

This part of the summary applies generally to Shareholders who, for the purposes of the ITA, are not, and have not been at any time while they held their Common Shares, resident in Canada, and who participate in the Arrangement.

Generally, such a Shareholder who participates in the Arrangement will not be subject to tax under the ITA in respect of its participation in the transactions comprised in the Arrangement if the Shareholder never did and does not use or hold, and was and is not deemed under the ITA to use or hold, its Common Shares in carrying on a business in Canada and if at no time, during the five-year period preceding the Effective Date, did it (either alone or together with persons with whom the Shareholder deals on an non-arm's length basis) hold 25% or more of the issued shares in any class or series of shares of the Company.

Dissenting Shareholders Not Resident in Canada

This part of the summary applies generally to Shareholders who, for the purposes of the ITA, are not, and have not been at any time while they held their Common Shares, resident in Canada and who do not participate in the Arrangement.

A Dissenting Shareholder who receives a payment equal to the fair value of its Common Shares will generally be deemed to have received a dividend equal to the amount by which the payment exceeds the paid-up capital of the Common Shares.

Under the ITA, dividends paid to a non-resident person are subject to withholding tax at the rate of 25%, but such rate may be reduced under the provisions of any income tax convention or treaty in force between Canada and the country of residence of the Dissenting Shareholder.

No U.S. Legal Opinion or IRS Ruling

No legal opinion from U.S. legal counsel or ruling from the United States Internal Revenue Service has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the Arrangement. Shareholders who are subject to U.S. taxation should consult with their own professional advisers with regard to the Arrangement's U.S. tax implications.

RIGHTS OF DISSENT

The following description of the rights of registered Shareholders to dissent and be paid fair value for their Common Shares, granted by virtue of the Interim Order, is not a comprehensive statement of the procedures to be followed by a registered Shareholder who dissents and seeks payment of the fair value of that holder's Common Shares and is qualified in its entirety by the reference to the full text of the Interim Order and Section 190 of the CBCA, which are attached to this Circular as Appendix C and E, respectively. A registered Shareholder who intends to exercise a right of dissent and appraisal should carefully consider and comply with the provisions of that section, as modified by the Interim Order, and should seek independent legal advice.

Failure to comply with the provisions of that section, as modified by the Interim Order, and to adhere to the procedures established therein may result in the loss of all rights thereunder.

The Court on hearing the application for the Final Order has the discretion to alter the rights of dissent described herein based on the evidence presented at such hearing.

Under the Interim Order, a registered Shareholder is entitled, in addition to any other right that a Shareholder may have, to dissent and to be paid by the Company the fair value of the Common Shares held by that Shareholder in respect of which that Shareholder dissents, determined as of the close of business on the last business day before the day on which the resolution from which that Shareholder dissents is adopted. A Shareholder may dissent only with respect to all of the Common Shares held by that Shareholder or on behalf of any one Beneficial Shareholder. Further, a Shareholder may only dissent in respect of Common Shares registered in the dissenting Shareholder's name. The demand for appraisal must be executed by or for the Shareholder of record, fully and correctly, as such Shareholder's name appears on the Shareholder's security certificates. If the securities are owned by an Intermediary or of record in a fiduciary capacity, such as by a trustee, guardian or custodian, the demand should be made in that capacity, and if the securities are owned of record by more than one person, as in a joint tenancy or a tenancy in common, the demand should be made by or for all owners of record. An authorized agent, including one or more joint owners, may execute the demand for appraisal for a Shareholder of record; however, such agent must expressly identify the recorded owner or owners, and expressly disclose in such demand that the agent is acting as agent for the recorded owner or owners.

Persons who are Beneficial Shareholders who wish to dissent should be aware that only the registered Shareholder is entitled to dissent with respect to such securities. A registered Shareholder such as a an Intermediary who holds Common Shares as nominee for Beneficial Shareholders, some of whom desire appraisal, must exercise dissent rights on behalf of such Beneficial Shareholders with respect to the securities held for such Beneficial Shareholders. In such case, the demand for appraisal should set forth the number of Common Shares it covers.

A registered Shareholder wishing to dissent must send to the Company a written objection to the Arrangement Resolution. The written objection (the "Notice of Dissent") must be received by the Transfer Agent at 10th Floor, 625 Howe Street, Vancouver, British Columbia, V6C 3B8 on or before 5:00 p.m. (Toronto time) on May 24, 2005, or delivered to the Chairman of the Meeting before the commencement of the Meeting. The sending of a Notice of Dissent does not deprive a registered Shareholder of the right to vote on the Arrangement Resolution, but a vote either in person or by proxy against the Arrangement Resolution does not constitute a Notice of Dissent. A vote in favour of the Arrangement Resolution will deprive the registered Shareholder of further rights under Section 190 of the CBCA.

Within ten days after the adoption of the Arrangement Resolution by the Shareholders, the Company is required to notify in writing each Dissenting Shareholder who has filed a Notice of Dissent and has not voted for the Arrangement Resolution or withdrawn that Shareholder's objection that the Arrangement Resolution has been adopted. A Dissenting Shareholder must, within 20 days after it receives notice of adoption of the Arrangement Resolution or, if that Dissenting Shareholder does not receive such notice, within 20 days after that Dissenting

Shareholder learns that the Arrangement Resolution has been adopted, send to the Company a written notice (the "Demand for Payment") containing the Dissenting Shareholder's name and address, the number of Shares in respect of which that Dissenting Shareholder dissents, and a demand for payment of the fair value of such securities. Within 30 days after sending Demand for Payment, the Dissenting Shareholder must send the certificates representing the Common Shares in respect of which that Dissenting Shareholder dissents to the Company or the Transfer Agent. The Company or the Transfer Agent must endorse on the certificates a notice that the holder thereof is a Dissenting Shareholder under Section 190 of the CBCA and then forthwith return the certificates to the Dissenting Shareholder. A Dissenting Shareholder who fails to send the certificates within the aforementioned time period has no right to make a claim under Section 190 of the CBCA.

After sending a Demand for Payment, a Dissenting Shareholder ceases to have any rights as a holder of the security in respect of which the Dissenting Shareholder has dissented, other than the right to be paid the fair value of such securities as determined under Section 190 of the CBCA, unless: (i) the Dissenting Shareholder withdraws that Dissenting Shareholder's Demand for Payment before the Company makes a written offer to pay (the "Offer to Pay"); (ii) the Company fails to make a timely Offer to Pay to the Dissenting Shareholder and the Dissenting Shareholder withdraws that dissenting Shareholder's Demand for Payment; (iii) the directors of the Company revoke the Arrangement Resolution; (iv) the Arrangement Agreement is terminated; or (v) the application by the Company to the Court for the Final Order is refused and all appeal rights have been exhausted, in all of which cases the Dissenting Shareholder's rights as a shareholder are reinstated.

Not later than seven days after the later of the Effective Date and the day the Company receives the Demand for Payment, the Company must send, to each Dissenting Shareholder who has sent a Demand for Payment, an Offer to Pay for the shares of the Dissenting Shareholder in respect of which the Dissenting Shareholder has dissented in an amount considered by the directors of the Company to be the fair value thereof, accompanied by a statement showing how the fair value was determined. Every Offer to Pay made to Dissenting Shareholders must be on the same terms. The amount specified in an Offer to Pay which has been accepted by a Dissenting Shareholder must be paid by the Company within 10 days of the acceptance, but an Offer to Pay lapses if the Company has not received an acceptance thereof within 30 days after the Offer to Pay has been made.

If an Offer to Pay is not made by the Company or if a Dissenting Shareholder fails to accept an Offer to Pay, the Company may, within 50 days after the Effective Date or within such further period of time as a court of competent jurisdiction may allow, apply to the court to fix a fair value for the securities of any Dissenting Shareholder. If the Company fails to so apply to the court, a Dissenting Shareholder may apply to a court of competent jurisdiction for the same purpose within a further period of 20 days or within such further period as the court may allow. A Dissenting Shareholder is not required to give security for costs in any application to the court. Applications referred to in this paragraph may be made to a court of competent jurisdiction in the place where the Company has its registered office or in the province where the Dissenting Shareholder resides if the Company carries on business in that province.

On making an application to the court, the Company must give to each Dissenting Shareholder who has sent to the Company a Demand for Payment and has not accepted an Offer to Pay, notice of the date, place and consequences of the application and of its right to appear and be heard in person or by counsel. All Dissenting Shareholders whose securities have not been purchased by the Company will be joined as parties to any such application to the court to fix a fair value and will be bound by the decision rendered by the court in the proceedings commenced by such application. The court is authorized to determine whether any other person is a Dissenting Shareholder who should be joined as a party to such application.

The court will fix a fair value for the securities of all Dissenting Shareholders and may in its discretion allow a reasonable rate of interest on the amount payable to each Dissenting Shareholder from the Effective Date until the date of payment of the amount ordered by the court. The final order of the court in the proceedings commenced by an application by the Company or a Dissenting Shareholder will be rendered against the Company and in favour of each Dissenting Shareholder.

INFORMATION CONCERNING THE COMPANY

The Company was incorporated under the CBCA on June 25, 1999. The head office and registered office of the Company is located at 2 Place Alexis Nihon, 3500 de Maisonneuve West, Suite 1110, Westmount, Quebec, H3Z 3C1.

Until completion of the Arrangement, Blue Note will also be a subsidiary of the Company. All of the voting shares of Blue Note will be held by the Company, however it is possible that purchasers of Blue Note Units pursuant to the Private Placement and Breakwater pursuant to the Breakwater LOI may hold the non-voting Convertible Shares prior to completion of the Arrangement. See "Information Concerning Blue Note – Available Funds and Principal Purposes for Use – Private Placement" and "Information Concerning Blue Note – Description of NB Mineral Properties – Acquisition of Caribou Mine."

Since its inception in 1999, the Company has been, and after completion of the Arrangement will continue to be, a mining and exploration company. Since its inception the Company has been exploring for precious and base metals on the NB Mineral Properties and diamonds on the Diamond Properties. After the Effective Date the Company will own the Diamond Properties, a description of which is set out under the heading "Description of Diamond Properties" below.

Description of Diamond Properties

The Diamond Properties consist of two groups of mineral claims, designated as the Eastside property and the Southside property. The following information on the Diamond Properties is summarized from a report on the Diamond Properties and NB Mineral Properties dated March 16, 2005, prepared by N. Ralph Newson, M.Sc., P.Eng., P.Geo. (the "Newson Report"), and reference should be made thereto for further details.

Eastside Property

Description

The Company owns a 100% registered interest in the Eastside property located in the Fort a La Corne Forest area of central Saskatchewan.

A description of the mineral claims comprising the Eastside property is as follows:

Claim No.	**Expiry Date**	**Size in Hectares**
S-132502	June 2, 2009	256
S-134137	February 1, 2010	128
S-134138	February 1, 2010	128
S-134139	February 1, 2010	256
S-134140	February 1, 2010	256

The claims are located in one contiguous block.

The Company originally acquired an 85% interest in the Eastside property from Cartier Mining Corp., a subsidiary of Rhonda Mining Corporation ("Rhonda"), in 2000. The Company's acquisition cost was the issuance of 250,000 Common Shares to Rhonda and the reimbursement to Judson Woods Inc., a company of which Michael Judson, the president and chief executive officer of the Company, is the president, of costs in the amount of $46,150 incurred by Judson Woods Inc. in the course of its acquisition of the property on the Company's behalf.

The remaining 15% interest in the Eastside property was acquired from Leader Mining International Inc. ("Leader") pursuant to an agreement dated January 14, 2004. The consideration for the acquisition was the issuance of 250,000 Common Shares and warrants to purchase up to 125,000 Common Shares, exercisable at a price of $0.32 per Common Share until May 4, 2006.

Location and Accessibility

The Eastside property is located approximately 64 kilometers east and slightly north of Prince Alberta, Saskatchewan. Paved highway access passes approximately 23 kilometers north of the property, and the property itself can be accessed by a sporadically maintained seasonal road that is usable for much of the year.

Access on the Eastside property varies from easy to difficult. Average elevation is 425 meters above sea level. The terrain is flat sand plain with less than 10 meters relief except for the north-eastern corner where the terrain drops 20 to 30 meters to English Creek.

The climate is typical mid-continental, being dry with extreme seasonal temperature variations. Work can generally be carried out year round.

There is sufficient room on the Eastside property for a surface plant, waste and tailings disposal.

Water for drilling is not readily available on most of the property, except in the northeastern corner where English Creek crosses the property. Water has been trucked from English Creek for drilling carried out to date. Water for production will have to come from the Saskatchewan River, about seven kilometers south of the property. The closest power line is approximately 12 kilometers south of the property.

Nearby Prince Albert, or Saskatoon located approximately 150 kilometers south of Prince Albert, is able to provide the services and supplies needed.

History of Previous Work

In 1993, Rhonda and several partners conducted a drilling program on several properties in the Fort a la Corne Forest area, including the Eastside property. The program found blue-green kimberlitic breccia and tuff beds in black, mid-Cretaceous mudstones. The tuff was repetitive graded bedding, and appears to represent ash explosively discharged from a pipe. Volcaniclastic units and a sand horizon during the program were also present.

Airborne magnetic surveys had been carried out over the Eastside Property by a number of groups active in the area, and the Company has copies of two sets of data covering the Eastside property and surrounding area. The airborne data shows clearly the response of large kimberlitic bodies located in the surrounding area, in both total field and second vertical derivative of the total field, and provides a basis for comparison with the magnetic anomalies caused by other kimberlites.

On the Eastside property there was a response in the total magnetic field data similar to the response seen over the known kimberlitic bodies, but smaller in area and lower in amplitude. It was partly masked by a very strong response from an underlying magnetic iron formation. In the contoured plot of the second vertical derivative of the total field readings there is a significant response similar to, but weaker than, the responses seen over the large kimberlites found on nearby mineral claims, and clearly separated from the anomaly due to the iron formation.

Regional Geology

The Precambrian basement in the Fort a la Corne diamond area consists of Proterozoic rocks of the Glennie Domain of the Trans-Hudson orogen. Recent work has demonstrated that this component sits on an Archean basement, which has been deformed and thickened by the collision of the crustal blocks. This means that the region satisfies Clifford's Rule, which states that economic kimberlites only occur in cratonic nuclei of Archean age. This is a statement of empirical fact based on African experience, and appears to be true of Siberian and other diamond fields.

Overlying the Precambrian basement are the Phanerozoic rocks of the interior sedimentary basin. The Phanerozoic section in Saskatchewan is up to 3,200 meters thick in the southern part of the province but thins northward, and individual units lens out to the exposed edge of the Shield. Paleozoic rocks from Cambrian to Mississippian occur, but the section is not complete everywhere. From Late Mississippian to Early Jurassic the region experienced a period of uplift, and no sedimentation occurred.

Stratigraphy of the Phanerozoic section is a useful tool in exploration for kimberlites. Evidence indicates that all of the known kimberlites are about 99 to 110 million years old, so the most likely rock units in which to find kimberlite are those of that age.

The country rocks which are the same age as the kimberlites are Cretaceous mudstones, which are not filly lithified. They are underlain by Mannville sands which are fill of water. The underlying rocks appear to be dry carbonates. The Fort a la Corne kimberlites apparently owe their shape to the wet sediments in shallow seas on top of the dry carbonates. As the hot kimberlitic magma passed through the dry rocks it hit the water-filled sediments and caused a phreatomagmatic explosion, blowing a bowl-shaped hole in the sands and mudstones which subsequently filled with pyroclastic kimberlite. The Saskatchewan kimberlites have large surface areas because of this.

The Fort a la Corne kimberlites are covered with about 100 to 125 meters of unconsolidated Pleistocene glacial deposits.

Structures in the Precambrian basement and in the supracrustal Phanerozoic rocks are believed to have been important in providing conduits to surface for the kimberlitic magmas. A number of basement structures have been previously described, including boundaries between crustal blocks, axes of gravity highs and lows and faults with measurable horizontal separation.

It has been suggested that kimberlitic intrusion from the Sturgeon Lake area eastwards to the Manitoba border may have been controlled by a northeasterly extension of the Great Falls Tectonic Zone, which is exposed in Montana.

Major structures have been mapped in the Phanerozoic basin using extensive data accumulated by the Saskatchewan Department of Energy and Mines, including gravity, seismic and well log data. All but one of the known structures are thought to be reflections of structures in the Precambrian basement.

The Shaunavon linear is the longest structure and is defined by highly fractured calcilutites in the Jurassic Shaunavon formation and a depression in the Lower Cretaceous erosional surface. It aligns with the drainage divide between the South Saskatchewan River system and the Old Wives Lake-Qu'Appelle River system. Subsurface correlation of strata indicates that considerable tectonic arching has occurred along this trend. The linear is very close to the property.

There are many other regional structures that are not close to the property, but indicate that tectonism which may have provided conduits to kimberlitic magma is widespread. The Punnichy Arch trends east-west and is known to have been active during Late Albian time during deposition of uppermost Lower Cretaceous rocks. The topographic high over this structure may indicate that there has been some tectonic arching since the Albian. Evidence exists that some of the kimberlites in Saskatchewan are of approximate Albian age, or slightly younger.

The Molanosa Arch is near the northern edge of the Phanerozoic basin, and data is scarce. Available evidence suggests that it has been active over a long period of time, particularly during the Devonian and Jurassic, but also more recently. Areas near the Molanosa Arch have been the site of diamond exploration activities by other companies.

The Val Marie Arch deserves particular mention because there are kimberlite intrusions nearby, suggesting a genetic link. It was active during late Cretaceous time. Since there is evidence of Mid-Cretaceous kimberlitic intrusion elsewhere in Saskatchewan, other arch structures whose active period spans this time may have permitted the intrusion of kimberlite.

The Sweetgrass-North Battleford Arch is a major, complex structure. At times it appears to have included the Swift Current Platform (including the Cypress Hills) and had a total vertical rise of approximately 1,200 meters. The region subsided, leaving the Cypress Hills Arch and the Sweetgrass-North Battleford Arch.

Kimberlites in the area appear to be crater facies, and are composed of mixed olivine and lapilli pyroclastics with two generations of olivine. The groundmass consists of monticellite, perovskite, spinel, serpentine and carbonate. Xenocrysts include olivine, garnet, ilmenite and spinel. Xenolithic fragments include eclogite, peridotite, basement rocks, Paleozoic carbonates and Cretaceous clastic rocks.

Exploration to date has shown the kimberlite bodies have a very different shape from most known kimberlite bodies. In most of the well-known diamond mines in Africa, the upper portions of the kimberlites bodies have been eroded. This leaves only a feeder pipe having a “carrot” shape and getting smaller in diameter with depth. However, in the Fort a la Corne kimberlite swarm, the tops of the kimberlitic volcanic edifices are completely preserved and shaped more or less like a soup bowl, with two larger horizontal dimensions and one smaller vertical dimension.

This swarm of kimberlitic bodies located in the Fort a La Corne Forest district is the largest known swarm in the world, with some of the bodies being the largest known bodies in the world.

Potassium/argon dating of phlogopite in the kimberlite and dating by microfossils in the enclosing rocks has given an age of 94 to 96 million years. The bodies are at or very close to the Pleistocene erosional surface, under approximately 100 meters of overburden. The presence of crater facies and extra—crater rocks indicates that erosion is slight.

Property Geology and Mineralization

The Eastside property is covered with Pleistocene glacial drift to a depth of approximately 125 meters.

The Dizzy kimberlite located on the property, which is described below, is overlain by Cretaceous mudstone varying from 13 to 31.8 meters, which has protected it from erosion.

Major basement features which controlled the emplacement of the Dizzy kimberlite have not been seen, but may include the extension of the Great Falls Tectonic Zone. The axis of a gravity low passes just west of the property, and a subcratonic boundary underlies it. The gravity low could mean that light crustal rocks extend farther down into the heavier mantle rocks there than they do away from the low. A deep keel under a cratonic block is generally considered a positive factor in diamond genesis. The Great Falls Tectonic Zone is a Long and wide zone, and is presumably also deep. It could be a zone of weakness, which permitted, perhaps in conjunction with other zones of weakness, the intrusion of kimberlitic material.

The Shaunavon Linear may also have controlled the intrusion of kimberlites. Although it appears that its axis does not pass exactly through the property, it is close enough that it could have contributed to the control of kimberlitic intrusion.

The target of the Company’s exploration work is a diamondiferous kimberlite of the “Saskatchewan” type, i.e. a kimberlite in its complete and uneroded state with its upper part preserved. This type of kimberlite typically has two large horizontal dimensions and a smaller, but variable, vertical dimension. The bulk of the kimberlite is in the upper, laterally extensive part. The expected feeders, or pipes, are not well known at this time, and it cannot be predicted how much the feeders may contribute to future delineated tonnage or grade.

In this model, kimberlitic volcanism occurred in mid-Cretaceous times creating phreatomagmatic explosions. These explosions in turn formed large, bowl-shaped craters which were then filled with tuffaceous and coarser volcaniclastic material produced by continuing kimberlitic volcanism, in some cases building up a cone of kimberlite. Outside the craters pyroclastic kimberlite formed a laterally extensive, bedded, conformable, flat-lying layer of kimberlitic material interbedded with mudstones in the region, overlying and surrounding the feeders to the volcanoes. Although some erosion and redeposition of kimberlite clearly occurred close to the time of extrusion, the deposits were protected from erosion by subsequent deposition of overlying Cretaceous sediments. Farther north kimberlite directly in contact with Pleistocene deposits has been observed, indicating that Pleistocene glaciers uncovered some of the kimberlites in the area allowing erosion to take place.

Existing kimberlites in the area have been identified as Group 1 kimberlites by virtue of having two generations of olivine (phenocrysts and macrocrysts) in a matrix of monticellite, perovskite, spinel, mica, and primary varieties of serpentine and carbonate. Both peridotitic and eclogitic garnets have been found.

The kimberlites in the area were discovered by drilling magnetic anomalies. This indicates all are magnetic to some degree, but the magnetic susceptibility varies from body to body and within each body.

Blue-green kimberlitic breccia and tuff beds containing diamonds were discovered on the Eastside property by Rhonda in 1993. The tuff has repetitive graded bedding and appears to represent ash explosively discharged from a pipe. Volcaniclastic units and a sand horizon are also present.

Recent work by the Company has confirmed the presence of an in situ deposit of diamondiferous kimberlite, called the Dizzy kimberlite. Five holes have been completed in the Dizzy Kimberlite, and samples totaling 485 kilograms from the five completed holes yielded 37 diamonds, eight of which have at least one dimension greater than 0.50 mm.

Exploration by the Company

The Company has carried out several exploration programs on the Eastside property since 2002, including ground magnetic surveys and drilling.

The magnetic surveys have identified a number of anomalies, and combined with the drill program resulted in the discovery of the Dizzy kimberlite in 2003.

Drilling was conducted in two phases. The first phase consisted of two holes and resulted in the discovery of the Dizzy kimberlite. The second phase consisted of five holes drilled in the Dizzy kimberlite.

All of the second phase holes had approximately 125 meters of overburden, although the contact was not seen in any core. All holes had Cretaceous mudstone over the kimberlite, ranging in thickness from 31.8 meters in the southernmost hole to an average of 22 meters in the three central holes to 13 meters in the northernmost hole, indicating that the mudstone thins rapidly to the north.

All holes intersected fine-grained, altered kimberlite immediately under the mudstone, which grades into “fresh” kimberlite at depths ranging from 11.6 meters to 19.4 meters, except in one hole in which all of the 6.9 meters of kimberlite is altered. (All of the kimberlite is altered to some degree, so the terms “altered” and “fresh” are relative.)

The textures and granularity varied widely from hole to hole, making correlations impossible. In particular, the two holes with the thickest intersections did not closely resemble each other. It is not clear whether or not the intersections are the true thicknesses of the units. In general, the kimberlites are thought to be horizontally bedded, and therefore vertical holes should intersect a true thickness of any bed. However, the lack of continuity from hole to hole in the Dizzy kimberlite indicates that the situation may be more complicated than that.

All of the holes contain magnetite, but its content is also variable.

A more detailed description of the surveying and drilling results is set out in the Newson Report.

Sampling Methodology

In one hole three samples of eight kilograms each were obtained by splitting three non-contiguous sections of core, with one-half being sent for analysis and the remaining half and core being retained for further examination. The samples were from the top, middle and bottom of the kimberlite interval.

In each of the remaining holes all of the main kimberlite unit to be sampled was split, with one-half being sent for analysis and the remaining half being retained for further examination. Since no mineralization could be seen, the samples were selected so that each was geologically homogeneous to the extent that could be seen with a hand lens. The upper altered zone of each hole was taken as a separate sample. Below that, samples were homogeneous with respect to grain size, support (clast or matrix), structures, and texture.

Recovery of core was good, but not perfect. A few sections were completely lost, and some were badly broken and may have sustained loss. Overall losses are estimated to be less than 7%, and there are no other biases in the drilling or sampling. However, tiny samples like these are not representative in any quantitative sense of the diamond content of the body. The purpose of the drilling was first to see if the magnetic anomaly indicated the presence of kimberlite or not, and then to begin the process of outlining the geometry of the body. The split samples were analyzed to see if the body was at all diamondiferous.

Details of sample intervals, weights of sample as received by the labs, results for the samples retrieved from all of the holes and applicable security measures are set out in the Newson Report.

The drill core was logged by the author of the Newson Report in a secure building. Although the core was examined and logged by other people, the author carried out all of the sampling unaided and was the only person to touch or have access to the samples until they were either delivered to the lab or a shipper. No employee, officer, director, associate or shareholder of the Company was involved in any aspect of the sampling.

In the Newson Report the author states that the sampling procedure, sample preparation, security and analytical procedures were adequate.

Interpretations and Conclusions

The Dizzy kimberlite is part of one of the largest kimberlite swarms in the world, which contains some of the largest kimberlite bodies in the world. About half of the bodies contain diamonds with at least one dimension greater than 1.00 mm, and the Dizzy kimberlite is one of these.

The small size of the sample taken from the Dizzy kimberlite precludes any estimation of diamond content or size or distribution of the diamonds. It is significant that almost all of the diamonds found were fragments, most with no crystal faces. This means that each one is part of a larger diamond, but it is impossible to say how large.

The size of the Dizzy kimberlite has not yet been determined. The magnetic anomaly is smaller than that of bigger kimberlites to the west, but not all of the body is strongly magnetic. Drilling should be continued to find the limits of the body, starting in the north where the thickest intersection was made and in the west where the diamond count was encouraging. It will be fairly straightforward to determine the geometry of the body through drilling. Judging by experience on neighbouring properties, determining the grade will not be as easy in the southern portion of the property.

The Dizzy kimberlite is not the only target on the property. An additional anomaly in the southern portion of the property appears from geophysical responses to be larger than the Dizzy kimberlite, although only approximately half of it is on Eastside property.

Because of thick overburden sampling is expensive, since the initial samples have to be recovered by drilling large diameter holes.

Drilling to date on the Dizzy kimberlite has intersected kimberlite of varying magnetic susceptibilities, and the limits of the body have not been reached. There may be more non-magnetic kimberlite in that direction. Although it is difficult to draw conclusions based on the small samples to date, diamonds tend to be found in the zones of lower magnetic susceptibilities. It is therefore imperative to continue the drill program outward from the existing holes.

Due to the possibility that there are kimberlites which are totally non-magnetic, other geophysical methods should be used. The two which are appropriate are electromagnetics and gravity, which measure conductivity and density, respectively. However, because of the low density contrast between the kimberlites on the property and the enclosing rocks, the high cost of covering the property with a ground gravity survey and the fact that the gravity survey over the Dizzy kimberlite detected till (which masked the kimberlite) the author concludes in the Newson Report that gravity is not the best tool to use at this time. Instead, an airborne EM survey using a high-powered time-domain system should be flown over the property, provided such a system is working nearby and available. Otherwise, the mobilization cost of such a system would be prohibitive.

Recommendations and Budget

In the Newson Report the author recommends a continuation of drilling on the property and survey of the property by means of a high-powered airborne EM system, providing one is available in the area.

An estimate of the costs of carrying out this work is as follows:

Description	Amount
Drilling: 10 holes of 250 m @ $100/m	$ 250,000
Preparation, supervision, interpretation, reports	$ 50,000
Analytical: 1,000 kg @ $80/kg	$ 80,000
Site prep, remediation	$ 20,000
Airborne EM survey	$ 12,000
Overhead	$ 41,500
Total	$ 466,000

Southside Property

Description

The Company owns a 100% registered interest in the Southside property located in the Fort a la Corne Forest area of central Saskatchewan.

A description of the mineral claims comprising the Southside property is as follows:

Claim No.	Expiry Date	Size in Hectares
S-127197	November 12, 2005	64
S-127381	August 4, 2005	1,024
S-137777 to S-137896	December 23, 2006	41,280

Claims S-137777 to S-137896 comprise the main body of the Southside property. The claims are contiguous, but some are joined to the group only at one or more of their corners.

The main claim block is located approximately 13 kilometers southeast of the Eastside property. Claim S-127197 is located approximately seven kilometres northwest of the main claim block, halfway between the main claim block and the Eastside property. Claim S-127381 is just north of the main claim block, separated by a one kilometre wide strip of land covered by claims held by an arm's-length third party.

Claims S-127197 and S-127381 were originally included as part of the Eastside property and were acquired from Rhonda and Leader as part of that property. See "Information Concerning the Company – Description of Diamond Properties – Eastside Property – Description." The remaining claims were staked by the Company effective December 23, 2004.

Location and Accessibility

The property is quite accessible, with all claims being accessible by road. The roads vary from paved highways to good-quality gravelled grid roads to poorer-quality grid roads to "prairie trails" having minimal gravel covering. Rail lines also cross the main claim block.

Topography is generally flat and the land is quite open with few trees.

There is sufficient room on the Southside property to set up mining and processing operations but as the surface rights are all privately owned it would be necessary to negotiate with the owners.

Water for drilling is not readily available on the property and will have to be trucked from another source. Water for production would likely have to come from the Saskatchewan River, 35 kilometers away. Two power lines pass through the property.

History of Previous Work

Claims S-127197 and S-127381 were originally part of the Eastside property. See "Information Concerning the Company – Description of Diamond Properties – Eastside Property – History of Previous Work". As the main claim block was only staked by the Company in December 2004, it does not have a work history.

Regional Geology

Regional geology is the same as that for the Eastside property. See "Information Concerning the Company – Description of Diamond Properties – Eastside Property – Regional Geology".

Property Geology and Mineralization

The subcrop under most of the Southside property is shown in the Saskatchewan Geological Atlas as Cretaceous Lea Park or Milk River formations. The extreme southern end is shown as Cretaceous Riding Mountain Formation. The top of the White Speckled Shale is picked at -109.76 meters, and beds containing fish fragments are noted down to approximately -113 meters. The tops of the Upper, Middle, and Lower Ashville formations are picked at -126.72 meters, -156.81 meters, and -176.71 meters, respectively. The top of the Spinney Hill Formation is picked at -202.43 meters, and the top of the Lower Cretaeeous Mannville Group is picked at -214.91 meters.

The main swarm of kimberlites near the Eastside property are at the level where Pleistocene glaciation has eroded the Cretaceous mudstones just down to the level of the tops of the kimberlites. To the north some erosion of kimberlite has occurred. To the south the sedimentary rocks cover the tops of the kimberlites, with cover thickness increasing to the south. Any kimberlites found on the Southside property will likely be at greater depths than those near the Eastside property, and will likely be covered by a greater thickness of mudstone. This means that the magnetic expression of any kimberlites that may be present on the Southside property will be weaker than would be the case if the kimberlites were shallower, and means that any drill holes will have to be deeper.

Previous gravity surveying over the area clearly shows a discontinuity which lines up with the linear trend of the known kimberlites in the main Fort a la Corne group. Magnetic surveying has confirmed the same feature, albeit less distinctly. It is believed that this feature may be due to a structure and thus a zone of weakness that could permit the intrusion of kimberlites. The candidates for such a structure include a crustal boundary, a significant fault or splay from a major crustal fault.

The depth of overburden on the property is likely to be approximately 100 metres. The depth to Precambrian basement is likely to be approximately 800 metres at the northern end of the main claim block and approximately 1,000 meters at the southern end.

The type of deposit sought is a "Saskatchewan type" of kimberlite. See "Information Concerning the Company – Description of Diamond Properties – Eastside Property – Geology and Mineralization". However, unlike the better-known kimberlites to the north, it is anticipated that these kimberlites will have a weak magnetic signature, if any.

To date no kimberlite mineralization has been discovered on the Southside property.

Interpretations and Conclusions

The discontinuities seen in results from the gravity and magnetic surveying are interpreted to be caused by major crustal structures which could have permitted the intrusion of kimberlites. These discontinuities line up with the trend of the known kimberlites, although the discontinuities are not evident where the known kimberlites are. In the Newson Report the author states that they are good exploration targets, and if the kimberlite swarm continues to the southeast that is the most likely place to look.

Recommendations and Budget

In the Newson Report the author recommends a multiphase work program for the Southside property. The first phase would be a time-domain electromagnetic/magnetic survey over the main body of claims with a line spacing of 250 metres. In the next phase all conductive anomalies which appear to be caused by kimberlite should be surveyed on the ground with magnetics and gravity. The line spacing for this survey should be no greater than 100 metres with the length and number of lines being determined by the size and shape of the conductive anomaly. A drill program should then be carried out to test all conductive anomalies that cannot be shown to be due to drainage features, whether or not they have coincident magnetic or gravity anomalies. Priority should be given to those conductive anomalies which do have coincident magnetic and/or gravity responses.

An estimate of the costs of carrying out this work is as follows:

Description	**Amount**
Survey Work	
Preparation, planning	$ 20,000
Airborne time-domain EM survey: 2,500 km @ $100/km	$ 250,000
Ground magnetic surveys: 15 @ $5,000/survey	$ 75,000
Ground gravity surveys: 15 @$12,000/survey	$ 180,000
Interpretation, reporting	$ 20,000
Drilling	
Drilling: 10 holes of 300 m @$100/m	$ 300,000
Analyses: 2,000 kg @ $80/kg	$ 160,000
Preparation, supervision, interpretation, reports	$ 50,000

Description	Amount
Site prep, remediation, payments to landowners	$ 60,000
Overhead	$ 223,000
Total	$ 1,338,000

Available Funds and Principal Purposes for Use

Upon the Effective Date, the Company anticipates that it will have approximately $6,600,000 in working capital available. The Company intends to utilize this working capital as follows:

Description	Amount
Carry out recommended work program on Eastside property	$ 466,000
Carry out recommended work program on Southside property	$ 1,338,000
Cover estimated general and administrative expenses for a 12-month period	$ 957,600
Provide general working capital	$ 3,838,400
Total	$ 6,600,000

Administration

The Company estimates that aggregate monthly administration expenses for the ensuing 12-month period will be $79,800, for an aggregate of $957,600 over the 12-month period.

A summary of the estimated monthly administration expenses is as follows:

Item	Amount
Salaries and Benefits	$34,000
Consulting fees	$8,200
Transfer agent fees	$2,000
Telephone	$1,000
Rent	$3,600
Travel	$11,000
Investor Relations	$5,000
Office and Administration	$10,000
Legal and Audit	$5,000
Total	$79,800

Selected Financial Information and Management's Discussion and Analysis

Annual Information

The following is a summary of certain selected financial information of the Company for the last three financial years which is qualified by the more detailed information appearing in the Company's financial statements, which are available on SEDAR at www.sedar.com.

	Year Ended December 31, 2004 (audited)	Year Ended December 31, 2003 (audited)	Year Ended December 31, 2002 (audited)
Net loss	$ 563,980	$ 386,700	$ 189,025
Net loss per share	$ 0.023	$ 0.028	$ 0.030
Current assets	$ 870,441	$ 1,078,583	$ 81,636
Mineral properties and deferred exploration costs	$ 1,235,106	$ 910,421	$ 579,507
Total assets	$ 2,139,080	$ 1,989,248	$ 661,630
Total liabilities	$ 175,929	$ 246,540	$ 306,056
Shareholders equity (net of deficit)	$ 1,963,151	$ 1,742,708	$ 355,574
Working capital (deficiency)	$ 694,512	$ 832,043	($ 224,420)

Quarterly Information

The following is a summary of certain selected financial information of the Company for the eight most recently completed quarters ending at the end of the most recently completed financial year which is qualified by the more detailed information appearing in the Company's financial statements, which are available at www.sedar.com.

	Quarter Ended							
	Dec 31 2004 $	**Sept. 30 2004 $**	**June 30 2004 $**	**Mar 31 2004 $**	**Dec 31 2003 $**	**Sept 30 2003 $**	**June 30 2003 $**	**Mar 31 2003 $**
Revenues	9,908	3,842	4,484	3,830	6,320	2,970	3,740	488
Net loss	103,816	108,083	183,529	168,552	209,324	69,852	77,840	29,682
Net less per share	0.004	0.004	0.008	0.008	0.011	0.005	0.006	0.004

Dividend Policy

The Company has paid no dividends since its inception. At the present time, the Company intends to retain any earnings for corporate purposes. The payment of dividends in the future will depend on the earnings and financial condition of the Company and on such other factors as the Board of Directors may consider appropriate. However, since the Company is currently in a development stage, it is unlikely that earnings, if any, will be available for the payment of dividends in the foreseeable future.

Management's Discussion and Analysis for the Fiscal Year Ended December 31, 2004

The Company is a mineral exploration company with properties located in Saskatchewan and New Brunswick. The business of the Company consists of the acquisition, exploration and development (if warranted) of the properties in which it holds an interest. The principal natural resources being targeted by the Company are diamonds, gold, silver and base metals. This discussion and analysis of the Company should be read in conjunction with the Company's consolidated financial statements and related notes, which are attached as Schedule F to this Circular and are available on SEDAR at www.sedar.com. This financial information was prepared in accordance with generally accepted Canadian accounting principles. Unless expressly stated otherwise, all references to dollar amounts are in Canadian dollars.

Results of Operations

For the fiscal year ended December 31, 2004, the Company incurred a net loss of $734,087 ($0.02 per share) compared to a net loss of $386,700 ($0.02 per share) for fiscal 2003. During the period the Company invested $242,935 in exploration and an additional $496,422 for the acquisition of properties.

General and Administrative Expenses

General and administrative expenses increased from $400,218 for the same period last year to $734,087 for this period. This increase reflects an increase in salaries, consulting fees and financing costs. As a matter of policy, the Company reviews the carrying value of its mining properties and deferred exploration and development expenses during the fourth quarter of each fiscal year. The Company has concluded that no adjustments to the carrying value of its Saskatchewan and New Brunswick assets are required.

Mining Properties

The Company has two main areas of interest. The Company holds a 100% interest in two diamond properties near Prince Albert, Saskatchewan and a 100% interest in the California Lake Silver Property, Canoe Landing Lake Polymetallic Deposit and Rio Road Gold Property, all situated near Bathurst, New Brunswick.

Exploration and Development Programs

The Company spent $228,263 during the year on exploration and claim renewals of its mining properties. The Company carried out no exploration work on its diamond properties during the year. Greater financial resources than were available to the Company in 2004 were required to be able to add any significant value to the East Side diamond property. Assay results published in March 2004 showed the Dizzy kimberlite to be diamondiferous. A long planned drilling program was finally executed on the California Lake silver property and the Rio Road gold property located near Bathurst, New Brunswick.

Six holes were drilled at California Lake in August. Two holes tested geophysical anomalies outlined recently by the Company, and four tested the known silver zone for base metal mineralization. The anomalies, which the Company theorizes were caused by massive sulphides, appear to be caused by disseminated pyrite. The program confirmed the existence of silver mineralization on the property but not the base metal values that would have made it more attractive. California Lake is now being considered on the basis of its silver potential only.

A drilling program at the Rio Road gold property was also executed this summer to test two prominent geophysical anomalies identified by the Company. Two drill holes intersected a sequence of sedimentary rocks made up of volcanic rock that appears to have been eroded and re-deposited, mixed with sedimentary material of an approximately argillaceous composition. The most interesting feature of one hole drilled on the property was an alteration zone intersected from 275.9 to 281.9 metres in the hole.

Pyrite contained in the core of both holes was in the right location to be interpreted as the cause of the geophysical anomaly, but the amount identified appeared insufficient to explain the anomaly. Conductors found by old MaxMin surveys can be explained by the graphite seen.

Geophysical surveys were conducted over the Canoe Landing Lake polymetallic deposit and property during the summer to delineate new zones of mineralization. The Company executed magnetic, electromagnetic surveys and induced polarization with resistivity (IP/resistivity) surveys. A series of “stacked” anomalies were identified and are interpreted as worthwhile drill targets.

The Company also hired mining engineering consultants, Ross-Finlay 2000 Inc., of Val-d’Or, Quebec, to act as general contractors to conduct due diligence on the Caribou and Restigouche mines located near Bathurst. In October, the Company and its subsidiary Blue Note Metals Inc. signed a letter of intent with Breakwater Resources Ltd., of Toronto, Ontario, to acquire the Caribou and Restigouche lead-zinc-copper mines. Since the Company is undertaking to acquire, finance and re-start the Caribou and Restigouche mines, future exploration plans for California Lake, Rio Road and Canoe Landing Lake have been put on hold at least until 2006.

During the next 12-18 months the Company is planning to invest approximately $1.5 million in geophysics and drilling on its diamond properties near Prince Albert, Saskatchewan. The Company has funds to comfortably cover this expenditure.

Financing

In August, the Company closed a private placement of 1,325,000 flow-through shares at $0.17 per share. The issue generated total gross proceeds of $225,250. During October 2004, the Company closed a private placement of 1,400,000 flow-through units, generating gross proceeds of $252,000. The unit consisted of one common flow-through share at $0.18 and one half of a common share purchase warrant. Each whole warrant is exercisable into one non-flow-through common share for a period of two years at a price of $0.23 in the first year and $0.26 in the second year.

The Company also raised proceeds of $379,900 from the exercising of 2,333,667 warrants and 199,000 options.

In a subsequent event on March 30, 2005, the Company completed a private placement to raise gross proceeds of $6,500,000. The issue included a total of 20,000,000 units at $0.25, with each unit consisting of a common share and a half warrant exercisable at $0.35 for two years generating gross proceeds of $5 million, and the issuance of 5,000,000 flow-through units at

$0.30, with each unit consisting of a flow-through share and a half warrant exercisable at $0.40 per share for two years generating gross proceeds of $1.5 million.

Between January 1, 2005, and March 31, 2005, the Company issued approximately 9,183,903 common shares further to the exercise of approximately the same number of warrants and options generating proceeds of approximately $1,377,000.

Detailed information with respect to these financings and the rest of the Company's operations are available on SEDAR at www.sedar.com and by consulting the Company's financial statements.

The Company has working capital to finance itself for the next three years. At some future point, the Company plans to issue shares to finance its future operations, exploration and development programs.

The health of the equity markets and the interest thereof in the resource sector has a significant impact on the Company's operations since the Company has no revenue and must finance its operations with equity offerings. Recently the equity markets have had a strong interest in the resource sector and this interest is expected to continue for the foreseeable future. The Company feels that commodities are in the beginning of bull market driven by fundamental supply weakness and strong demand for metals from Asia. The Company also feels that there appears to be an incipient weakness in diamond supply, and that both of these factors will work to the Company's advantage.

Detailed information with respect to the Company's operations is available on SEDAR at www.sedar.com.

Risk Factors

All of the resource properties of the Company are at an exploration stage only and are without a known body of commercial ore or minerals. Mineral exploration and development involves a high degree of risk. The long-term profitability of the Company's operations will be in part directly related to the cost and success of its exploration and subsequent evaluation programs, which may be affected by a number of factors. These include the particular attributes of mineral deposits, including the quantity and quality of the ore, the cost to develop infrastructure for extraction, the financing cost, the rough diamond and metals prices, as well as the competitive nature of the industry. The effects of these factors cannot be accurately predicted, but any combination of them may result in the Company not receiving an adequate return on invested capital. Substantial expenditures are required for exploration programs and the development of reserves. In the absence of cash flow from operations, the Company relies on capital markets to fund its exploration and evaluation activities. Capital market conditions and other unforeseeable events may impact the Company's ability to finance and develop its projects.

Directors and Officers

The directors and officers of the Company elected at the Meeting will continue to be the directors and officers of the Company upon completion of the Arrangement. For further information, see "Annual Meeting Business - Election of Directors".

Additional information on the Company's directors and officers is set forth below.

Michael C. Judson, age 42, holds a B.A. in communications from Concordia University. Mr. Judson has been the President and Chief Executive Officer of the Company since its inception in 1999. He has also been the President of Judson Woods Inc., an investor relations firm, since 1982. Judson Woods Inc. works extensively with junior mineral exploration companies at all stages of development, and as a result, Mr. Judson has extensive experience in the marketing and financing of junior mineral exploration companies. Mr. Judson currently devotes approximately 90% of his time to the affairs of the Company, but upon completion of the Arrangement he expects to devote approximately 50% of his time to each of the Company and Blue Note.

André Audet, age 43, holds a B.Comm. from the University of Ottawa. Mr. Audet is the Chairman and Chief Executive Officer of Majescor Resources Inc., an Exchange-listed diamond exploration company with properties in Quebec, Nunavut, the United States and Madagascar. He is also President of Everton Resources Inc., an Exchange-listed 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 devotes approximately 5% to 10% of his time to the affairs of the Company.

Jean Girard, age 51, holds a B.Sc. in geology from Laval University, a B.Sc.A. in geological engineering from Laval University and M.Ing. in environment from Ecole Polytechnique. Mr. Girard is currently self employed as a geological consultant, however, he was the Vice President of Exploration for Geo Nova Exploration Inc., a mineral resource company, from 1994 to 2001. Mr. Girard has over 25 years of experience as a geologist and a geological engineer, and is credited with the discovery of what is now the Langlois Mine in Quebec operated by Breakwater Resources Ltd. Mr. Girard received the 1997 Quebec Prospector Award as a result of his work on the development of the Discovery Gold Project. Given his extensive technical background, Mr. Girard brings a great deal of technical expertise to the Company's management. Mr. Girard devotes approximately 5% to 10% of his time to the affairs of the Company.

John Mavridis, age 40, holds an LL.B. and an LL.M. from the University of Montreal. Mr. Mavridis has been practicing as a corporate lawyer since 1991 and has provided counsel to exploration and mining companies for the past 10 years. Mr. Mavridis devotes approximately 10% of his time to the affairs of the Company.

None of the directors or senior officers have entered into a non-competition or non-disclosure agreement with the Company.

Share Capital

Upon completion of the Arrangement the authorized capital of the Company will consist of an unlimited number of Common Shares, an unlimited number of New Common Shares and an unlimited number of Reorganization Shares.

The New Common Shares will have priority over the Common Shares on the liquidation, dissolution or winding up of the Company with respect to the distribution of assets of the Company in an amount equal to the paid-up capital of the New Common Shares. Otherwise, all Common Shares and New Common Shares rank equally as to dividends, voting powers and participation in assets. No such shares have been issued subject to call or assessment. There are no preemptive or conversion rights, and no provision for redemption, purchase for cancellation, surrender or sinking funds with respect to such shares. Provision as to modifications, amendments or variations of such rights or such provisions are contained in the Company's articles and by-laws and the CBCA.

The Reorganization Shares will rank in priority to the Common Shares and New Common Shares, but are non-voting. The Reorganization Shares will not be entitled to dividends and will be redeemable and retractable in an amount equal to the fair market value of the NB Mineral Properties and working capital being transferred to Blue Note pursuant to the Arrangement as determined by a senior officer of the Company (the "Redemption Amount"). On liquidation, dissolution or winding up, the Reorganization Shares will rank in priority to the Common Shares and New Common Shares with respect to a distribution of assets of the Company in an amount equal to the Redemption Amount.

Pursuant to the Arrangement, one New Common Share and 0.1168 of one Reorganization Share will be issued for each Common Share currently held by Shareholders. Immediately upon completion of the Arrangement there will be the same number of New Common Shares outstanding as the number of Common Shares that were previously outstandingprior to completion of the Arrangement.

Existing Share Capital

The following table sets forth as of the date hereof a summary of the particulars of the share and long term debt capital of the Company:

Designation of Security	Amount Outstanding as at December 31, 2004	Amount Outstanding as at the date hereof	Pro Forma Amount Outstanding upon completion of the Arrangement
Common Shares	$2,557,475 (26,844,634 Common Shares)	$9,057,475(1) (61,606,537 Common Shares)	$9,057,475 (61,606,537 New Common Shares (2))

Notes:

(1) *On March 30, 2005, the Company issued 25,000,000 Common Shares and 12,500,000 Common Share purchase warrants by way of private placement. Of the Common Shares issued, 5,000,000 were issued at a price of $0.30 and 20,000,000 were issued at a price of $0.25 per Common Share. The balance of the Common Shares issued were issued pursuant to the exercise of outstanding Common Share purchase warrants.*

(2) *Upon completion of the Arrangement the directors, officers and other insiders of the Company will hold 1,653,378 New Common Shares, which will represent approximately2.7% of the number of New Common Shares which will then be outstanding.*

As at December 31, 2004, the Company had no long term debt and a deficit of $1,349,181.

Options to Purchase Shares

As at the date hereof, the Company has an aggregate of 4,455,940 options to purchase Common Shares outstanding under the Option Plan. A summary of these options is as follows:

Category of Optionees	Number	Exercise Price ($)	Expiration Date	Market Value at Date of Grant ($)	Current Market Value ($)
Present and past executive officers	807,000	$0.15	March 18, 2008	Nil	$185,610
Present and past directors	350,000	$0.15	March 18, 2008	Nil	$80,500
	150,000	$0.15	June 22, 2009	$3,000	$34,500
Present and past employees	25,000	$0.21	March 7, 2009	$1,250	$4,250
	300,000	$0.15	Jan. 26, 2010	$6,000	$66,900
Consultants	50,000	$0.17	Sept. 30, 2009	$1,500	$10,500
	100,000	$0.15	Jan. 26, 2010	$2,000	$23,000

Prior Sales

The following table contains details of the sales of Common Shares within the 12 months prior to the date of this Circular.

Date of Issue	Number of Common Shares	Price per Share ($)
March 30, 2005	5,000,000	$0.30
March 30, 2005	20,000,000	$0.25
October 15, 2004	1,440,000	$0.18
July 30, 2004	1,325,000	$0.17
Various dates[(1)]	9,906,803	[(2)]

Notes:

(1) *Common Shares issued on various dates throughout the year upon the exercise of previously issued Common Share purchase warrants.*

(2) *Exercise prices at which Common Shares were issued ranged from $0.15 to $0.35.*

Stock Exchange Price

The Common Shares are listed for trading on the Exchange. The following table sets forth the reported high, low and closing prices and trading volume of the outstanding Common Shares on the Exchange for the periods indicated.

	High	Low	Close	Volume
April 2005	$0.41	$0.33	$0.35	3,289,200
March 2005	$0.485	$0.285	$0.34	30,277,738
Feb 2005	$0.33	$0.18	$0.32	16,351,901
Jan 2005	$0.20	$0.165	$0.175	924,700

	High	Low	Close	Volume
Oct-Dec 2004	$0.215	$0.15	$0.195	3,901,300
July-Sept 2004	$0.225	$0.12	$0.20	3,601,469
Apr-June 2004	$0.27	$0.13	$0.15	5,275,487
Jan-Mar 2004	$0.315	$0.20	$0.255	13,230,926
Oct-Dec 2003	$0.25	$0.15	$0.22	6,975,616
July-Sept 2003	$0.195	$0.08	$0.17	3,014,492
Apr-June 2003	$0.19	$0.08	$0.12	3,738,300

Escrowed Securities

Pursuant to an escrow agreement (the "Escrow Agreement") dated as of June 28, 2002, with the Transfer Agent, the following securities of the Company are held in escrow:

Designation of Class	Number of Securities Held in Escrow	% of Class as of Date Hereof
Common Shares	1,390,002	2.3%

The escrowed Common Shares will be released pro rata to the holders thereof on the following basis:

Date	No. of Shares
Sept. 18, 2005	695,001
March 18, 2006	695,001

Generally speaking, the escrowed Common Shares cannot be transferred or otherwise dealt with while in escrow. Permitted transfers or dealings within escrow would include: (i) transfers to existing or, upon their appointment, incoming directors and senior officers of the Company or of a material operating subsidiary, with approval of the Board of Directors; (ii) transfers to an RRSP or similar trusteed plan provided that the only beneficiaries are the transferor or the transferor's spouse, children and parents; (iii) transfers upon bankruptcy to the trustee in bankruptcy or another person entitled to the escrowed Shares on bankruptcy; and (iv) pledges or mortgages to a financial institution as collateral for a loan, provided that upon a realization the Common Shares remain subject to escrow. Tenders of escrowed Common Shares to a take-over bid would be permitted provided that, if the tenderer is a principal of the successor issuer upon completion of the take-over bid, securities received in exchange for tendered escrowed Common Shares are substituted in escrow on the basis of the successor issuer's escrow classification.

Auditors and Registrar and Transfer Agent

The auditors for the Company are Lippman Leebosh April, Chartered Accountants, of 1 Westmount Square, Suite 1001, Westmount, Quebec, H3Z 2P9.

The Registrar and Transfer Agent for the Company is Pacific Corporate Trust Company, 10th Floor, 625 Howe Street, Vancouver, British Columbia, V6C 3B8.

Legal Proceedings

The Company is not party to any outstanding legal proceedings, nor are any such proceedings contemplated.

Material Contracts

Except for contracts entered into in the ordinary course of business, the only contracts entered into by the Company within the two years preceding the date of this Circular and which can be reasonably regarded as material to the Company are as follows:

1. Arrangement Agreement dated April 15, 2005. See "The Arrangement."

2. Underwriting Agreement dated March 30, 2005, between the Company and Northern Securities Inc. with respect to the sale of 25,000,000 Common Shares and 12,500,000 Common Share purchase warrants.

3. Breakwater LOI dated October 3, 2004. See "Information Concerning Blue Note – Description of NB Mineral Properties – Acquisition of Caribou Mine."

4. Acquisition Agreement with dated January 14, 2004, Leader. See "Information Concerning the Company – Description of Diamond Properties – Eastside Property."

Risk Factors

An investment in mineral exploration companies such as the Company involves a significant degree of risk including, without limitation, the factors set out below.

Nature of Exploration and Mining

Resource exploration and development is a speculative business and involves a high degree of risk. The properties in which the Company holds an interest are without a known body of diamonds. Each of the proposed programs on the properties is an exploratory search for diamonds. Development of these properties will only follow upon obtaining satisfactory exploration results. Natural resource exploration and development involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to avoid. There is no assurance that commercial quantities of diamonds will be discovered. There is also no assurance that even if commercial quantities of diamonds are discovered, a property will be brought into commercial production. The discovery of commercial deposits is dependent upon a number of factors not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a deposit once discovered is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, commodity prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Most of the above factors are beyond the control of the Company.

Operating Hazards and Risks

Exploration of natural resources generally involves a high degree of risk which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The business of mining is subject to a variety of risks such as ground fall, explosions and other accidents, flooding, environmental hazards, the discharge of toxic chemicals and other hazards. Such occurrences, against which the Company cannot, or may elect not to, insure, may result in destruction of mines and other production facilities, damage to life and property, environmental damage, delayed production, increased production costs and possible legal liability for any and all damages. Such liabilities may have a material adverse effect on the Company's financial position.

Requirement for Further Financing

The Company presently does not have sufficient financial resources to undertake all of its currently planned exploration and development programs. The further development and exploration of the various mineral properties in which it holds interests depends upon the Company's ability to obtain financing through any or all of the joint ventures of projects, debt financing, equity financing or other means. There can be no assurance that the Company will be able to raise the balance of the financing required or that such financing can be obtained without substantial dilution to purchasers. There is no assurance the Company will be successful in obtaining the required financing. Failure to obtain additional financing on a timely basis could cause the Company to forfeit its interest in some or all of its properties and reduce or terminate its operations.

Uninsurable Risks

In the course of exploration, development, and production of mineral properties, certain risks and, in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding, and earthquakes, may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

No Assurance of Titles or Boundaries

The Company has obtained records from the government offices with respect to all of its mineral claims but this should not be construed as a guarantee of title. Other parties may dispute title to any of the Company's mineral properties and any of the Company's properties may be subject to prior unregistered agreements or transfers or land claims by aboriginal, native, or indigenous peoples, and title may be affected by undetected encumbrances or defects or governmental actions.

Environmental and Other Regulatory Requirements

All phases of the Company's operations are subject to environmental regulation. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties in which the Company holds interests which are unknown to the Company at present which have been caused by previous or existing owners or operators of the properties.

Government approvals and permits are currently, and may in the future be, required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of such mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Diamond Markets

The Company's primary targets on the Diamond Properties are commercial diamond-bearing kimberlite. There is no quoted market for diamonds as there is for most other mineral products such as gold, silver, copper and zinc. Approximately 65% of the world's rough diamond production is purchased by the Central Selling Organization ("CSO"), a wholly owned subsidiary of De Beers, and part of the Anglo American Group. The remaining 35% is sold on the open market. The CSO is a single channel diamond marketing operation working for the benefit of a relatively small number of producers. The CSO manages the marketing of diamonds by, among other things, maintaining a rough diamond stockpile to manage short-term price pressures resulting from fluctuations in supply and demand, and by having deferred purchase provisions in its agreements with producers.

The market price of rough diamonds is dependent on an efficient market management system. The CSO's predominant role in the world diamond market has been challenged in the last 10 years, particularly by rebel production in Angola and Sierra Leone and by independent producers carrying out their own marketing. Although the marketing of diamonds has been efficiently managed for over 60 years, there is no guarantee that it will continue. De Beers has disclosed publicly that the role of the CSO will change, and that De Beers will place emphasis in the future on becoming the "supplier of choice". This is a new strategy that will refine De Beers' ability to "supply the right goods to those leading diamantaires who are able to market and distribute them most efficiently".

In January, 2001 De Beers announced an agreement with LVMH Moët Hennessy Louis Vuitton to establish an independently managed and operated company to develop the global consumer brand potential of the "De Beers" name. The impact of these new strategies on the market value of rough diamonds is difficult to predict.

Effect of Arrangement on Share Price

Implementation of the Arrangement and transfer of the NB Mineral Properties and working capital to Blue Note may cause the trading price for New Common Shares on the Exchange to fluctuate.

Conflicts of Interest

Certain directors and officers of the Company are also directors, officers, or shareholders of other companies that are similarly engaged in the business of acquiring, developing, and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.

INFORMATION CONCERNING BLUE NOTE

Blue Note was incorporated under the CBCA on February 20, 2002. The head office and registered office of Blue Note is located at 2 Place Alexis Nihon, 3500 de Maisonneuve West, Suite 1110, Westmount, Quebec, H3Z 3C1.

Upon completion of the Arrangement, Blue Note will be a mining and exploration company. After the Effective Date Blue Note will own, and explore for precious and base metals on, the NB Mineral Properties, a description of which is set out under the heading "Description of NB Mineral Properties" below.

Description of NB Mineral Properties

The NB Mineral Properties consist of three separate properties, the Canoe Landing Lake property, California Lake property and Rio Road property. The following information on the NB Mineral Properties is summarized from the Newson Report, and reference should be made thereto for further details.

Canoe Landing Lake Property

Description

Blue Note will acquire a 100% interest in the Canoe Landing Lake property from the Company. The Canoe Landing Lake property consists of 92 contiguous mineral claims covering an aggregate area of 1,472 hectares.

A description of the mineral claims comprising the Canoe Landing Lake property is as follows:

Claim No.	**Expiry Date**
362223	September 14, 2005
373625 to 373627	September 14, 2005
387426 to 387436	September 14, 2005
386607	September 14, 2005
386610	September 14, 2005
388027 to 388034	September 14, 2005
395318 to 395325	September 14, 2005
395331 to 395333	September 14, 2005
395601 to 395656	September 14, 2005

Claims 362223, 373625 to 373627, 387426 to 387431, 386607 and 386610 were originally acquired from Ernest A. Brooks in 2000. The Company's acquisition cost was the issuance of 625,000 Common Shares to Mr. Brooks. The remaining claims were staked by the Company.

Location and Accessibility

The Canoe Landing Lake property is located approximately 74 kilometers west-southwest from Bathurst, New Brunswick. Road access is possible from several directions.

The property is generally flat, with the elevation ranging from approximately 250 meters to 260 meters above sea level. Approximately half of the property has been clear cut in the past 20 years, so the property is currently covered half with commercial timber (which is being logged on an ongoing basis) and half with second growth and plantation trees.

The climate is a typical maritime climate moderated by the nearby ocean. Snowfall can be heavy in winter, but most types of work other than geological mapping and prospecting can be carried out all year round.

Mining is one of the main industries in the area, and experienced personnel are locally available.

An existing power line passes approximately 12 kilometers north of the property, and water is available from numerous creeks and lakes located on the property.

History of Previous Work

Data is available for work carried out as far back as 1955 in the area over which the Canoe Landing Lake property as it now exists was staked. From 1955 to 1957 work included geological, EM, magnetic (fluxgate) and soil geochemical surveys, geological mapping and a limited amount of drilling.

This work highlighted the existence of a massive sulphide body (the "Sulphide Body"), which is referred to by Universal Reference Number 242 in the files of the New Brunswick Department of Natural Resources and Energy ("NBDNRE").

From 1958 to 1964, a number of companies carried out geological, soil geochemical, VEM, HEM, magnetic, gravity, and S.P. surveys over the Sulphide Body and surrounding area, and drilled a total of 18 holes.

In 1965 and 1966, Clearwater Mines Ltd. (“Clearwater”) carried out horizontal loop and magnetic surveys and drilled nine holes over the Sulphide Body. This work succeeded in doubling the estimated size of the Sulphide Body, but did not increase its grade.

From 1976 to 1980, Clearwater carried out magnetic and soil geochemical surveys in an attempt to extend the target horizon for the Sulphide Body.

In 1980, the ground over which the Canoe Landing Lake property was staked was optioned to Brunswick Mining and Smelting (“BM&S”). Over the next six years BM&S carried out a significant amount of work on the property, including the drilling of 17 holes, but ended up dropping the option in 1985 or 1986.

From 1989 to 1991 various magnetic/VLF and MaxMin II HEM surveys, reconnaissance geological mapping and lithogeochemical sampling over the ground covered by the Canoe Landing Lake property was carried out by a number of companies, including Rio Algom Exploration Inc. and Teck Corp. This work identified a number of high magnetic and anomalous values.

A program of geological mapping and soil sampling was carried out in 1992 over the west-central part of the Canoe Landing Lake property. As the area had recently been clear-cut, exposure was much better than previously observable. The geological mapping revealed a complex folding pattern with rock types being identified as various types of rhyolite interlayered with sedimentary rocks.

In 1994 Nebex Resources Ltd. (“Nebex”) carried out a program of surface mapping, a VLF-EM survey and 13 drill holes over the Sulphide Body, clearly identifying it.

Some of the holes intersected significantly greater thicknesses of sulphides at higher grades than had been previously intersected, and indicated that the Sulphide Body plunges to the east.

In 1995 and 1996 Nebex carried out a program of MaxMin II HEM and magnetic surveying, prospecting, geological mapping, rock and stream sediment sampling and drilling. One hole was drilled to test a bedrock conductor. The hole intersected slate, some sandstone “tectonic intraformational conglomerate”, mafic volcanics, some layers of cherty iron formation and black graphitic shale with abundant massive sulphide layers, but does not appear to indicate what may have caused the conductor. Geological mapping located the same units seen in the drill hole, together with magnetic gabbro sills.

Regional Geology

The Canoe Landing Lake property is located in an area known as the Bathurst mining camp. This area has been interpreted as having been formed in a back-arc setting, the setting in which most of the volcanogenic massive sulphide deposits of the world are thought to have formed.

The Bathurst mining camp is underlain by rocks of the Miramichi, Tetagouche, California Lake, Sheephouse Brook and Fournier groups of the Miramichi Highlands domain of the Appalachian fold belt. Together, these groups span the time from Lower Ordovician (or perhaps Late Cambrian) to late Ordovician. The Miramichi Group is the oldest, and is conformably to disconformably overlain by the other groups. The California Lake, Sheephouse Brook and Tetagouche groups are thought to be more or less coeval. The Fournier Group structurally overlies the California Lake Group.

The Appalachians have been subjected to compression, which has produced thrust sheets, or nappes, making it difficult to sort out stratigraphic relationships. Some formations occur in more than one nappe, and the lithologies may vary from one nappe to the other. Furthermore, it is very difficult to correlate rock units at the formation or lower hierarchical level in volcanic terranes, because the units are normally limited in areal extent, and because of the lithologic similarity of volcanic rocks over wide areas and over long time intervals. Absolute age dating is being used to sort out the stratigraphy.

The Miramichi Group is divided into three formations. It consists of a monotonous sequence of quartz wacke and slate of unknown thickness, probably representing a flysch deposit on the continental margin. The lowest formation is the Chain of Rocks Formation, which consists of fine- to coarse-grained light greenish-grey sandstone with some interbedded light to dark greenish-grey shale. Sandstone beds vary from a few centimeters to greater than one meter in thickness, and shale beds range from one to ten centimeters thick. The Chain of Rocks Formation is overlain by the Knights Brook Formation, similar to the lower formation, but with more shale, and more graphite and pyrite in the shale. The Patrick Brook Formation overlies the Knights Brook Formation, and consists of dark grey to black shale and dark grey volcaniclastic wacke, often with clear quartz and plagioclase crystals.

The Sheephouse Brook Group consists of volcanic and sedimentary rocks, and is found in the southern part of the Bathurst camp. It contains one of the known 45 volcanogenic massive sulphide deposits in the camp and is divided into three formations, the Clearwater Stream, Sevogle River and Slacks Lake formations, from bottom to top.

The Clearwater Stream Formation overlies the Patrick Brook Formation and consists of medium to dark greenish-grey, plagioclase-phyric (30- 50%) felsic to intermediate volcanics. They have been metamorphosed to biotite facies and have been intensely deformed, but some possible bedding features and broken crystals indicate that they may have been pyroclastics.

The Sevogle River Formation is made up of schistose to massive felsic lava with up to 15% alkali feldspar phenocrysts that are from 0.2 to 2 mm in size. The upper contact with the Slacks Lake Formation is defined by a cherty layer in some places.

The Slack's Lake Formation consists of alkalic to tholeiitic basalts and interbedded sedimentary rocks, along with dark grey, locally graphitic shale, red and green chert, and minor comendite.

The Tetagouche Group is the group in which 31 of the 45 known volcanogenic massive sulphide deposits of the Bathurst camp are found. From bottom to top, the formations of the Tetagouche group are the Nepisiguit Falls, Flat Landing Brook, Little River, and Tomogonops formations.

The Nepisiguit Falls Formation consists of massive quartz-feldspar porphyritic tuff or subvolcanic sill, overlain by medium- to coarse-grained volcaniclastics, which are rich in quartz and feldspar, and which become finer-grained near the top of the unit. Minor ash layers are found throughout the unit, and light to dark greenish-grey chloritic mudstone interbeds occur near the top, and are locally iron-rich.

The Flat Landing Brook Formation consists of feldspar-phyric (± quartz) rhyolitic flows, hyaloclastite, and minor sedimentary rocks, including some iron formation. Most of these rocks used to be interpreted as pyroclastics, but are now thought to be tuff lavas. These rocks cover a large areal extent, and contain 10% of small phenocrysts (1- 3 mm) of feldspar and some quartz. Iron formations, both oxide and sulphide facies, can occur at and near the base of the Flat Landing Brook Formation. Small amounts of tholeiitic basalt are interbedded with the felsic rocks of the formation, mainly as massive flows (not pillowed, in contrast to other basalts in the Tetagouche Group), but also as tuffs, sills, breccias and agglomerates.

The Little River Formation consists of mafic volcanic and sedimentary rocks that conformably overlie the Flat Landing Brook Formation. The sedimentary rocks are shales interbedded with siltstone and volcaniclastic sandstone.

The Tomogonops Formation consists of light grey, thinly bedded, often calcareous siltstone, with or without limestone, and fine-grained sandstone. These units coarsen upwards, and, near the top, grade into thick-bedded, non-calcareous, coarse-grained wacke and conglomerate.

The California Lake Group is about the same age as the Tetagouche Group but occurs in a different structural nappe, and its stratigraphic relationship to that group is not known. It contains 13 of the 45 known volcanogenic massive sulphide deposits. Four formations make up the California Lake Group, being the Canoe Landing Lake, Mount Brittain, Spruce Lake and Boucher Brook formations. The Boucher Brook Formation overlies each of the other three, so they must be approximately the same age.

The Canoe Landing Lake Formation consists of a high-chrome (>200 ppm) alkali basalt unit which also contains interbedded red slate, chert, and rare felsic volcanics. It is conformably underlain by a unit of interbedded grey to black shale and siltstone that hosts the Canoe Landing Lake deposit.

The Mount Brittain Formation is mainly feldspar crystal lithic felsic tuff with an underlying, less abundant, unit of aphyric to feldspar-phyric dacitic flows. Small (0.3- 0.4 mm) quartz phenocrysts are seen in thin section, but not macroscopically. The Mount Brittain Formation conformably overlies the Patrick Brook Formation, and is overlain by sedimentary and mafic volcanic rocks of the Boucher Brook Formation.

The Spruce Lake Formation is exposed only in the Tetagouche Antiform and the Nine Mile Synform. It consists of feldspar-phyric felsic lavas, autobrecciated lavas and pyroclastic rocks, which include polymictic fragmentals and crystal tuff, with minor mafic volcanics. Underlying and interbedded with the feldspar-phyric lavas are fine-grained sedimentary rocks which host the Caribou deposit. The K-feldspar phenocrysts are up to 1 centimeter in size, and may make up 20% of some lavas, but are virtually absent in others. The lower contact of this unit is tectonic, and the upper is conformable with the Boucher Brook Formation.

The Boucher Brook Formation consists mainly of thinly bedded, bluish grey, fine-grained wacke and siltstone, which grade upwards into homogeneous black shale. Near the contact with the underlying Flat Landing Brook Formation, the wacke contains small fragments of white-weathering rhyolite. Away from the type area, the formation can consist mainly of alkali basalt that is massive to pillowed, with some comendite being present. Overlying the volcanic rocks is shale and minor limestone, which contain early to Middle Caradocian conodonts.

The Fournier Group is separated from the California Lake Group by a high-strain, ductile thrust zone. It is divided into two formations, the lower Sormany Formation, which is made up mainly of pillowed basalts with some gabbro, and the conformably overlying Sormany Millstream Formation, which consists of lithic and feldspathic wacke and slate with some interbedded basalt and limestone.

Mineralization is widespread in the Tetagouche and California Lake groups. Mining in the Bathurst area goes back to at least 1837, when copper was mined on the Nepisiguit River. In subsequent years manganese, lead, zinc, iron and molybdenum have been found, investigated, and, in some cases, exploited at various locations, some of which later became significant producers.

In 1952 the volcanogenic massive sulphide deposit known as Brunswick 6 was discovered and the modern era of mining in the Bathurst camp commenced.

The most important mineral deposits in the area are of the volcanogenic massive sulphide type. They were formed on top of a sequence of volcanic rocks on the ancient sea floor during a period of non-deposition of volcanic or sedimentary material. Hydrothermal solutions vented onto the sea floor, where they dropped their load of dissolved metals.

As long as there was no contemporaneous deposition of other material on the sea floor, the concentration of metals in such precipitated material is high. If deposition of precipitated material continued long enough, the total quantity is large. If the concentration of metal is high enough and the deposit is large enough, it may be economic to mine. This deposit type is common in Canada and elsewhere in the world.

Volcanogenic massive sulphide deposits occur at several stratigraphic levels in the Tetagouche and California Lake groups, mainly in or on the lower parts of the felsic volcanics.

Although it is the base and precious metals that are of interest, the most abundant metal in the massive sulphide zones is iron and the sulphide zones are often capped by Algoman type iron formation, which contains sulphide, oxide, carbonate and silicate facies iron formation and chert.

The mineralization is stratabound and sometimes stratiform, and it is compositionally zoned both vertically and laterally. For example, one existing deposit in the Bathurst camp consists of a massive pyrite zone, a massive, layered lead-zinc zone, another massive pyrite zone and an iron formation. The bottom zone consists mainly of pyrite and pyrrhotite, with variable amounts of chalcopyrite and magnetite, and minor sphalerite and galena. This zone is massive to brecciated and is typically veined, presumably by later hydrothermal minerals. It is not normally layered. The next zone upwards is the Brunswick ore zone. It consists of massive pyrite interbedded with sphalerite, galena, and minor chalcopyrite and pyrrhotite. During deformation the less competent sphalerite and galena have been remobilized around the more brittle pyrite, and the primary textures have therefore been modified. It is thought, however, that the layering is primary. The upper massive pyrite zone contains fine-grained pyrite with some sphalerite and galena, generally in thin, discontinuous lenses, and chalcopyrite. The pyrite is massive to weakly bedded.

Capping the sulphide zones is an iron formation, with oxide, carbonate and silicate facies represented. Carbonate minerals are siderite and kutnahorite. Silicates are chlorite and quartz. Magnetite, which is a metamorphic product after siderite, is the most common oxide. The iron formation has a greater areal extent than the sulphide zones, and the Brunswick deposit is thus said to grade laterally into iron formation. It is similar to other volcanogenic massive sulphide deposits in other camps where the favourable horizon may be marked a considerable distance from any base or precious metal mineralization by a thin layer of chert or of tuff, or of iron formation.

Property Geology and Mineralization

The Sulphide Body is in the sedimentary rocks of the Canoe Landing Lake Formation of the California Lake Group near the contact with the overlying basalts. The rock units present on the claims at a mappable scale consist of felsic volcanics, sedimentary rocks, and mafic volcanics in addition to the massive sulphides.

The mafic volcanic sequence is a broad grouping of mafic volcanic rocks and consists of basalt and gabbro as layers or beds with some layers of sediments and felsic volcanics. This unit is stratigraphically and geographically located above the horizon which contains the Sulphide Body. At depth and on the east end of the sulphide Body another layer of sulphides, the hangingwall zone, occurs as a layer in the mafic package above the main horizon.

The basalt is fine-grained and chilled locally, especially on the contacts, and is locally pillowed. Pillows have not been a good criterion for correlating units to date, and neither has grain size or texture.

In the gabbroic portion of the mafic unit the grain size varies from fine to coarse and is generally equigranular except for chilled margins. No cross-cutting dyke has been observed or inferred to date in mapping or drilling, and it is therefore concluded that the “gabbro” is a coarse-grained phase of basalt. Some mafic rock was mapped as a diabase in early work, but none has been reported since 1971 and no independent evidence, such as magnetic surveys, has indicated the presence of dykes. The “diabase” was probably a textural variation of one of the other mafic units.

Sedimentary rocks within the mafic unit are fine grained and generally dark in colour. They are somewhat chioritic, and are a red hematitic colour when in contact with basalts and/or “gabbros”. The red colour is probably due to a contact metamorphic affect of the hot basalts being deposited onto sediments.

The felsic volcanic rock unit includes all the felsic rock types found on the property. The volcanics include feldspar aphyric and phyric, quartz phyric and quartz-feldspar phyric varieties of rhyolite. They can be massive or foliated, sericitized and, occasionally, chloritized. The felsic rocks appear to be in contact with the mafics to the west of the Sulphide Body. Elsewhere, the sedimentary rocks are between the felsics and mafics.

A second layer of felsic volcanics is interpreted to extend from the northwest corner of the property to the eastern end. This unit has been intersected in several drill holes under Canoe Landing Lake and in one drill hole to the east of the lake. It was also mapped by BM&S personnel on the south shore of the lake. It is generally pinkish in colour and has relatively coarse feldspar and quartz phenocrysts throughout. It is a very hard and massive rhyolite.

The sedimentary rocks are generally a layered or bedded finc-grained siltstone and mudstone and also include some greywacke and sulphide lenses.

The slate in the sedimentary unit is grey near the sulphide body, greenish-grey in the hangingwall and black in the footwall. The black slate is said to be graphitic, but its graphitic appearance is probably due to the presence of manganese. It does not appear to be a conductor on the EM surveys done over the deposit. The slate is interbedded with very minor, buff, thin-bedded, fine-grained sandstone.

The Canoe Landing Lake horizon dips to the north. The felsic volcanics to the southwest of the massive sulphide zone are believed to be folded. Since no significant drilling has been done in that area the fold is inferred, based on a compilation of available data. Whether or not it is a syncline or an anticline is unknown, but a syncline is suggested by recent age dating.

There appears to be at least one major fault with a north-south movement near the west end of the Sulphide Body as evidenced from the drilling by Nebex in 1994-95. However, the drilling is not detailed enough to provide an exact displacement at this time. Ground geophysical surveys did not show any offset of geophysical features which might be explained by the agency of a fault. Government mapping shows a major thrust fault passing through the claims however no direct evidence of such a fault has been found in the work to date.

A dominant planar fabric is visible macroscopically in the sedimentary rocks and the felsic volcanics, and is most often referred to as the SI cleavage.

The most important mineralization on the property is a number of sulphide lenses. Evidence indicates that the lenses are the result of three pulses of mineralization. In the centre of the Sulphide Body the three pulses are essentially in contact, but at the edges there are wedges of sediment between the pulses. Sulphide minerals in order of abundance, are pyrite, pyrrhotite, sphalerite, galena, and chalcopyrite. The previous work by Nebex indicates that the chalcopyrite may actually be more abundant than the galena in the thicker areas of sulphides.

No feeder zone has been identified in the footwall of the Sulphide Body. There is some pyrite in footwall sedimentary rocks, but this has been interpreted to be diagenetic. No magnesian chlorite alteration has been reported in the footwall of the deposit, in contrast to the classic volcanogenic massive sulphide deposit. This indicates that the Sulphide Body is not directly above the area where the metals spewed forth from the sea floor into the water column. It is not possible to say how far away it is, but the small amount of footwall rocks incorporated in the sulphide would seem to indicate that it is not too far from source.

Textural observations also indicate that the sulphides were transported. The Sulphide Body has a more or less consistent internal texture, with a layer of massive, but not obviously bedded, sulphides overlying a layer of what has been termed a sulphide clast breccia. The sulphide clast breccia consists of 10% to 40% sulphide clasts along with chips and clasts of grey to black slate and light grey silt stone in a grey matrix of small rock and sulphide fragments. Most of the clasts are pyrite, but some contain sphalerite and/or galena. The small fragments of sulphide in the matrix in a drill hole by Nebex are seen to be angular, and tend to have a higher proportion of galena and sphalerite than do the larger, rounded fragments. This may indicate a different source for the interstitial sulphides, one having a higher content of galena and sphalerite, or it may indicate a more complete breakup of material richer in those minerals. In either case, it suggests that the composition of the source material is not homogeneous. The sulphide clast breccia grades downward into the same dark slate seen as clasts in the breccia, over a thickness of several metres.

The textural observations are best explained by a model in which massive sulphides, originally deposited elsewhere, have moved down a slope under the influence of gravity, ripping up the underlying sediments and coming to rest in a depression. Larger clasts would have arrived first, followed by smaller ones and still later by the “dust” created by the disturbance.

There is no zoning of the metals in the sulphides in the deposit, except for a slight tendency to have higher grades near the walls of the deposit. This is consistent with the deposit having been transported.

Although most of the deposit appears to have been transported, there are several intersections of sulphides that appear to be bedded and therefore likely to be primary deposits of material precipitated out of the seawater onto the seafloor. Some of the clasts also show fine bedding, which means that the sulphides of the source area are bedded. The hangingwall zone intersected at depth is bedded, with no sign of brecciation.

The strike length of the Sulphide Body is 1,200 metres, and it has been drilled to a depth of approximately 900 metres. Although only four holes intersected the zone deeper than 600 meters, it is open beyond that depth and is increasing in width and grade at the lowermost holes. Three of the deepest holes intersected a new hanging wall zone or zones at approximately 850 metres over a strike length of approximately 525 meters.

Intersections in the hangingwall zone indicate another lens of mineralization to be explored and which has, on average, higher grades of lead and zinc than are the intersections in the main zone. Because the hangingwall zone is only intersected by four holes, only preliminary inferences can be made at the present time. There is some indication that the hangingwall zone starts approximately where the main zone pinches out. If that is the case, it may be the locus of deposition of sulphides from the same fumarole system as the main zone but at a later time. Alternatively, since all intersections of the hangingwall zone to date are of bedded sulphides this lens may be in situ. This is important because the other in situ deposits of the Bathurst camp are zoned with respect to metal content and some of the zones have been economic. It is thus reasonable to believe that the hangingwall zone may also have economic sub-zones and is therefore a worthwhile exploration target.

Besides the mineralization of the main and hangingwall zones and the other smaller lenses sulphide mineralization as disseminations and small massive lenses is widespread on the property. Disseminated mineralization has been found in outcrop and in drill holes but the massive sulphides have never been found in outcrop and have never been trenched.

Exploration by the Company

Early work carried out by the Company consisted of the study and compilation of previous work, relogging of the core that is available at the NBDNRE library and resampling of some mineralized sections of that core. The core had to be quartered to carry out the assays, and thus is not a very representative sample.

In 2003 the Company had a reference line cut over the Sulphide Body and surveyed the line with a Max-Min horizontal loop electromagnetic unit. The purpose of the survey was to fix the location of the Sulphide Body so that drill holes could be spotted accurately.

In 2004 the Company carried out geophysical work on the eastern part of the property. A total of 52.4 line-kilometers of magnetic and VLF-EM surveying was done, followed up by 7.2 line-kilometers of IP surveying on the most promising areas as indicated by the magnetic and VLF-EM work.

In 2003 the Company drilled two holes into a shallow part of the Sulphide Body to begin testing to determine if that part of the Sulphide Body could be mined by a shallow open pit operation. One hole intersected five meters (core length) of sulphide depth of approximately 75 meters.

The other holde intersected 309 metres (core length) of sulphide but not where the zone had been expected. It was continued well past the projection of the zone from the first hole and from the old drilling, so either the zone is faulted off or tightly folded.

In conjunction with old results, the Company's drill results tend to cast doubt on whether or not that part of the Sulphide Body can be mined economically with a small open-pit operation.

Sampling Methodology

The sulphide zones from both drill holes were split with one half being sent to the lab to be assayed and the other half being retained in the core box.

No officer, director, employee, or associate of the Company was involved in any aspect of the sampling.

Details of sample intervals, assay results from samples and applicable security procedures are set out in the Newson Report.

In the Newson Report the author states that the sampling, sample preparation, security, and analytical procedures were adequate.

Interpretation and Conclusions

There are three broad areas of interest on the property. The first is centred around the Sulphide Body ("Area A") with the second and third being at each of the eastern and western ends of the property. Within each of the broad areas there are several specific targets, with the deposit type being sought a volcanogenic massive sulphide deposit in all cases.

The first target in Area A (target A1) is the potential source area for the transported Sulphide Body. The evidence that this source exists is textural, and consists of the observation that the Sulphide Body consists mostly of clasts cemented by finer-grained clastic material.

The clasts are interpreted to have been dislodged from a primary deposit, moved downslope under the influence of gravity and re-deposited in a depression in the topography. The sulphide clasts vary in their content of base metals, implying that the in-situ source of the clasts contains zones of higher grade and zones of lower grade. As a result of mixing of rock from these different zones, along with some country rock, the overall grade of the Sulphide Body is too low to be economic. The value of the property hinges partly on the possibility of finding a sufficiently large, undisturbed, zoned deposit of massive sulphides with base and precious metal grades high enough to be economic in one or more of the zones. The author of the Newson Report believes that such a deposit may well exist and that work indicates it might be up the paleoslope from the known part of the Sulphide Body. Further evidence to support this is:

1. In the other deposits in the Bathurst camp, the sulphides are systematically zoned. Usually one of the zones is richer in lead and zinc than the others and another layer is richer in copper (generally the underlying pyrrhotite- chalcopyrite stockworks zone). Still others are barren of base and precious metals. The mines which have produced profitably have mined the base metal-bearing parts of their respective deposits and left the barren parts.

2. Some holes in the Sulphide Body contain direct evidence that parts, at least, of the source are higher grade than the average for the deposit as presently known. This evidence is in the form of pockets of bedded, primary (not transported) sulphides which are interpreted to be precipitates from the same vents as the rest of the sulphides except that they precipitated directly from sea water onto the substrate on which they are presently seen. As such they should be the same grade as the postulated primary deposits in the source area, but are in fact higher in grade than the average for the entire deposit.

3. Contouring of the thickness of the main zone indicates that the Sulphide Body thickens downwards to the southeast, which implies that the source of the sulphides may be on the downward projection of the axis of the thicker zone.

Other targets in Area A are the thicker, higher grade lens outlined by Nebex’s drilling (target A2) and the hangingwall zone intersected at the lower edge of several of the previously drilled holes (target A3).

The eastern end of the claims (“Area B”) is attractive because it is on the favorable horizon and has several indicators of mineralization that have not yet been investigated. One target appears to be on the same horizon as the Sulphide Body, and has some airborne conductivity highs. Some drilling has been done in the area, with one hole intersecting some low grade sulphide mineralization. Another target is an area underlain by felsic volcanics on the edge of the same group of conductors, and which has a possible gravity anomaly.

A third target in Area B is an underlying band of sedimentary rocks separating felsic and mafic volcanics which appears not to be the same horizon as the Sulphide Body. A zinc anomaly in soils (not coincident with the sedimentary rocks) has been identified, and there are a number of conductive anomalies that have never been drilled. Whatever the detailed stratigraphy, the overall stratigraphy and the lithologies are correct for the occurrence of volcanogenic massive sulphide deposits.

The western end of the property ("Area C") is geologically complex. The favorable mineralized horizon swings to the north and appears to have second-order folds in the rocks. Favorable geology, including alteration of the type usually found in mineralized zones, high geochemical values in rock and soil and airborne ground conductive anomalies provide a number of targets in the area which warrant further exploration in order to assess their potential.

Recommendations and Budget

In the Newson Report the author recommends a work program on Area A that should consist mainly of drilling, although there are a number of surface work programs that need to be carried out to guide the drilling. This would include laying out a line grid over the entire property, a modem proton magnetometer survey of the entire property using a recording base station to make computerized diurnal corrections, a VLF survey, horizontal loop EM and geological mapping over the grid.

Drilling should be focused to test four areas: further examination of the holes Nebex previously drilled in targets A1 and A3, the A3 hangingwall zone and the A2 lens previously outlined by Nebex.

Drilling in Areas B and C would depend on the results of the EM surveys. However, additional surface work to better define targets would likely be required before a decision is made.

An estimate of the costs of carrying out the recommended work program is as follows:

Description	**Amount**
PHASE 1	
Linecutting, geophysics	
Lines: 200 km @ $340/km	$ 68,000
Magnetic/VLF survey: 150 km @ $200/km	$ 30,000
HLEM survey: 100 km @ $250/km	$ 25,000
Supervision	$ 25,000
Vehicle	$ $4,000
Other	$ 15,000
Total surface work	$ 167,000
Drilling	
Geological research, preparation	$ 25,000
Targets A1, A3	
2 holes of 600 m @ $80/m	$ 96,000
2 wedged holes of 300 m @ $90/m	$ 54,000
1 hole of 900 m @ $85/m	$ 76,500
1 wedged hole of 400 m @ 95/m	$ 38,000
1 hole of 1000 m @ $85/m	$ 85,000
1 wedged hole of 500 m @ $95/m	$ 47,500

Description	Amount
1 wedged hole of 400 m @ $95/m	$ 38,000
5 wedges and installation @ 5500	$ 27,500
Down-hole EM	$ 45,000
Analyses	$ 10,000
Geological supervision, interpretation, reports	$ 50,000
Consulting	$ 10,000
Possible extra costs if holes cannot be wedged	$ 150,000
Subtotal	$ 752,500
Target A2	
6 holes of 150 m @ $75/m	$ 67,500
8 holes of 300 m @ $80/m	$ 192,200
4 holes of 175 m @ $75/m	$ 52,500
Assays	$ 8,000
Geological supervision, interpretation, reports	$ 50,000
Other	$ 10,000
Consulting	$ 5,000
Subtotal	$ 385,200
Total Phase 1	$ 1,304,700
PHASE 2	
Targets A1, A3	
15 holes of 1200 m @ $95/m	$ 1,170,000
Down-hole EM	$ 30,000
Analyses	$ 10,000
Geological supervision, interpretation	$ 106,000
Consulting	$ 10,000
Subtotal	$ 1,871,000
Target A2	
20 holes of 600 m @ $80/m	$ 960,000
Down-hole EM	$ 20,000
Assays	$ 9,000
Geological supervision, interpretation	$ 60,000
Consulting	$ 10,000
Subtotal	$ 1,059,000
Total Phase 2 (if three zones require 2nd phase definition)	$ 2,930,000
Total Phase 1 and Phase 2	$ 4,284,700

California Lake Property

Description

Blue Note will acquire a 100% interest in the California Lake property from the Company. The California Lake property consists of 44 contiguous mineral claims covering an aggregate area of 704 hectares.

A description of the mineral claims comprising the California Lake property is as follows:

Claim No.	**Expiry Date**
373613 to 373624	December 3, 2005
395657 to 395662	December 3, 2005
406980 to 406999	May 28, 2006
407102 to 407103	May 28, 2006

Claims 373613 to 373624 and 395657 to 395662 were originally acquired from Mr. Brooks as part of the acquisition of the Canoe Landing Lake claims. See "Information Concerning Blue Note – Description of NB Mineral Properties – Canoe Landing Lake Property – Description." The remaining claims were staked by the Company.

Location and Accessibility

The California Lake property is located approximately eight kilometers northwest of the Canoe Landing Lake property. Road access is possible from several directions.

Elevation on the property ranges from approximately 360 meters to 430 meters above sea level. Approximately half of the property has been clear cut in the past 20 years, so the property is currently covered half with commercial timber (which is being logged on an ongoing basis) and half with second growth and plantation trees.

The climate is a typical maritime climate moderated by the nearby ocean. Snowfall can be heavy in winter, but most types of work other than geological mapping and prospecting can be carried out all year round.

Mining is one of the main industries in the area, and experienced personnel are locally available.

An existing power line passes approximately three kilometers north of the property, and water is available from numerous creeks and lakes located on the property.

History of Previous Work

A zone of silver mineralization was previously discovered in an area over which the California Lake property as it now exists was staked, and is referred to by Universal Reference Number 0393 in the files of the NBDNRE as the California Lake silver occurrence (the "Silver Zone").

The first recorded work on the area now covered by the California Lake property was carried out by McIntyre Porcupine Mines Ltd. ("McIntyre") in 1957, when it carried out horizontal loop, vertical loop, magnetic and soil sampling surveys over several anomalies previously found by an airborne electromagnetic survey. McIntyre also diamond drilled 25 packsack holes. No assays are recorded, but drill logs indicate that two holes appear to have hit mineralization.

In 1968 and 1969, the Findathoran Group ("Findathoran") carried out geochemical soil sampling and an IP survey on an area that includes a large part of the California Lake property.

A number of weak to moderate anomalies were found, some of which may be responses to the Silver Zone. Findathoran then drilled three holes to test the anomalies. Assays from samples taken indicated the presence of copper, zinc and lead.

In 1974, Boliden-Preussag carried out magnetic, VLF and IP surveys, geological mapping, and a geochemical soil sampling survey over a portion of what is now the property. The VLF survey outlined two anomalous trends both striking north-northwesterly, one near the centre of the property and one near the eastern edge. The central anomaly is approximately coincident with the IP anomalies on two lines over the Silver Zone. The other coincides with a weak IP anomaly on one line. The IP survey also outlined two anomalies, but they do not plot over the Silver Zone or coincide with the Findathoran IP anomalies. It is likely that both surveys measured the Silver Zone, and that the features do not coincide on the maps because of map inaccuracies.

In 1976, Boliden-Preussag conducted detailed follow-up work on the anomaly located near the eastern edge of the property, which consisted of relocating the anomaly with VLF detailed soil sampling and magnetics and prospecting for outcrop. The soil samples were analyzed for copper, lead, zinc and silver, and were anomalous in each of the base metals downslope from the anomaly. However, the magnetic readings were flat and no outcrop was found on the grid.

In 1981, BM&S established a line grid over an area including the present property and carried out a program of soil sampling, MaxMin I HEM and magnetic surveys and three diamond drill holes. The soil samples returned scattered high values of copper, lead and zinc in the vicinity of the Silver Zone, downslope from the Boliden IP and VLF anomalies. The magnetic survey indicated the magnetic topography is quite flat, although some highs were found in the vicinity of the Silver Zone, but not exactly coincidental with it.

In 1983, BM&S drilled three holes several hundred meters east of the Silver Zone. None of the drill core was assayed, however the logs indicate sulphide mineralization and zone alteration was intersected.

In 1984, Lacana Mining Corporation ("Lacana"), a predecessor to International Corona Corp. ("Corona"), prospected, mapped and trenched on the property and in the process discovered boulders of silicified breccia grading up to 52 oz/ton silver. The trenching exposed the Silver Zone in felsic interbedded tuffs and rhyolites and indicates it strikes north-westerly, is sheared and brecciated and has a variable sulphide content. Arsenopyrite was found to be widely present.

In 1985, Lacana staked additional ground in the area and carried out magnetic and VLF surveys. The Silver Zone did not register on either the magnetic or the VLF survey, however magnetic zones coinciding with some of the previously discussed VLF conductors were detected.

In 1986, Lacana carried out a program of geological mapping, soil geochemistry and trench sampling. Outcrop was poor, with one outcrop of basalt, one of possible Nepisiguit Falls

Formation (the footwall marker for the Brunswick ore bodies) and the rest of feldspar and/or quartz phyric rhyolites, occasionally flow banded. Trenching exposed some sedimentary rocks, but they were not seen in outcrop. Bedding attitudes of the sedimentary rocks are not defined. Silver-bearing zones dipped approximately 60 degrees NE, and included dilatent zones of veins, breccia, and stockworks, predominantly in felsic tuff horizons. Metallic minerals in the silver zones included arsenopyrite, pyrite, galena and sphalerite. Gangue minerals included quartz, calcite, limonite, and chalcedonic quartz. Alteration includes silicification, sericitization, and minor iron carbonate and manganese oxide staining. Coarse anhedral to euhedral feldspar grains, previously mapped as pegmatites, were interpreted by Lacana to be part of a late-stage potassic alteration phase. Soil samples were analyzed primarily for gold, silver and arsenic with silver and arsenic values being elevated in the neighbourhood of the Silver Zone and near the conductors.

In 1986 and 1987 Corona drilled 29 holes, 28 of which intersected the Silver Zone. Corona found the breccia zones, which carried the best silver values, to be discontinuous, and that the silver values decreased at depth.

Homestake acquired the property upon its acquisition of Corona, and optioned the property to Teck in 1991.

Teck carried out a program of line cutting, lithogeochemistry, VLF and magnetic surveys collecting 358 rock samples for lithogeochemical analysis for major oxides, copper, lead, zinc, silver and a number of other elements. The purpose of the Teck program was to outline areas of sodium depletion, a characteristic of the feeder zone in the stratigraphic footwall of a volcanogenic massive sulphide deposit. Most of the sodium depleted rocks were found to be in and near gabbroic intrusions which is not of significance with respect to volcanogenic massive sulphide deposits, but of significance to the Company is a sodium depletion anomaly over the south end of the Silver Zone. The VLF and magnetic surveys did not yield any results significantly different than those resulting from the Lacana surveys.

In 1992, Teck conducted a deep-penetration EM survey that detected a weak conductive anomaly striking across the direction of the Silver Zone parallel to the strike direction of the dominant foliation. It was also coincident with previously defined VLF and HEM conductors.

Regional Geology

Regional Geology is the same as that for the Canoe Landing Lake property. See "Information Concerning Blue Note – Description of NB Mineral Properties – Canoe Landing Lake Property – Regional Geology."

Property Geology and Mineralization

Two target types are present on the California Lake property, an epigenetic vein/breccia system and a conductor which is in the correct geological environment to be caused by a volcanogenic massive sulphide.

The vein-breccia system which comprises the Silver Zone strikes 310° and exhibits sericitization, chloritization and silicification, along with mineralization of arsenopyrite, manganese oxide, galena, sphalerite and minor stibnite. Silver is apparently in the galena and/or sphalerite, since previous silver assays have increased with increasing visually estimated content of galena and sphalerite.

Assays of the Corona drilling indicate good silver values but over mostly narrow widths. There are also some widths and grades that approach economic if there was sufficient tonnage at those grades and widths. Although Corona geologists saw galena and sphalerite in the vein-breccia system, they did not assay for base metals. The Company re-sampled the silver vein-breccia system exposed in bedrock in a Lacana trench near the collar of the first Corona drill hole, with the sample assaying at 0.100% silver, 2.88% lead and 4.26% Zinc.

Because the Silver Zone is a vein type deposit, the grain size of the sulphide minerals is coarser than those of the massive sulphide deposits in the Bathurst camp and the mineralogy is simpler (epithermal disseminated sulphides as opposed to VMS massive sulphides). This type of mineralization generally yields higher recoveries than do the massive sulphide ores.

From the Company's interpretation of drill hole logs by Noranda/BM&S, mineralization similar to that of the Silver Zone exists on the property to the east of the Silver Zone. Some descriptions of breccia zones in holes drilled by BM&S are similar to those of the Silver Zone and some are similar to disseminated sulphides in felsic volcanics.

It is not known if the deep anomaly detected by Teck is caused by metallic mineralization. The objective of Teck's work was to outline an extension of the O'Hearn deposit, a small high grade deposit of volcanogenic massive sulphides located 2.5 kilometers south of the property.

Exploration by the Company

In 2003 the Company carried out horizontal loop electromagnetic surveying (HEM) on a grid established by re-cutting the old Teck grid. The survey relocated the conductor previously found by Teck in 1992.

In 2004, the Company carried out a gradient IP survey to extend the coverage of the conductor outlined in the 2003 HEM survey.

The survey showed a good response in both chargeability and resistivity from the known conductor, and also identified a new anomaly parallel to the existing but having a better response in both chargeability and resistivity.

Later in 2004 the Company carried out a six-hole diamond drilling program on the property. Two of the holes investigated the IP and HEM anomalies, with one hole extending beyond the IP anomaly and intersecting silver veins. Four of the holes were drilled into what was perceived to be the best part of the Silver Zone, as determined by Corona's work, to investigate the economic viability of the base metal content.

A detailed description of the drill results is set out in the Newson Report.

Sampling Methodology

Samples were selected to be as homogeneous as possible with respect to content of mineralization, as estimated visually. Samples were taken of the veins containing visible base metal mineralization of the alteration envelope between veins and outside the veins up to the edge of the alteration zone. In a few cases there were still anomalous (although not potentially economic) silver values in the samples taken at the edge of the alteration zone,

In the Newson Report the author states that the samples accurately reflect the metal content of the Silver Zone and that there does not appear to be any bias in the samples.

The core was picked up in boxes at the drill and taken to a secure building for storage and logging. The cores were then split, with half being sent to the lab to be assayed and the other half being retained in the core box.

No officer, director, employee or associate of the Company was involved in any aspect of the sampling.

Details of analytical procedures are set out in the Newson Report.

In the Newson Report the author states that the sampling, sample preparation, security and analytical procedures have been adequate.

Interpretation and Conclusions

The conductors and anomalies outlined on the property have been tested and found to be due to disseminated sulphides. The base metal content of the Silver Zone does not appear to be high enough to add any significant value, and the recent drilling by the Company has tended to confirm the previous conclusions that the zone is irregular and decreases in width and grade with depth.

As mineralization does not appear to be economic, no further drilling is intended at this time. However, a re-estimation of the tonnage and grade of mineralization using an alternative longitudinal projection method and adding in the estimated contribution of the base metals and gold as indicated by recent work should be made. If this results in an estimate that is close to being economic, additional drilling could then be justified.

The cost of carrying out this re-estimation is estimated to be $20,000.

Rio Road Property

Description

Blue Note will acquire a 100% interest in the Rio Road property from the Company. The Rio Road property consists of 25 contiguous mineral claims covering an aggregate area of 400 hectares.

A description of the mineral claims comprising the Rio Road property is as follows:

Claim No.	**Expiry Date**
386601 to 386603	October 19, 2005
386605 to 386606	October 19, 2005
386608 to 386609	October 19, 2005

Claim No.	**Expiry Date**
395663 to 395680	October 19, 2005

Claims 386601 to 386603, 386605 to 386606 and 386608 to 386609 were originally acquired from Mr. Brooks as part of the acquisition of the Canoe Landing Lake claims. See "Information Concerning Blue Note – Description of NB Mineral Properties – Canoe Landing Lake Property – Description." The remaining claims were staked by the Company.

Location and Accessibility

The Rio Road property is located approximately six kilometers north of the Canoe Landing Lake property. Road access is possible from several directions.

The property slopes gently to the east, with the elevation ranging from approximately 295 meters to 360 meters above sea level. Approximately half of the property has been clear cut in the past 20 years, so the property is currently covered half with commercial timber (which is being logged on an ongoing basis) and half with second growth and plantation trees.

The climate is a typical maritime climate moderated by the nearby ocean. Snowfall can be heavy in winter, but most types of work other than geological mapping and prospecting can be carried out all year round.

Mining is one of the main industries in the area, and experienced personnel are locally available.

An existing power line passes approximately three kilometers north of the property, and water is available from numerous creeks located on the property.

History of Previous Work

Very little work was carried out on the Rio Road property prior to its acquisition by BM&S in the 1980s.

From 1987 to 1990, BM&S carried out line cutting, soil sampling, magnetic, gravity, and MaxMin I HEM surveys, resulting in the discovery of highly anomalous concentrations of antimony in soils near the edge of its grid. The final soil anomaly was basal till sampled and trenched, which uncovered some massive stibnite. Thirteen holes were then drilled on the property with some holes intersecting significant stibnite and antimony values from trace to 13.6%. This was followed up by lithogeochemistry on selected drill core samples in 1998.

Regional Geology

Regional geology is the same as that for the Canoe Landing Lake property. See "Information Concerning Blue Note – Description of NB Mineral Properties – Canoe Landing Lake Property – Regional Geology."

Property Geology and Mineralization

The mineralization of interest on the property is antimony and gold. At surface the zone contains antimony in stibnite, which forms a cement in a stockwork breccia with very little gold or pyrite.

Assessment work on file at the NBDNRE indicates that at shallow depth the mineralization changes to arsenopyrite with less stibnite and with some gold and pyrite, along with malachite and manganite. A MaxMin II survey done over the vein showed it to be a good conductor, which indicates that the vein is a continuous sulphide body. The type of deposit expected here is an epigenetic vein/stockwork. The vein crosses the stratigraphy at a small angle. As with any property in this area, there is also the possibility of finding a volcanogenic massive sulphide deposit.

Exploration by the Company

In 2003 and 2004, the Company carried out an IP survey on the Rio Road property and identified six anomalies.

This was followed up by the drilling of two holes to test the best of the IP anomalies in 2004. One was continued to depth to also investigate jasperoid material found in a hole previously drilled by BM&S.

A more detailed description of the drilling results is set out in the Newson Report.

Sampling Methodology

Samples were selected to be as homogeneous as possible with respect to geology and content of mineralization, as estimated visually. Core recovery was quite good for both drill holes, estimated at greater than 96%. The core is NQ, which the author of the Newson Report believes is large enough to give samples representative of the rock intersected. The author goes on to state, however, that it would have been better to have specified a lower threshold for the analyses of antimony, chromium, and arsenic. In the previous work carried out by BM&S many of the assays of antimony had been in the percent range, and it had been expected that some from the Company's work would also be in this range. Therefore, an analytical method yielding accurate results in that range was chosen. As this did not occur, he suggests that the pulps of the samples should be re-assayed for the three trace metals using a method which will give results down to 1 ppm.

The core was picked up in boxes at the drill and taken to a secure building for storage and logging. The cores were then split with half being sent to the lab to be assayed and the other half being retained in the core box.

No officer, director, employee or associate of the Company was involved in any aspect of the sample preparation.

Details of the analytical procedures are set out in the Newson Report.

In the Newson Report the author states that the sampling, sample preparation, security and analytical procedures were adequate.

Interpretation and Conclusions

The mineral potential of the property revolves around the alteration observed in the surface mapping and the significance of the red jasper(oid) material intersected in two of the holes previously drilled by BM&S.

The jasperoid material contains 10% iron which puts it in the lower range of the iron formation which caps the Brunswick deposits. It owes its present hardness to thermal metamorphism, which implies proximity to a heat source. That, combined with the alteration of the country rocks and the manganese and copper staining seen on some fracture surfaces, indicates that a mineralizing event may have acted on the rocks underlying the property and that the proposed mineralizing event took place in a stratigraphic interval known to host economic mineralization elsewhere in the Bathurst camp.

Neither the old MaxMin conductors nor the recent IP anomalies are caused by mineralization with any economic potential. On the other hand, the rock types encountered in the drilling do not indicate that the area is any less prospective than it was believed to be before.

The carbonate alteration and geochemically high values of antimony and arsenic are possibly indicative of a mineralizing event, even though the gold values are not as high as could be hoped. More drilling is required to further investigate the gold potential here.

The geochemical assays for arsenic and antimony were done with too high a minimum detection limit and so should be done at a lower minimum detection limit to see if there are other zones of alteration which did not show up in the present work.

Recommendations

The potential of the alteration zone intersected in the Company's most recent program should be tested by the drilling of a minimum of two holes.

If the results of this first phase of drilling are positive, a second phase of follow-up drilling should be conducted.

An estimate of the costs of carrying out this work is as follows:

Description	**Amount**
Phase 1	
2 holes of 350 m @ $80/m	$ 56,000
Assays	$ 5,000
Rock geochemistry: 100 @ $38.50/sample	$ 3,850
Geological preparation, supervision, interpretation, reports	$ 28,000
Total, phase 1	$ 92,850
Phase 2	
4 holes of 400 m @ $85/m	$ 136,000
Assays	$ 9,000

Description	Amount
Phase 1	
Geological preparation, supervision, interpretation, reports	$ 32,000
Total, phase 2	$ 177,000

Acquisition of Caribou Mine

Pursuant to a letter of intent dated October 3, 2004 (the "Breakwater LOI") between the Company and Blue Note and Breakwater Resources Inc. and its subsidiary CanZinco Ltd. ("Breakwater"), Blue Note has agreed in principle to purchase from Breakwater the mineral properties and mine facilities which comprise the Caribou Mine, located in New Brunswick. The consideration to be paid by Blue Note for the acquisition is the issuance of 600,000 Convertible Shares and the assumption of Breakwater's obligations under certain agreements pertaining to the mine. Completion of the acquisition is subject to a number of conditions, including the negotiation and execution of a formal acquisition agreement, the assignment to Blue Note of various agreements pertaining to the mine, the release of certain existing security interests over the property in favour of various financial institutions and the approval of the Exchange.

A definitive closing date for the acquisition has not yet been set, but Blue Note does not anticipate that it will happen prior to the Effective Date.

Available Funds and Principal Purposes for Use

Private Placement

Blue Note has signed an engagement letter dated February 28, 2005, with Northern Securities Inc. ("Northern"), whereby Northern has proposed to use its best efforts to sell up to 8,000,000 Blue Note Units at a proposed price of $0.25 per Blue Note Unit on a private placement basis to raise proposed gross proceeds of $2,000,000 (the "Private Placement"). Each Blue Note Unit will consist of one Convertible Share and one Blue Note Warrant, with each Blue Note Warrant being exercisable into one Blue Note Common Share at a proposed price of $0.30 for a period of two years from the Effective Date.

Immediately after the implementation of the Arrangement on the Effective Date the Convertible Shares would be automatically converted into Blue Note Common Shares, on the basis of one Blue Note Common Share for each Convertible Share.

It is proposed that Northern will be paid a commission of 10% of the gross proceeds of the Private Placement and be granted broker warrants to acquire such number of Blue Note Units equal to 10% of the aggregate number of Blue Note Units sold pursuant to the Private Placement. The broker warrants would be exercisable at a proposed price of $0.25 per Blue Note Unit for a period of two years from the Effective Date.

It should be noted that Northern's engagement has not yet been formalized in the form of an agency agreement, which is pending determination of a number of factors including the Company's confirmation of mailing of the Circular to Shareholders, and accordingly the number of Blue Note Units to be sold, price and other terms of the Blue Note Units and terms of Northern's remuneration are subject to change.

Use of Funds

Upon the Effective Date, Blue Note anticipates that it will have approximately $2,800,000 in funds available, based on $1,000,000 being transferred from the Company pursuant to the Arrangement and net proceeds of $1,800,000 from the Private Placement. If the Private Placement is not completed prior to the Effective Date, Blue Note will have $1,000,000 in funds available. The Company intends to utilize this working capital as follows:

Description	**Amount with Private Placement**	**Amount without Private Placement**
Pay existing working capital deficiency of Blue Note	$ 119,275	$ 119,275
Carry out Phase 1 geophysics on Canoe Landing Lake property	$ --	$ 167,000
Carry out complete Phase 1 program on Canoe Landing Lake property	$ 1,304,700	$ --
Carry out work program on California Lake property	$ 20,000	$ 20,000
Carry out Phase 1 work program on Rio Road property	--	$ 92,800
Carry out Phase 1 and Phase 2 work program on Rio Road property	$ 177,000	$ --
Cover estimated general and administrative expenses for a 12-month period	$ 79,600	$ 79,600
Provide general working capital	$ 1,099,425	$ 521,325
Total	$ 2,800,000	$ 1,000,000

Administration

Blue Note estimates that aggregate monthly administration expenses for the ensuing 12-month period will be $8,300, for an aggregate of $79,600 over the 12-month period.

A summary of the estimated monthly administration expenses is as follows:

Item	**Amount**
Salaries and benefits	$3,600
Consulting fees	900
Transfer agent fees	200
Telephone	100
Rent	400
Travel	1,100
Investor Relations	500

Item	Amount
Miscellaneous costs	1,000
Legal and Audit	500
Total:	$8,300

Directors and Officers

The directors of Blue Note are Michael C. Judson, John Mavridis and John G. Martin. Both Michael C. Judson and John Mavridis have been nominated for election as directors of the Company at the Meeting. For further information, see "Annual Meeting Business - Election of Directors" and "Information Concerning the Company – Directors and Officers."

The officers of Blue Note are Michael C. Judson, who is the Chairman and Chief Executive Officer, and John G. Martin, who is the President and Chief Operating Officer.

John Martin, age 56, holds a B.A.Sc. in Chemical Engineering from the University of Toronto and is a registered professional engineer. Mr. Martin has been the President and Chief Operating Officer of Blue Note since September 1, 2004, prior to which he was with Breakwater. He is an experienced mining professional with experience in both open pit and underground mining, including initial exploration, feasibility studies, project approval, regulatory approvals, construction, commissioning and operation of mine and mineral processing facilities. Mr. Martin devotes approximately 90% of his time to the affairs of Blue Note.

None of the directors or senior officers have entered into non-competition or non-disclosure agreements with Blue Note.

Share Capital

The authorized capital of the Company consists of an unlimited number of common shares without par value and an unlimited number of Convertible Shares without par value.

All Blue Note Common Shares, both issued and unissued, rank equally as to dividends, voting powers and participation in assets. No shares have been issued subject to call or assessment. There are no preemptive or conversion rights, and no provision for redemption, purchase for cancellation, surrender or sinking funds. Provision as to modifications, amendments or variations of such rights or such provisions are contained in the Blue Note articles and by-laws and the CBCA.

The Convertible Shares will rank in priority to the Blue Note Common Shares, but are non-voting. On liquidation, dissolution or winding up, the Convertible Shares will rank in priority to the Blue Note Common Shares and participate as to an amount equal to the paid up capital thereon. There are no preemptive rights, and no provision for redemption, purchase for cancellation, surrender or sinking funds. Provision as to modifications, amendments or variations of such rights or such provisions are contained in the Blue Note articles and by-laws and the CBCA.

Pursuant to the Arrangement, one Blue Note Common Share will be issued for each Reorganization Share acquired by Shareholders. Immediately following implementation of the

Arrangement on the Effective Date, the Convertible Shares will be converted into Blue Note Common Shares on the basis of one Blue Note Common Share for each Convertible Share.

Existing Share Capital

The following table sets forth a summary of the particulars of the share and long term debt capital of Blue Note as of the date hereof:

Designation of Security	Amount Outstanding as at the date hereof	Pro Forma Amount Outstanding upon completion of the Arrangement
Common Shares	$119,250 (7,200,000 shares)	$119,250 (15,800,000 shares) [(1)(2)]

Notes:

(1) *Assumes the issuance of Convertible Shares upon completion of the Private Placement and to Breakwater pursuant to the Breakwater LOI and subsequent conversion of those shares into Blue Note Common Shares.*

(2) *Upon completion of the Arrangement and conversion of the Convertible Shares into Blue Note Common Shares it is anticipated that the directors, officers and other insiders of Blue Note will hold 193,115 Blue Note Common Shares, which will represent approximately 1,2% of the number of Blue Note Common Shares which will then be outstanding.*

As at the date hereof, Blue Note has no long term debt and no deficit.

Upon completion of the Arrangement, no shareholder will hold in excess of 10% of the issued and outstanding Blue Note Common Shares.

Options to Purchase Shares

There are no options or warrants to purchase Blue Note Common Shares or other securities of Blue Note outstanding.

Dividend Record

Dividend Policy

Blue Note has paid no dividends since its inception. At the present time, Blue Note intends to retain any earnings for corporate purposes. The payment of dividends in the future will depend on the earnings and financial condition of Blue Note and on such other factors as the board of directors of Blue Note may consider appropriate. However, since Blue Note is currently in a development stage, it is unlikely that earnings, if any, will be available for the payment of dividends in the foreseeable future.

Prior Sales

The following table contains details of the prior sales of Blue Note Common Shares within the 12 months prior to the date of this circular.

Date of Issue	Number of Common Shares	Price per Share ($)
January 15, 2005	7,199,900[(1)]	$0.01657
March 14, 2005	600,000[(2)]	N/A

Notes:

(1) *It is anticipated that prior to implementation of the Arrangement these Blue Note Common Shares will be repurchased by Blue Note and cancelled.*

(2) *Issued to Breakwater pursuant to the Breakwater LOI, and then returned to Blue Note for cancellation on March 17, 2005. It is intended that 600,000 Convertible Shares will be issued to Breakwater as a substitution therefor prior to the Effective Date.*

Escrowed Securities

There will be no securities of Blue Note held in escrow upon completion of the Arrangement.

Auditors and Registrar and Transfer Agent

The auditors for Blue Note are Lippman Leebosh April, Chartered Accountants, 1 Westmount Square, Suite 1001, Westmount, Quebec, H3Z 2P9.

The Registrar and Transfer Agent for Blue Note is Pacific Corporate Trust Company, 10th Floor, 625 Howe Street, Vancouver, British Columbia, V6C 3B8.

Legal Proceedings

Blue Note is not party to any outstanding legal proceedings, nor are any such proceedings contemplated.

Material Contracts

Except for contracts entered into in the ordinary course of business, the only material contracts entered into by Blue Note since its incorporation and which can be reasonably regarded as material to Blue Note are as follows:

1. Arrangement Agreement dated April 15, 2005. See "The Arrangement."

2. Engagement letter dated February 28, 2005, with Northern. See "Information Concerning Blue Note -Available Funds and Principal Purposes for Use – Private Placement."

3. Breakwater LOI dated October 3, 2004. See "Information Concerning Blue Note – Description of NB Mineral Properties – Acquisition of Caribou Mine."

Risk Factors

An investment in mineral exploration companies such as the Company involves a significant degree of risk including, without limitation, the factors set out below.

Nature of Exploration and Mining

Resource exploration and development is a speculative business and involves a high degree of risk. The properties in which Blue Note holds an interest are without a known body of ore. Each of the proposed programs on the properties is an exploratory search for ore. Development of these properties will only follow upon obtaining satisfactory exploration results. Natural resource exploration and development involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to avoid. There is no assurance that commercial quantities of ore will be discovered. There is also no assurance that even if commercial quantities of ore are discovered, a property will be brought into commercial production. The discovery of commercial deposits is dependent upon a number of factors not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a deposit once discovered is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, commodity prices and government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Most of the above factors are beyond the control of Blue Note.

Operating Hazards and Risks

Exploration of natural resources generally involves a high degree of risk which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The business of mining is subject to a variety of risks such as ground fall, explosions and other accidents, flooding, environmental hazards, the discharge of toxic chemicals and other hazards. Such occurrences, against which Blue Note cannot, or may elect not to, insure, may result in destruction of mines and other production facilities, damage to life and property, environmental damage, delayed production, increased production costs and possible legal liability for any and all damages. Such liabilities may have a material adverse effect on Blue Note's financial position.

Requirements for Further Financing

Blue Note presently does not have sufficient financial resources to undertake all of its currently planned exploration and development programs. The further development and exploration of the various mineral properties in which it holds interests depends upon Blue Note's ability to obtain financing through any or all of the joint ventures of projects, debt financing, equity financing or other means. There can be no assurance that Blue Note will be able to raise the balance of the financing required or that such financing can be obtained without substantial dilution to purchasers. There is no assurance Blue Note will be successful in obtaining the required financing. Failure to obtain additional financing on a timely basis could cause Blue Note to forfeit its interest in some or all of its properties and reduce or terminate its operations.

Fluctuation in Prices

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of a mineral resource are discovered, a profitable market will exist for the sale of same. There can be no assurance that mineral prices will be such that Blue Note properties can be mined at a profit. Factors beyond the control of Blue Note may affect the marketability of any minerals discovered.

Mineral and metal prices have experienced volatile and significant price movements over short periods of time, and are affected by numerous factors beyond the control of Blue Note, including international economic and political trends, expectations of inflation, currency exchange fluctuations (specifically, the U.S. dollar relative to other currencies), interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. In particular, the supply of and demand for minerals are affected by, among other factors, political events, economic conditions and production costs in various producing regions.

Uninsurable Risks

In the course of exploration, development, and production of mineral properties, certain risks and, in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fires, flooding, and earthquakes, may occur. It is not always possible to fully insure against such risks and Blue Note may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of Blue Note.

No Assurance of Titles or Boundaries

Blue Note has obtained records from the government offices with respect to all of its mineral claims but this should not be construed as a guarantee of title. Other parties may dispute title to any of Blue Note's mineral properties and any of Blue Note's properties may be subject to prior unregistered agreements or transfers or land claims by aboriginal, native, or indigenous peoples, and title may be affected by undetected encumbrances or defects or governmental actions.

Environmental and Other Regulatory Requirements

All phases of Blue Note's operations are subject to environmental regulation. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect Blue Note's operations. Environmental hazards may exist on the properties in which Blue Note holds interests which are unknown to Blue Note at present which have been caused by previous or existing owners or operators of the properties.

Government approvals and permits are currently, and may in the future be, required in connection with Blue Note's operations. To the extent such approvals are required and not obtained, Blue Note may be curtailed or prohibited from proceeding with planned exploration or development of mineral properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of such mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on Blue Note and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Conflicts of Interest

Certain directors and officers of Blue Note are also directors, officers, or shareholders of other companies that are similarly engaged in the business of acquiring, developing, and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of Blue Note are required by law to act honestly and in good faith with a view to the best interests of Blue Note and to disclose any interest which they may have in any project or opportunity of Blue Note. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not Blue Note will participate in any project or opportunity, the directors will primarily consider the degree of risk to which Blue Note may be exposed and its financial position at the time.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com. Financial information is provided in the Financial Statements and MD&A for its most recently completed financial year. Shareholders may also contact the Company at 2 Place Alexis Nihon, 3500 de Maisonneuve West, Suite 1110, Westmount, Quebec, H3Z 3C1 (Phone no. (514) 486-3040) to request copies of the Company's comparative financial statements and MD&A for its most recently completed financial year.

APPROVAL BY THE BOARD OF DIRECTORS

The contents and mailing to Shareholders of this Circular have been approved by the Board of Directors.

No person is authorized to give any information or to make any representations in respect of the matters addressed herein other than those contained in this Circular and, if given or made, such information must not be relied upon as having been authorized.

CERTIFICATE OF FOREST GATE RESOURCES INC.

April 15, 2005

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities of the Company assuming completion of the Arrangement and other transactions described herein.

Chief Executive Officer	Acting as Chief Financial Officer
(signed) "*Michael C. Judson*"	(signed) "*John Mavridis*"
Michael C. Judson President, Chief Executive Officer and Director	John Mavridis Director

On behalf of the Board of Directors

(signed) "*Jean Girard*"	(signed) "*André Audet*"
Jean Girard Director	André Audet Director

CERTIFICATE OF BLUE NOTE METALS INC.

April 15, 2005

The foregoing as it relates to Blue Note constitutes full, true and plain disclosure of all material facts relating to the securities of Blue Note assuming completion of the Arrangement and other transactions described herein.

Chief Executive Officer

(signed) "*Michael C. Judson*"

Michael C. Judson
Chairman, Chief Executive Officer
and Director

Acting as Chief Financial Officer

(signed) "*John Mavridis*"

John Mavridis
Director

On behalf of the Board of Directors

(signed) *"John G. Martin"*

John G. Martin
Director, President and Chief Operating Officer

SCHEDULE A

FOREST GATE RESOURCES INC.
ARRANGEMENT RESOLUTION

BE IT RESOLVED THAT:

1. The arrangement pursuant to section 192 of the *Canada Business Corporations Act* (the "Act"), involving Forest Gate Resources Inc. ("Forest Gate"), its holders of common shares (the "Forest Gate Shareholders"), Blue Note Metals Inc. and the holder of its common shares (the "Arrangement"), all as more particularly set forth in the plan of arrangement (the "Plan of Arrangement") attached as Exhibit 1 to the Arrangement Agreement between Forest Gate and Blue Note effective as of April 15, 2005 (the "Arrangement Agreement") is hereby authorized and approved.

2. The entering into by Forest Gate of the Arrangement Agreement which is attached as Schedule B to the Management Information Circular of Forest Gate dated April 15, 2005 (the "Circular") accompanying the notice of this meeting, is hereby ratified, confirmed and approved.

3. Notwithstanding the approval of this Special Resolution or the approval of the Arrangement by the Quebec Superior Court, the board of directors of Forest Gate (i) is hereby authorized in its sole discretion, without further notice to or approval of the Forest Gate Shareholders but subject to the terms of the Arrangement Agreement to amend or terminate the Arrangement Agreement at any time prior to the Arrangement becoming effective; and (ii) is hereby authorized, in its sole discretion, without further notice to or approval of the Forest Gate Shareholders, to amend the Plan of Arrangement to the extent permitted thereby and to not proceed with the Arrangement at any time prior to the Arrangement becoming effective.

4. Any one director or officer of Forest Gate is authorized to sign Articles of Arrangement on behalf of Forest Gate and file such Articles of Arrangement with the Director under the Act in accordance with the terms of the Plan of Arrangement and Arrangement Agreement.

5. Any one director or officer of Forest Gate is hereby authorized and directed for and in the name of and on behalf of Forest Gate to do all acts and things and to execute, whether under the corporate seal of Forest Gate or otherwise, and to deliver or cause to be delivered, all documents and instruments and to do all such acts and things as in the opinion of such director or officer may be necessary or desirable to carry out the intent of this Special Resolution.

SCHEDULE B

ARRANGEMENT AGREEMENT

MEMORANDUM OF AGREEMENT made as of the 15th day of April, 2005.

BETWEEN

FOREST GATE RESOURCES INC., a corporation subject to the *Canada Business Corporations Act*

("Forest Gate");

AND

BLUE NOTE METALS INC., a corporation subject to the *Canada Business Corporations Act*

("Blue Note").

WHEREAS Forest Gate intends to propose to its shareholders the Arrangement.

AND WHEREAS Blue Note is a subsidiary of Forest Gate.

AND WHEREAS the parties hereto wish to record their agreements with regard to the Arrangement and Plan of Arrangement;

NOW THEREFORE THIS AGREEMENT WITNESSES that, in consideration of the premises and the respective covenants and agreements herein contained, the parties hereto covenant and agree as follows:

1. INTERPRETATION

1.1 Definitions

In this Agreement including the recitals hereto, unless there is something in the subject matter or context inconsistent therewith, words and terms defined in the Circular will have the same meaning when used herein and, in addition, the following terms will have the following meanings:

"Arrangement" means the arrangement under the provisions of Section 192 of the CBCA among Forest Gate and the Shareholders and Blue Note and its shareholders on the terms and conditions set forth in the Plan of Arrangement or any amendment or variation thereto made in accordance with section 5.1 of this Agreement.

"Blue Note Common Shares" means the common shares without par value in the capital of Blue Note.

"Business Day" means any day, other than a Saturday or a Sunday, when Canadian chartered banks are open for business in the City of Toronto.

"CBCA" means the *Canada Business Corporations Act*, R.S.C. 1985, c.C-44, as amended from time to time.

"Circular" means the definitive form, together with any amendments thereto, of the management information circular of Forest Gate to be prepared and sent to Shareholders in connection with the Meeting.

"Common Shares" means the common shares without par value in the capital of Forest Gate issued and outstanding immediately prior to the implementation of the Arrangement.

"Convertible Shares" means the convertible shares of Blue Note.

"Court" means the Quebec Superior Court.

"Director" means the Director appointed under the section 260 of the CBCA.

"Effective Date" means the date on which a certified copy of the Final Order is accepted for filing by the Director to give effect to the Arrangement.

"Exchange" means the TSX Venture Exchange.

"Final Order" means the final order of the Court approving the Arrangement.

"Interim Order" means the order of the Court to be applied for as contemplated in section 3.3 hereof.

"Meeting" means the annual and special general meeting of Shareholders to be held on May 25, 2005, to consider, among other matters, the Arrangement, and any adjournment thereof.

"New Common Shares" means the new common shares without par value in the capital of Forest Gate to be issued as part of the Arrangement.

"Plan of Arrangement" means the plan of arrangement which is annexed as Exhibit 1 hereto and any amendment or variation thereto made in accordance with section 5.1 hereof.

"Reorganization Shares" means the Reorganization Shares without par value in the capital of Forest Gate to be issued as part of the Arrangement.

"Shareholders" means the holders of Common Shares.

1.2 Interpretation not Affected by Headings

The division of this Agreement into articles, sections and other portions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms "this Agreement", "hereof", and "hereunder" and similar expressions refer to this Agreement (including the exhibit hereto) and not to any particular article, section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

1.3 Numbers, Et Cetera

Unless the context otherwise requires, words importing the singular number only will include the plural and vice versa, words importing the use of any gender will include both genders; and words importing persons will include firms, corporations, trusts and partnerships.

1.4 Date for Any Action

In the event that any date on which any action is required to be taken hereunder by any of the parties hereto is not a Business Day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a Business Day at such place, unless otherwise agreed to.

1.5 Entire Agreement

This Agreement, together with the exhibit, schedules, agreements and other documents herein or therein referred to, constitute the entire agreement among the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, among the parties with respect to the subject matter hereof.

1.6 Currency

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada unless otherwise specified.

2. REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties of the Forest Gate

Forest Gate represents and warrants to and in favour of Blue Note as follows:

(a) Forest Gate is a corporation duly organized and validly existing under the CBCA and has the corporate power and authority to own, operate and lease its property and assets and to carry on its business as now being conducted by it, and it is duly registered, licensed or qualified to carry on business in each jurisdiction in which a material amount of its business is conducted or where the character of its properties and assets makes such registration, licensing or qualification necessary.

(b) Forest Gate has the corporate power and authority to enter into this Agreement and, subject to obtaining the requisite approvals contemplated hereby, to perform its obligations hereunder.

(c) The authorized capital of Forest Gate consists of an unlimited number of common shares without par value of which 61,606,537 are issued and outstanding at the date hereof.

(d) No individual, firm, corporation or other person holds any securities convertible or exchangeable into any shares of Forest Gate or of any of its subsidiaries or has any agreement, warrant, option or any right capable of becoming an agreement, warrant or option for the purchase of any unissued shares of Forest Gate or any of its subsidiaries, except for:

(i) holders of outstanding warrants to purchase Common Shares; and

(ii) employees and directors of Forest Gate who have options to purchase Common Shares pursuant to the Option Plan.

(e) The execution and delivery of this Agreement by Forest Gate and the completion of the transactions contemplated herein:

(i) do not and will not result in a breach of, or violate any term or provision of, the articles or by-laws of Forest Gate or any of the constating documents of its subsidiaries;

(ii) subject to receiving any consent as may be necessary under any agreement by which Forest Gate or any of its subsidiaries is bound, do not and will not, as of the Effective Date, conflict with, result in the breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any agreement, instrument, license, permit or authority to which Forest Gate and its subsidiaries taken as a whole, or to which any material property of Forest Gate or any of its subsidiaries is subject or result in the creation of any lien, charge or encumbrance upon any of the material assets of Forest Gate or any of its subsidiaries under any such agreement or instrument, or give to any person any material interest or right, including rights of purchase, termination, cancellation or acceleration, under any such agreement, instrument, license, permit or authority; and

(iii) subject to receipt of necessary approvals of the Shareholders and the Court do not and will not as of the Effective Date violate any provision of law or administrative regulation or any judicial or administrative award, judgment or decree applicable and known to Forest Gate, after due inquiry, the breach of which would have a material adverse effect on Forest Gate and its subsidiaries taken as a whole.

(f) To the best of the knowledge of Forest Gate after due inquiry, there are no actions, suits, proceedings or investigations commenced, contemplated or threatened against or affecting Forest Gate or any subsidiary of Forest Gate, at law or in equity, before or by any governmental department, commission, board, bureau, court, agency, arbitrator or instrumentality, domestic or foreign, of any kind nor, to the best of the knowledge of Forest Gate, after due inquiry, are there any existing facts or conditions which may reasonably be expected, individually or in the aggregate, to be a proper basis for any actions, suits, proceedings or investigations, which in any case would prevent or hinder the consummation of the transactions contemplated by this Agreement, or the Plan of Arrangement, or which may reasonably be expected individually or in the aggregate to have a material adverse effect on the business, operations, properties, assets or affairs, financial or otherwise, of Forest Gate and its subsidiaries, taken as a whole, either before or after the Effective Date.

(g) The execution and delivery of this Agreement and the completion of the transactions contemplated herein have been duly approved by the Board of Directors and this Agreement has been duly executed and delivered by Forest Gate and constitutes a valid and binding obligation of Forest Gate enforceable against it in accordance with its terms, except as may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and subject to the qualification that equitable remedies may only be granted in the discretion of a court of competent jurisdiction.

(h) The information set forth in the Circular relating to Forest Gate and its subsidiaries and the interests of Forest Gate and such subsidiaries, their respective businesses and properties and the effect of the Arrangement thereon is true, correct and complete in all material respects and does not contain any untrue statement of any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading in the light of the circumstances in which they are made.

2.2 Representations and Warranties of Blue Note

Blue Note represents and warrants to and in favour of Forest Gate as follows:

(a) Blue Note is a corporation duly organized and validly existing under the CBCA;

(b) Blue Note has the corporate power and authority to enter into this Agreement and, subject to obtaining the requisite approvals contemplated hereby, to perform its obligations hereunder.

(c) The authorized capital of Blue Note consists of an unlimited number of common shares without par value and an unlimited number of Convertible Shares, of which 7,200,000 Blue Note Common Shares and no Convertible Shares are issued and outstanding as at the date hereof.

(d) Except as contemplated by this Agreement, no individual, firm, corporation or other person holds any securities convertible or exchangeable into any shares of Blue Note or has any agreement, warrant, option or any right capable of becoming an agreement, warrant or option for the purchase of any unissued shares of Blue Note.

(e) The execution and delivery of this Agreement by Blue Note and the completion of the transactions contemplated herein:

(i) do not and will not result in the breach of, or violate any term or provision of, the articles or by-laws of Blue Note; and

(ii) do not and will not, as of the Effective Date, violate any provision of law or administrative regulation or any judicial or administrative award, judgment or decree applicable and known to Blue Note , after due inquiry, the breach of which would have a material adverse effect on Blue Note.

(f) The execution and delivery of this Agreement and the completion of the transactions contemplated herein have been duly approved by the board of directors of Blue Note and this Agreement has been executed and delivered by Blue Note and constitutes a valid and binding obligation of Blue Note enforceable against it in accordance with its terms, except as may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and subject to the qualification that equitable remedies may only be granted in the discretion of a court of competent jurisdiction.

(g) Blue Note is not engaged in any business nor is it a party to or bound by any contract, agreement, arrangement, instrument, license, permit or authority, other than this Agreement and any transaction or agreement necessary or incidental to the fulfilment of its obligations under Agreement, nor does it have any liabilities, contingent or otherwise, except as provided in or permitted by this Agreement.

3. COVENANTS

3.1 Covenants of Forest Gate

Forest Gate hereby covenants and agrees with Blue Note as follows:

(a) Until the Effective Date, Forest Gate and each of its subsidiaries will carry on its business in the ordinary course and will not enter into any transaction or incur any obligation or liability out of the ordinary course of its business, except as otherwise contemplated in this Agreement.

(b) Except as otherwise contemplated in this Agreement, until the Effective Date, Forest Gate will not, and will not suffer or permit any of its subsidiaries to merge into or with, or amalgamate, consolidate or enter into any other corporate reorganization with, any other corporation or person or perform any act or enter into any transaction or negotiation which reasonably could be expected to, directly or indirectly, interfere or be inconsistent with the completion of the Arrangement.

(c) Forest Gate will, in a timely and expeditious manner, file the Circular in all jurisdictions where the Circular is required to be filed by Forest Gate and mail the Circular to Shareholders, the Board of Directors and the auditors of Forest Gate, all in accordance with the terms of the Interim Order and applicable law.

(d) Forest Gate will perform the obligations required to be performed by it hereunder and will do all such other acts and things as may be necessary or desirable in order to carry out and give effect to the transactions under the Arrangement as described in the Circular and, without limiting the generality of the foregoing, Forest Gate shall use its reasonable best efforts to seek:

(i) the approval of the Shareholders required for the implementation of the Arrangement,

(ii) the approval for the listing of the New Common Shares on the Exchange,

(iii) the approval for the listing of the Blue Note Common Shares on the Exchange,

(iv) the Final Order as provided for in section 3.3, and

(v) such other consents, orders, rulings, approvals and assurances as counsel may advise are necessary or desirable for the implementation of the Arrangement, including those referred to in section 4.1.

(e) Forest Gate will convene the Meeting as soon as practicable and will solicit proxies to be voted at the Meeting in favour of the Arrangement and all other resolutions referred to in the Circular.

(f) Forest Gate will use its reasonable best efforts to cause each of the conditions precedent set out in sections 4.1 and 4.2 to be complied with on or before the Effective Date.

3.2 Covenants of Blue Note

Blue Note hereby covenants and agrees with Forest Gate as follows:

(a) Until the Effective Date, Blue Note will not merge into or with, or amalgamate or consolidate with, or enter into any other corporate reorganization with, any other corporation or person, perform any act or enter into any transaction or negotiation which interferes or is inconsistent with the Arrangement or other transactions contemplated by this Agreement.

(b) Blue Note will perform the obligations required to be performed by it, and will enter into all agreements required to be entered into by it, under this Agreement and the Plan of Arrangement and will do all such other acts and things as may be necessary or desirable in order to carry out and give effect to the Arrangement and related transactions as described in the Circular and, without limiting the generality of the foregoing, Blue Note will seek and cooperate with Forest Gate in seeking:

(i) the Final Order as provided for in section 3.3, and

(ii) such other consents, orders, rulings, approvals and assurances as counsel may advise are necessary or desirable for the implementation of the Arrangement, including those referred to in section 4.1.

3.3 Interim Order and Final Order

Each party covenants and agrees that it will, as soon as reasonably practicable, apply to the Court pursuant to section 192 of the CBCA for the Interim Order providing for, among other things, the calling and holding of the Meeting for the purpose of, among other matters, considering and, if deemed advisable, approving the Arrangement and that, if the approval of the Arrangement by Shareholders as set forth in the Interim Order is obtained by Forest Gate as soon as practicable thereafter each party will take the necessary steps to submit the Arrangement to the Court and apply for the Final Order in such fashion as the Court may direct. As soon as practicable thereafter, and subject to compliance with any other conditions provided for in Article 4 hereof, Forest Gate and Blue Note will file with the Registrar pursuant to section 192 of the CBCA a certified copy of the Final Order and the Articles of Arrangement to give effect to the Arrangement.

3.4 Non-Survival of Representations, Warranties and Covenants

The respective representations, warranties and covenants of Forest Gate and Blue Note contained herein will expire and be terminated and extinguished at and from the Effective Date, other than the covenants in sections 3.1(d) and 3.2(b) and no party will have any liability or further obligation to any party hereunder in respect of the respective representations, warranties and covenants thereafter, other than the covenants in sections 3.1(d) and 3.2(b).

4. CONDITIONS

4.1 Mutual Conditions Precedent

The respective obligations of each party hereto to complete the transactions contemplated by this Agreement will be subject to the satisfaction, on or before the Effective Date, of the following conditions, none of which may be waived by any party hereto in whole or in part:

(a) The Arrangement, with or without amendment, will have been approved at the Meeting in accordance with the Interim Order.

(b) The Interim Order and the Final Order will have been obtained in form and substance satisfactory to Forest Gate and Blue Note, acting reasonably.

(c) The Exchange will have approved, as of the Effective Date, the listing and posting for trading of the New Common Shares issuable on the Arrangement, subject to compliance with the listing requirements thereof.

(d) The Exchange will have approved the listing thereon of the Blue Note Common Shares to be issued in connection with the Arrangement on or before the Effective Date or as soon as practicable thereafter, subject to compliance with the listing requirements thereof.

(e) No action will have been instituted and be continuing on the Effective Date for an injunction to restrain, a declaratory judgment in respect of or damages on account of or relating to the Arrangement and no cease trading or similar order with respect to any securities of Forest Gate or Blue Note will have been issued and remain outstanding.

(f) All material regulatory requirements will have been complied with and all other material consents, agreements, orders and approvals, including regulatory and judicial approvals and orders, necessary for the completion of the transactions provided for in this Agreement or contemplated by the Circular will have been obtained or received from the persons, authorities or bodies having jurisdiction in the circumstances.

(g) None of the consents, orders, regulations or approvals contemplated herein will contain terms or conditions or require undertakings or security deemed unsatisfactory or unacceptable by Forest Gate or Blue Note acting reasonably.

(h) This Agreement will not have been terminated under Article 5.

4.2 Conditions to Obligations of Each Party

The obligation of each of Forest Gate and Blue Note to complete the transactions contemplated by this Agreement is further subject to the condition, which may be waived by any such party without prejudice to its right to rely on any other condition in favour of such party, that each and every one of the covenants of the other party hereto to be performed on or before the Effective Date pursuant to the terms of this Agreement will have been duly performed by such party and that, except as affected by the transactions contemplated by this Agreement, the representations and warranties of the other party hereto will be true and correct in all material respects as at the Effective Date, with the same effect as if such representations and warranties had been made at and as of such time, and each such party will have received a certificate, dated the Effective Date, of a senior officer of each other party confirming the same.

4.3 Merger of Conditions

The conditions set out in sections 4.1 and 4.2 will be conclusively deemed to have been satisfied, waived or released upon the delivery to the Director pursuant to section 192 of the CBCA of a certified copy of the Final Order to give effect to the Arrangement.

5. AMENDMENT AND TERMINATION

5.1 Amendment

This Agreement and the Plan of Arrangement may, at any time and from time to time before and after the holding of the Meeting but not later than the Effective Date, be amended in a manner not materially prejudicial to the Shareholders by written agreement of the parties hereto without, subject to applicable law, further notice to or authorization on the part of the Shareholders for any reason whatsoever.

5.2 Termination

This Agreement may, at any time before or after the holding of the Meeting but no later than the Effective Date, be terminated by the Board of Directors without further notice to, or action on the part of, the shareholders.

Without limiting the generality of the foregoing, Forest Gate may terminate this Agreement:

(a) In the event that any right of dissent is exercised pursuant to section 4. 1 or 4.2 of the Plan of Arrangement in respect of the Common Shares, immediately prior to the Effective Date, shareholders who have exercised their right of dissent and hold 10% or more of the outstanding Common Shares have not abandoned their right of dissent.

(b) If prior to the Effective Date there is a material change in the business, operations, properties, assets, liabilities or condition, financial or otherwise, of Forest Gate and its subsidiaries, taken as a whole, or in Blue Note, or any change in general economic conditions, interest rates or any outbreak or material escalation in, or the cessation of, hostilities or any other calamity or crisis, or there should develop, occur or come into effect any occurrence which has a material effect on the financial markets of Canada and the Board of Directors determines in its sole judgment that it would be inadvisable in such circumstances for Forest Gate to proceed with the Arrangement.

5.3 Effect of Termination

Upon the termination of this Agreement pursuant to section 5.2 hereof, no party will have any liability or further obligation to any other party hereunder.

6. GENERAL

6.1 Notices

All notices which may or are required to be given pursuant to any provision of this Agreement will be given or made in writing and will be deemed to be validly given if served personally or by facsimile, in each case to the attention of the senior officer at the following addresses or at such other addresses as will be specified by the parties by like notice:

If to Forest Gate:

2 Place Alexis Nihon
3500 de Maisonneuve West
Suite 1110
Westmount, Quebec H3Z 3C1

Attention: President
Facsimile: (514) 486-1317

If to Blue Note:

2 Place Alexis Nihon
3500 de Maisonneuve West
Suite 1110
Westmount, Quebec H3Z 3C1

Attention: President
Facsimile: (514) 486-1317

The date of receipt of any such notice will be deemed to be the date of delivery or facsimile transmission thereof.

6.2 Assignment

No party may assign its rights or obligations under this Agreement or the Arrangement without the prior written consent of the other party hereto.

6.3 Binding Effect

This Agreement and the Arrangement will be binding upon and will enure to the benefit of the parties hereto and their respective successors and permitted assigns and, in the case of the Arrangement, will enure to the benefit of the Shareholders.

6.4 Waiver

Any waiver or release of any of the provisions of this Agreement, to be effective, must be in writing executed by the party granting the same. Waivers may only be granted upon compliance with the terms governing amendments set forth in section 5.1 hereof, applied mutatis mutandis.

6.5 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Quebec and the laws of Canada applicable therein and will be treated in all respects as a Quebec contract.

6.6 Counterparts

This Agreement may be executed in one or more counterparts each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the date first written.

Forest Gate Resources Inc.

By: “Michael Judson”

Blue Note Metals Inc.

By: “Michael Judson”

EXHIBIT 1
TO THE ARRANGEMENT AGREEMENT

PLAN OF ARRANGEMENT UNDER SECTION 190
OF THE *CANADA BUSINESS CORPORATIONS ACT*

1. INTERPRETATION

1.1 Definitions

In this Arrangement, unless there is something in the subject matter or context inconsistent therewith:

1.1.1 **"Arrangement"** means the arrangement proposed under the provisions of section 192 of the CBCA on the terms set out in this Plan of Arrangement.

1.1.2 **"Arrangement Agreement"** means the agreement, dated as of April 15, 2005 between Forest Gate and Blue Note to which this Plan of Arrangement is attached as Exhibit 1, as the same may be amended from time to time.

1.1.3 "**Blue Note**" means Blue Note Metals Inc., a subsidiary of Forest Gate incorporated under the CBCA to facilitate the Arrangement.

1.1.4 "**Blue Note Common Share**" means the common shares without par value which Blue Note is authorized to issue.

1.1.5 **"CBCA"** means the *Canada Business Corporations Act*, R.S.C. 1985, c.C-44, as amended from time to time.

1.1.6 **"Circular"** means the definitive form, together with any amendments thereto, of the management information circular of Forest Gate to be prepared and sent to the Shareholders in connection with the Meeting.

1.1.7 **"Common Share"** means the common shares without par value in the capital of Forest Gate.

1.1.8 **"Court"** means the Quebec Superior Court.

1.1.9 "**Director**" means the Director appointed under section 260 of the CBCA.

1.1.10 **"Effective Date"** means the date on which a certified copy of the Final Order is accepted for filing by the Director to give effect to the Arrangement.

1.1.11 **"Exchange"** means the TSX Venture Stock Exchange.

1.1.12 **"Final Order"** means the final order of the Court approving the Arrangement pursuant to the CBCA.

1.1.13 **"Forest Gate"** means Forest Gate Resources Inc., a corporation incorporated under the CBCA.

1.1.14 **“holder”**, when not qualified by the adjective “registered”, means the person entitled to a share hereunder whether or not registered or entitled to be registered in respect thereof in the register of Shareholders of Forest Gate or Blue Note, as the case may be.

1.1.15 **“Interim Order”** means the interim order to be obtained from the Court, providing for a special meeting of the Common Shareholders to consider and approve the Arrangement and for certain other procedural matters as well as for the issue of a notice of application for the Final Order.

1.1.16 “**ITA**” means the *Income Tax Act* (Canada), as amended, and the regulations thereunder.

1.1.17 “**Meeting**” means the annual and special meeting of shareholders which will be held to consider, among other matters, the Arrangement, and any adjournment thereof.

1.1.18 **“NB Mineral Properties”** means the mineral properties located in New Brunswick which are currently owned by Forest Gate and which will be transferred to Blue Note as part of the Arrangement, as described under “Information Concerning Blue Note - Description of NB Mineral Properties” in the Circular.

1.1.19 “**New Common Share**” means the new common shares without par value in the capital of Forest Gate to be issued as part of the Arrangement.

1.1.20 “**Plan of Arrangement**” means this plan of arrangement, as it may be amended from time to time in accordance with section 5.1 of the Arrangement Agreement.

1.1.21 “**Reorganization Shares**” means the Reorganization Shares without par value in the capital of Forest Gate to be issued as part of the Arrangement.

1.1.22 “**Shareholders**” means those persons who, as at the close of business on the Effective Date, are registered holders of Common Shares.

1.1.23 “**Transfer Agent**” means Pacific Corporate Trust Company.

1.1.24 “**Working Capital**” means the sum of $1,000,000.

1.2 Headings

The division of this Plan of Arrangement into articles, sections, subsections and paragraphs, and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan of Arrangement. The terms “this Plan of Arrangement”, “hereof, “herein”, “hereunder” and similar expressions refer to this Plan of Arrangement as a whole and not to any particular article, section, subsection, paragraph or other part hereof. Unless something in the subject matter or context is inconsistent therewith, all references herein to articles, sections, subsections and paragraphs are to articles, sections, subsections and paragraphs of this Plan of Arrangement.

1.3 Extended Meanings

In this Plan of Arrangement, words importing the singular number only shall include the plural and vice versa, and words importing the masculine gender shall include the feminine and neuter genders, and words importing persons shall include individuals, partnerships, associations, firms, trusts, unincorporated organizations and corporations.

1.4 Currency

All references to currency herein are to lawful money of Canada unless otherwise specified herein.

2. ARRANGEMENT AGREEMENT

2.1 Arrangement Agreement

This Plan of Arrangement is made pursuant to the provision of the Arrangement Agreement.

3. SUMMARY OF THE ARRANGEMENT

3.1 Summary

3.1.1 This Arrangement is being effected as an arrangement pursuant to Section 192 of the CBCA.

3.1.2 All holders of Common Shares, except for dissenting holders of Common Shares, will exchange their Common Shares for New Common Shares and Reorganization Shares.

3.1.3 All Reorganization Shares will be sold and transferred to Blue Note for consideration consisting solely of one Blue Note Common Share issued by Blue Note for each Reorganization Share so transferred.

3.1.4 All of the Reorganization Shares owned by Blue Note will be redeemed for their aggregate redemption value and such redemption value will be satisfied in full by the transfer by Forest Gate to Blue Note of the NB Mineral Properties and Working Capital, and the Reorganization Shares will be cancelled.

3.1.5 Shareholders may dissent in relation to the resolution to approve the Arrangement pursuant to the provisions of the Interim Order and section 190 of the CBCA.

3.1.6 The exchange of Common Shares for New Common Shares and Reorganization Shares, the sale and transfer of the Reorganization Shares to Blue Note in consideration of the issuance of Blue Note Common Shares, the redemption of the Reorganization Shares and the transfer of the NB Mineral Properties and the Working Capital to Blue Note will all occur on the Effective Date.

4. THE ARRANGEMENT

4.1 The Arrangement

On the Effective Date, the following will occur and be deemed to occur in the following order without further act or formality notwithstanding anything contained in the provisions attaching to any of the securities of Forest Gate or of Blue Note, but subject to the provisions of Article 5:

4.1.1 The articles of Forest Gate will be amended to authorize Forest Gate to issue an unlimited number of shares divided into an unlimited number of Common Shares, an unlimited number of New Common Shares and an unlimited number of Reorganization Shares.

4.1.2 Each issued and outstanding Common Share, except those referred to in section 5.1, will be exchanged for one New Common Share and 0.1168 of one Reorganization Share. In connection with such exchange:

(a) The issue price for each Reorganization Share will be an amount equal to the fair market value of one Reorganization Share immediately following the exchange provided for in this subsection.

(b) The issue price for each New Common Share will be an amount equal to the difference between (i) the capital for the Common Share for which it was, in part, exchanged immediately prior thereto and (ii) the amount determined in section 4.1.2(a) hereof.

(c) The Company will not issue any fractional Reorganizational Shares, and any fractional Reorganizational Shares which may result from the exchange will be cancelled.

(d) Each Shareholder will cease to be the holder of the Common Shares so exchanged and will become the holder of New Common Shares and Reorganization Shares issued to such Shareholder. The name of such Shareholder will be removed from the register of holders of Common Shares with respect to the Common Shares so exchanged and will be added to the registers of the holders of New Common Shares and Reorganization Shares as the holder of the number of New Common Shares and Reorganization Shares, respectively, so issued to such Shareholder.

4.1.3 No share certificate representing the Reorganization Shares issued pursuant to 4.1.2(a) will be issued. The New Common Shares to be issued pursuant to paragraph 4.1.2(b) will be evidenced by the existing share certificates representing the Common Shares, and no share certificates representing such New Common Shares will be issued to the Common Shareholders.

4.1.4 The Common Shares exchanged for New Common Shares and Reorganization Shares pursuant to section 4.1.2 will be cancelled.

4.1.5 Each Shareholder will sell and transfer all of its Reorganization Shares to Blue Note for consideration consisting solely of one Blue Note Common Share issued by Blue

Note for each Reorganization Share so transferred. In connection with such sale and transfer:

(a) The issue price for each Blue Note Common Share will be an amount equal to the fair market value of the one Reorganization Share for which it was issued as consideration.

(b) Each holder of Reorganization Shares so sold will cease to be the holder of the Reorganization Shares so sold and transferred and will become the holder of Blue Note Common Shares issued to such holder. The name of such holder will be removed from the register of holders of Reorganization Shares with respect to the Reorganization Shares so sold and transferred and will be added to the register of holders of Blue Note Common Shares as the holder of the number of Blue Note Common Shares so issued to such holder, and Blue Note will be and will be deemed to be the transferee of Reorganization Shares so transferred and the name of Blue Note will be entered in the register of holders of Reorganization Shares as the holder of the number of Reorganization Shares so sold and transferred to Blue Note.

4.1.6 All of the Reorganization Shares owned by Blue Note will be redeemed for their aggregate redemption value and such redemption value will be satisfied in full by the transfer by Forest Gate to Blue Note of the NB Mineral Properties and Working Capital and the Reorganization Shares will be cancelled.

5. RIGHT TO DISSENT

5.1 Shareholders

Each Shareholder is entitled to dissent and to be paid by Forest Gate the fair value of the Common Shares held by such shareholder in respect of which such shareholder dissents, determined as of the close of business on the day immediately preceding the date on which the Arrangement is adopted by the Shareholders, provided that (i) such shareholder delivers to the Secretary of Forest Gate written objection to the Arrangement on or before May 24, 2005, and otherwise complies with section 190 of the CBCA, (ii) such shareholder has not voted any of its Common Shares in favour of the Arrangement at the Meeting in person or by proxy, and (iii) any such shareholder who exercises such right to dissent and who:

(a) Is entitled to be paid for the fair value for its Common Shares, will be deemed to have transferred such shares to Forest Gate for cancellation on the Effective Date but will not be entitled to any other payment or consideration (including Blue Note Common Shares that would be payable under this Arrangement had such holder not exercised such right of dissent); or

(b) Is for any reason not entitled to be paid the fair value for its Common Shares, will be deemed to have participated in the Arrangement on the same basis and at the same time as any non-dissenting Shareholder and will be entitled to receive New Common Shares and Blue Note Common Shares on the same basis as any non-dissenting Shareholder pursuant to this Plan of Arrangement.

6. CERTIFICATES

6.1 Entitlement to Share Certificates

As soon as practicable after the Effective Date, Blue Note will cause to be delivered to the Transfer Agent, to be delivered to the holders of Common Shares in accordance with the terms hereof, share certificates representing in the aggregate the Blue Note Common Shares to which such holders are entitled following the Arrangement.

6.2 Use of Postal Services

Any certificate which any person is entitled to receive in accordance with this Plan of Arrangement will (unless the Transfer Agent has received instructions to the contrary from or on behalf of such person prior to the Effective Date) be forwarded by first class mail, postage prepaid, or in the case of postal disruption in Canada, by such other means as the Transfer Agent may deem prudent.

SCHEDULE C

SUPERIOR COURT
(Commercial Division)

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTREAL

No. 500-11-025537-057

DATE : APRIL 28, 2005

IN THE PRESENCE OF : THE HONOURABLE JOEL A. SILCOFF, J.S.C.

IN THE MATTER OF A PROPOSED ARRANGEMENT CONCERNING FOREST GATE RESOURCES INC., ITS SHAREHOLDERS AND BLUE NOTE METALS INC., UNDER S. 192 OF THE CANADA BUSINESS CORPORATIONS ACT, R.S.C. 1985, c. C-44, as amended

- and -

FOREST GATE RESOURCES INC.

- and –

BLUE NOTE METALS INC.

PETITIONERS

- and -

THE DIRECTOR OF CORPORATIONS CANADA

MIS-EN-CAUSE

JUDGMENT

---

[1] The Court is seized of Petitioners', Forest Gate Resources Inc.'s (**"Forest Gate"**) and Blue Note Metal Inc.'s (**"Blue Note"**) *Re-amended Motion for Approval of an Arrangement and Issuance of an Interim Order (Section 192 of the Canada Business*

Corporations Act R.S.C. 1985 c. C. – 44 (as amended) (the **"CBCA"**) (the "**Re-amended Motion**").

[2] In the Re-amended Motion, Forest Gate and Blue Note seek, *inter alia*, the following Orders:

(i) an interim order pursuant to Section 192 CBCA (the **"Interim Order"**) governing various procedural matters to be determined in connection with a Special Meeting of shareholders to be held for the purpose of seeking the approval of a proposed arrangement involving Forest Gate, its shareholders and Blue Note (the **"Arrangement"**); and

(ii) a final order pursuant to Section 192 CBCA (the "**Final Order**") sanctioning the proposed Arrangement.

[3] On an application for approval of the Arrangement under section 192 CBCA, Forest Gate and Blue Note must satisfy the Court that :

(a) the statutory requirements have been fulfilled;

(b) the Arrangement is put forward in good faith; and

(c) the Arrangement is fair and reasonable.

[4] For the purposes of the present judgment, the Court will limit its analysis to Forest Gate and Blue Note's compliance with the statutory requirements of the CBCA. The Court is satisfied, at the present time, that the Arrangement is put forward in good faith. As to the matter of "fair and reasonable", that determination is more appropriately dealt with at the time of presentation of the Application seeking the Final Order.

[5] Regarding the fulfillment of the statutory requirements, Forest Gate and Blue Note are required to establish, at the interim stage of the proceedings, that the Arrangement:

(a) constitutes an "arrangement" as defined under subsection 192(1) CBCA;

(b) that they are not "insolvent" as defined in subsections 192 (2) (a) &(b) CBCA; and

(c) that it is not practicable for them to effect a fundamental change in the nature of an arrangement under any other provision of the CBCA.

[6] See with respect to the above, *Re St. Lawrence & Hudson Railway Co.* [1998] O.J. No. 3934 (Ont. C.J. Gen. Div.), Blair, J. and authorities cited at paragraph 14 of the judgment.

[7] Moreover, on an application for any interim or final order under section 192 CBCA, Petitioners are required to give the Director appointed under section 260 CBCA, notice of the Application and the Director is entitled to appear and be heard in person or by counsel (subsection 192(5) CBCA).

[8] At the interim stage, Forest Gate and Blue Note ask that the Court issue such orders as are outlined in paragraphs 1 through 16 of the Conclusions of the Re-amended Motion (the **"Interim Order"**).

[9] Accordingly, the present judgment will only address Forest Gate and Blue Note 's request for the Interim Order.

[10] **SEEING** the allegations contained in the Re-amended Motion;

[11] **CONSIDERING** the affidavit of Michael Judson, President and Chief Executive Officer of Forest Gate and Chief Executive Officer and Chairman of Blue Note dated April 27, 2005, affirming, *inter alia,* that Forest Gate and Blue Note are able to pay their respective liabilities as they become due and that the realizable value of their respective assets is more than the aggregate of their respective liabilities and stated capital of all classes of shares in their share capital;

[12] **CONSIDERING** the undertaking made by Forest Gate to prepare and circulate, before the proposed Special Meeting, a fairness opinion, the whole as is reflected in the letters, dated April 27, 2005, addressed to the Court by John Mavridis, Director and Corporate Secretary of Forest Gate;

[13] **CONSIDERING** the letter, dated April 22, 2005, from the Compliance and Policy Directorate of Corporations Canada confirming that *"the staff of the Director has determined that the Director does not need to appear or to be heard on the application.";*

[14] **CONSIDERING** the representations of counsel for Forest Gate and Blue Note;

FOR THESE REASONS, THE COURT:

[15] **GRANTS** in part , the Re-amended Motion;

[16] **DECLARES** that service on the Director of Corporations Canada of the Re-amended Motion, and the Affidavit and the accompanying materials constitutes good and sufficient service;

SPECIAL MEETING

[17] **ORDERS** Forest Gate to call, hold and conduct a meeting (the **"Special Meeting"**) of the holders of common shares in the capital of Forest Gate (the **"Shareholders"**) to be held at the City of Toronto in the Province of Ontario at the Royal York Hotel, 100 Front Street W., Toronto Ontario, at 10:00 a.m. (Toronto time) on May 25, 2005, for the purpose of:

(a) Considering, and if deemed advisable, approving with or without variation, a special resolution in the form of the Forest Gate special resolution (the **"Arrangement Resolution"**) set forth in Schedule A to the Information Circular (the **"Circular"**) dated April 15, 2005 (being Exhibit P-4) to the Re-amended Motion, approving the Arrangement involving Forest Gate, its Shareholders and Blue Note, on the terms and conditions set forth in the plan of arrangement (the **"Plan of Arrangement"**) attached and dated as of April 15, 2005 (the **"Arrangement Agreement"**); and

(b) Transacting such other business as may properly be brought before the Special Meeting.

[18] **ORDERS** Forest Gate to mail, by prepaid mail, to those Shareholders shown on the Forest Gate register of Shareholders as of the close of business on March 31, 2005, (the **"Record Date"**) to the last address shown in the register of Shareholders or in the records of Forest Gate's registrar and transfer agent, as well as to the Director appointed under the CBCA, at least 21 days' prior to the date of the Special Meeting, excluding the date of mailing and the date of the Special Meeting, the following:

a. the Notice of the Special Meeting;

b. the Re-amended Motion;

c. an appropriate form of Proxy;

d. the Circular (in substantially the form set forth at Exhibit P-4 to the Re-amended Motion, with such amendments as are not inconsistent with the provisions of this Interim Order); and

e. this Interim Order;

[19] **DECLARES** that the accidental omission or delay in giving notice of the Special Meeting or the non-receipt by any person of such notice shall not invalidate any resolution passed or proceedings taken at the Special Meeting;

CONDUCT OF MEETING

[20] **ORDERS** that the Special Meeting be called, held and conducted in accordance with the provisions of the CBCA and the Articles and By-laws of Forest Gate, subject to the provisions of this Order;

[21] **DECLARES** that each Shareholder entitled to vote on the Arrangement Resolution shall be entitled to one vote for each Common Share held;

[22] **DECLARES** that a quorum at the Meeting shall consist of at least two persons present, in person or by proxy, holding or representing not less than 5% of the votes attached to the Common Shares entitled to vote on the Arrangement Resolution at the Special Meeting, the whole as is provided for in the By-laws of Forest Gate; provided that if no quorum is present within 30 minutes of the appointed time of the Special Meeting, such meeting shall stand adjourned to a fixed time and place as specified by the Chairman of the Special Meeting;

[23] **DECLARES** that the Special Meeting, once commenced, may be adjourned from time to time and no further notice of such adjournment or the holding of any adjourned meeting or meetings need be given thereafter;

[24] **DECLARES** that the majority required to pass the Arrangement Resolution at the Special Meeting shall be at least two-thirds of the votes cast by the Shareholders who vote, in person or by proxy;

[25] **DECLARES** that the only persons entitled to vote at the Special Meeting, either in person or by proxy, shall be the registered Shareholders, as at the close of business on the Record Date, being March 31, 2005;

[26] **DECLARES** that, for the purpose of the vote on the Arrangement Resolution, any spoiled votes, illegible votes, defective votes and abstentions shall be deemed not to be votes cast by Forest Gate Shareholders;

[27] **DECLARES** that the only persons entitled to notice of the Special Meeting shall be the registered Shareholders of Forest Gate, as they appear on the records as at the close of business on the Record Date, non–registered Forest Gate Shareholders pursuant to and in conformity with *National Instrument 54-101 Respecting Communications with Beneficial Owners of Securities of a Reporting Issuer* and the equivalent applicable regulation in Québec (“NI 54-101”), the directors and auditors of Forest Gate and the Director appointed under the CBCA;

<u>DISSENTING SHAREHOLDERS' RIGHTS</u>

[28] **DECLARE** that a Shareholder shall have the right to dissent from the Arrangement Resolution in accordance with the provisions of section 190 of the CBCA, as modified by this Interim Order, subject to the following requirements:

a. For any Shareholder to be entitled to dissent, the written objection of that Shareholder must be received on or before 5:00 p.m. on May 24, 2005 (Toronto time) by the Corporate Secretary of Forest Gate, care of Pacific Corporate Trust Company at 10th Floor, 625 Howe Street, Vancouver, British Columbia, or be delivered to the Chairman of the Special Meeting before the commencement of the Meeting;

b. the "Court" for the purposes of section 190 and as referred to therein means this Court; and

c. All notices required or permitted under section 190 must be given by prepaid registered mail;

[29] **ORDERS** that any Forest Gate Shareholder wishing to appear on the application for Final Order shall:

(a) file an appearance in the Court record and serve same on Forest Gate and Blue Note's Counsel of record, Lozeau L’Africain, on or before May 27, 2005, and;

(b) if such appearance is with the view to contesting the Application for Final Order, serve on said Counsel of record and file in the Court record, on or before May 27, 2005, a written summary of the reasons of contestation;

APPLICATION FOR FINAL ORDER

[30] **ORDERS** that, subject to the approval of the Arrangement Resolution, Forest Gate may apply to this Court for a Final Order to approve the Arrangement, which application shall be heard at the Montreal Courthouse located at 1, Notre-Dame Street East, Montreal, Quebec, Room 16.12 on Monday, June 6, 2005, at 9:15 a.m. (Montreal time), or so soon thereafter as counsel may be heard;

[31] **DECLARES** that the mailing of the materials referred to in paragraph 17 above in accordance with the provisions of this Interim Order shall constitute good and sufficient service of the Re-amended Motion, this Interim Order, and the application for the Final Order approving the Arrangement, upon all persons entitled to receive such notice pursuant to this Interim Order and no other form of service need be made and no other material need be served on such persons in respect of these proceedings; service of the Re-amended Motion and the Affidavit of Michael C. Judson, filed herein, is dispensed with except as to service of the Re-amended Motion and the Affidavit of Michael C. Judson on the Director of Corporations Canada;

[32] **REQUESTS** the Master of the Rolls of the Superior Court, Commercial Division, to include the Application for Final Order on the Roll of the Commercial Division for presentation in Room 16.12 of the Montreal Courthouse on Monday, June 6, 2005 at 9:15 a.m. (Montreal time);

<u>VARATION OF ORDER</u>

[33] **DECLARES** that Forest Gate, and such other interested persons as this Court may consider to be affected by the Arrangement, may seek leave, at any time, to vary this Interim Order upon such terms and the giving of such notice as this Court may direct;

[34] **THE WHOLE** without costs.

"Joël A. Silcoff"

JOËL A. SILCOFF, J.S.C.

Me Yves Lauzon
LOZEAU L'AFRICAIN
Attorneys for Petitioners

Dates of hearing : April 20, 25 & 27, 2005

SCHEDULE D

Canada
Province of Quebec
SCN: 500-11-025537-057

IN THE QUEBEC SUPERIOR COURT (Commercial Division)

IN THE MATTER OF A PROPOSED ARRANGEMENT CONCERNING FOREST GATE RESOURCES INC., ITS SHAREHOLDERS AND BLUE NOTE METALS INC., UNDER S. 192 OF THE CANADA BUSINESS CORPORATIONS ACT, R.S.C. 1985, c-44, as amended

NOTICE OF PETITION

TO: FOREST GATE RESOURCES INC. AND ITS SHAREHOLDERS

AND TO: BLUE NOTE METALS INC.

AND TO: THE DIRECTOR OF CORPORATIONS CANADA

NOTICE IS HEREBY GIVEN that a Petition (the "Petition") has been filed by FOREST GATE RESOURCES INC. ("Forest Gate") and BLUE NOTE METALS INC. ("Blue Note") under section 192 of the *Canada Business Corporations Act*, R.S.C. 1985, c.C-44, as amended (the "CBCA") with respect to a proposed arrangement (the "Arrangement") involving Forest Gate, its holders of common shares (the "Shareholders") and Blue Note, which Arrangement is described in greater detail in the Information Circular of Forest Gate dated April 15, 2005 accompanying this Notice of Petition.

AND NOTICE IS FURTHER GIVEN that the Petition will be heard before a Justice of the Quebec Superior Court at the Montreal Court House, 1, Notre-Dame Street East, Montreal, Quebec, Room 16.12, on the 6th day of June, 2005, at 9:15 a.m. (Montreal time) or as soon thereafter as counsel may be heard.

At the hearing of the Petition, Forest Gate intends to seek the following:

(a) A declaration that the terms and conditions of the Arrangement are fair to the persons affected.

(b) A final order approving the Plan of Arrangement.

(c) A declaration that the Arrangement will, upon the filing of Articles of Arrangement and the issuance of the Certificate of Arrangement under the CBCA, be effective under the CBCA in accordance with its terms.

(d) Such further and other directions as this Honourable Court may deem just.

The Final Order will constitute the basis for an exemption from certain requirements of the *Securities Act of 1933*, as amended, of the United States of America with respect to the securities of Forest Gate and Blue Note issued pursuant to the Arrangement.

AND NOTICE IS FURTHER GIVEN that any Shareholder or other interested party desiring to support or oppose the Petition may appear personally or by counsel at the hearing for that purpose.

AND NOTICE IS FURTHER GIVEN that, at the hearing and subject to the foregoing, Shareholders and any other interested person will be entitled to make representations as to, and the Court will be requested to consider, the fairness of the terms and conditions of the Arrangement to such Shareholders. If you do not attend, either in person or by counsel, at that time, the Court may approve or refuse to approve the Arrangement as presented, or may approve it subject to such terms and conditions as the Court shall deem fit, without any further notice to you.

AND NOTICE IS FURTHER GIVEN that the Court, by a Judgment dated April 28, 2005, has given directions as to the calling and holding of a special meeting of the Shareholders for the purpose of such Shareholders voting upon the special resolution to approve the Arrangement and, in particular, has directed that the Shareholders shall have the right to dissent under the provisions of section 190 of the CBCA as modified by, and upon compliance with the terms of, the Interim Order.

AND NOTICE IS FURTHER GIVEN that a copy of the said Petition and other documents in the proceedings will be furnished to any Shareholders or other interested party requesting the same by Forest Gate or the undermentioned solicitors for Forest Gate upon written request delivered to Forest Gate or such solicitors as follows:

Forest Gate Resources Inc.
2 Place Alexis Nihon
3500 de Maisonneuve West
Suite 1110
Westmount, Quebec, H3Z 3C1

Attention: Michael Judson

Fax: 514-486-1317

Lozeau L'Africain, General Partnership
Place du Canada, Suite 1900
1010 de la Gauchetière W.
Montreal, Quebec, H3B 2N2

Attention: Mtrs. Yves Lauzon and
Daniel L'Africain,
Counsel to Forest Gate Resources Inc.

Fax: 514-981-5601

DATED at the City of Montreal, in the Province of Quebec, this 28th day of April, 2005.

Per: "Lozeau L'Africain, S.E.N.C."

Lozeau L'Africain, S.E.N.C.
Counsel to Forest Gate Resources Inc.

SCHEDULE E
PROCEDURE TO EXERCISE RIGHT OF DISSENT UNDER THE CBCA

Pursuant to the Interim Order, Shareholders have the right to dissent to the Arrangement. Such right of dissent is described in the Circular. See "Rights of Dissent" for details of the right to dissent and the procedure for compliance with the right of dissent. The full text of Section 190 of the CBCA is set forth below. Note that certain provisions of Section 190 have been modified by the Interim Order.

SECTION 190 OF THE *CANADA BUSINESS CORPORATIONS ACT*

190. (1) **Right to dissent** – Subject to sections 191 and 241, a holder of shares of any class of a corporation may dissent if the corporation is subject to an order under paragraph 192(4)(d) that affects the holder or if the corporation resolves to

(e) amend its articles under section 173 or 174 to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of that class;

(f) amend its articles under section 173 to add, change or remove any restriction on the business or businesses that the corporation may carry on;

(g) amalgamate otherwise than under section 184;

(h) be continued under section 188;

(i) sell, lease or exchange all or substantially all its property under subsection 189(3); or

(j) carry out a going-private transaction or a squeeze-out transaction.

(2) **Further right** – A holder of shares of any class or series of shares entitled to vote under section 176 may dissent if the corporation resolves to amend its articles in a manner described in that section.

(2.1) **If one class of shares** – The right to dissent described in subsection (2) applies even if there is only one class of shares.

(3) **Payment for shares** – In addition to any other right the shareholder may have, but subject to subsection (26), a shareholder who complies with this section is entitled, when the action approved by the resolution from which the shareholder dissents or an order made under subsection 192(4) becomes effective, to be paid by the corporation the fair value of the shares in respect of which the shareholder dissents, determined as of the close of business on the day before the resolution was adopted or the order was made.

(4) **No partial dissent** – A dissenting shareholder may only claim under this section with respect to all the shares of a class held on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

(5) **Objection** – A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted

on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting and of their right to dissent.

(6) **Notice of resolution** – The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (5) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn their objection.

(7) **Demand for payment** – A dissenting shareholder shall, within twenty days after he receives a notice under subsection (6) or, if the shareholder does not receive such notice, within twenty days after learning that the resolution has been adopted, send to the corporation a written notice containing

(a) the shareholder's name and address;

(b) the number and class of shares in respect of which the shareholder dissents; and

(c) a demand for payment of the fair value of such shares.

(8) **Share certificate** – A dissenting shareholder shall, within thirty days after sending a notice under subsection (7), send the certificates representing the shares in respect of which the shareholder dissents to the corporation or its transfer agent.

(9) **Forfeiture** – A dissenting shareholder who fails to comply with subsection (8) has no right to make a claim under this section.

(10) **Endorsing certificate** – A corporation or its transfer agent shall endorse on any share certificate received under subsection (8) a notice that the holder is a dissenting shareholder under this section and shall forthwith return the share certificates to the dissenting shareholder.

(11) **Suspension of rights** – On sending a notice under subsection (7), a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of their shares as determined under this section except where

(a) the dissenting shareholder withdraws that notice before the corporation makes an offer under subsection (12);

(b) the corporation fails to make an offer in accordance with subsection (12) and the shareholder withdraws the notice; or

(c) the directors revoke a resolution to amend the articles under subsection 173(2) or 174(5), terminate an amalgamation agreement under subsection 183(6) or an application for continuance under subsection 188(6), or abandon a sale, lease or exchange under subsection 189(9);

in which case the shareholder's rights are reinstated as of the date the notice was sent.

(12) **Offer to pay** – A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (7), send to each dissenting shareholder who has sent such notice

(a) a written offer to pay for their shares in an amount considered by the directors of the corporation to be the fair value, accompanied by a statement showing how the fair value was determined; or

(b) if subsection (26) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.

(13) **Same terms** – Every offer made under subsection (12) for shares of the same class or series shall be on the same terms.

(14) **Payment** – Subject to subsection (26), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (12) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.

(15) **Corporation may apply to court** – Where a corporation fails to make an offer under subsection (12), or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as a court may allow, apply to a court to fix a fair value for the shares of any dissenting shareholder.

(16) **Shareholder application to court** – If a corporation fails to apply to a court under subsection (15), a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow.

(17) **Venue** – an application under subsection (15) or (16) shall be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province.

(18) **No security for costs** – A dissenting shareholder is not required to give security for costs in an application made under subsection (15) or (16).

(19) **Parties** – On an application to a court under subsection (15) or (16),

(a) all dissenting shareholders whose shares have not been purchased by the corporation shall be joined as parties and are bound by the decision of the court; and

(b) the corporation shall notify each affected dissenting shareholder of the date, place and consequences of the application and of their right to appear and be heard in person or by counsel.

(20) **Powers of court** – On an application to a court under subsection (15) or (16), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall then fix a fair value for the shares of all dissenting shareholders.

(21) **Appraisers** – A court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.

(22) **Final order** – The final order of a court shall be rendered against the corporation in favour of each dissenting shareholder and for the amount of the shares as fixed by the court.

(23) **Interest** – A court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.

(24) **Notice that subsection** (26) **applies** – If subsection (26) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (22), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

(25) **Effect where subsection** (26) **applies** – If subsection (26) applies, a dissenting shareholder, by written notice delivered to the corporation within thirty days after receiving a notice under subsection (24), may

(a) withdraw their notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to their full rights as a shareholder; or

(b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.

(26) **Limitation** – A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that

(a) the corporation is or would after the payment be unable to pay its liabilities as they become due; or

(b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

SCHEDULE F

FINANCIAL STATEMENTS FOR

FOREST GATE RESOURCES INC.

Forest Gate Resources Inc.

Consolidated Financial Statements

December 31, 2004

Contents

AUDITORS' REPORT

To the Shareholders of
Forest Gate Resources Inc.

We have audited the consolidated balance sheets of **Forest Gate Resources Inc.** as at December 31, 2004, 2003 and 2002 and the consolidated statements of earnings and deficit and cash flows for each of the years in the three-year period ended December 31, 2004. 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004, 2003, and 2002 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

Signed "Lippman Leebosh April"

Chartered Accountants

Montreal, Quebec
February 11, 2005 - except as to note 16 which is dated March 30, 2005

Forest Gate Resources Inc.

Consolidated Balance Sheet

At December 31	**2004** **$**	2003 $	2002 $
Assets			
Current assets			
Cash	**-**	-	6,709
Short-term investments	**623,500**	1,040,000	-
Accounts receivable *[note 15]*	**77,370**	35,958	-
Prepaid expenses	**34,396**	2,625	-
Deferred financing costs	**16,000**	-	74,927
Deferred acquisition costs	**119,175**	-	-
	870,441	1,078,583	81,636
Mining properties and deferred exploration costs *[note 4]*	**1,235,106**	910,421	579,507
Office furniture and equipment *[note 5]*	**33,533**	244	487
	2,139,080	1,989,248	661,630
Liabilities			
Current liabilities			
Bank indebtedness	**2,380**	2,582	-
Accounts payable and accrued liabilities *[note 15]*	**173,549**	243,958	237,128
Due to an affiliated company *[note 15]*	**-**	-	50,873
Due to a director *[note 15]*	**-**	-	18,055
	175,929	246,540	306,056
Shareholders' equity			
Share capital *[note 6]*	**2,557,475**	1,826,813	754,075
Warrants *[note 6]*	**506,089**	476,471	-
Contributed surplus *[note 6]*	**248,768**	224,625	-
	3,312,332	2,527,909	754,075
Deficit	**(1,349,181)**	(785,201)	(398,501)
	1,963,151	1,742,708	355,574
	2,139,080	1,989,248	661,630

Approved on behalf of the board:

*Signed "Michael Judson"*_____ *Director*

*Signed "John Mavridis"*______ *Director*

Forest Gate Resources Inc.

Consolidated Statement of Earnings and Deficit

Year ended December 31	**2004**	2003	2002
	$	$	$
Revenues			
Interest income	**22,064**	13,518	-
Expenses			
Management fees, salaries and levies *[notes 6(c) and 15]*	**144,394**	44,098	28,400
Value of stock options granted to directors and consultants *[note 6(c)]*	**58,391**	102,600	-
Professional and consulting fees *[note 15]*	**161,570**	138,599	36,270
Rent	**18,318**	12,589	16,085
Office expenses	**89,223**	11,290	7,049
Taxes	**11,394**	11,191	12,035
Registration and filing fees	**23,088**	9,649	2,138
Telephone	**11,891**	6,020	1,549
Corporate marketing and business development	**127,547**	53,199	6,862
Investor relations	**63,065**	(162)	-
Insurance	**15,801**	6,826	-
Financial charges *[note 7]*	**4,414**	4,076	2,102
Amortization of property and equipment	**4,251**	243	243
Equipment rental	**740**	-	-
	734,087	400,218	112,733
Loss before write-downs of deferred exploration costs and income taxes	**712,023**	386,700	112,733
Write-down of deferred exploration costs	**-**	-	76,292
Loss before income taxes	**712,023**	386,700	189,025
Future income taxes recovered	**(148,043)**	-	-
Net loss	**563,980**	386,700	189,025
Deficit at the beginning of year	**785,201**	398,501	209,476
Deficit at the end of year	**1,349,181**	785,201	398,501
Basic loss per share and diluted loss per share *[note 11]*	**0.02322**	0.02836	0.03036
Weighted average number of shares outstanding	**24,284,681**	13,634,305	6,226,753

Forest Gate Resources Inc.

Consolidated Statement of Cash Flows

Year ended December 31	**2004**	2003	2002
	$	$	$
Cash provided from (used for):			
Operating activities			
Net loss	**(563,980)**	(386,700)	(189,025)
Non-cash items:			
Future income taxes recovered	**(148,043)**	-	-
Write-down of deferred exploration costs	**-**	-	76,292
Amortization of property and equipment	**4,251**	243	243
Non-cash stock-based compensation *[note 6]*	**58,391**	102,600	-
Net changes in non-cash components of operating working capital *[note 7]*	**(143,592)**	(31,753)	76,971
	(792,973)	(315,610)	(35,519)
Financing activities			
Proceeds from the issue of special warrants *[note 6]*	**-**	-	77,450
Proceeds from the issue of equity *[note 6]*	**792,325**	1,671,234	-
Deferred financing costs	**(16,000)**	74,927	(74,927)
Due to a director	**-**	(18,055)	18,055
Due to an affiliated company	**-**	(50,873)	41,495
	776,325	1,677,233	62,073
Investing activities			
Acquisition of property and equipment	**(37,540)**	-	-
Short-term investments, net variation	**416,500**	(1,040,000)	-
Deferred acquisition costs	**(119,175)**	-	-
Mining properties and deferred exploration costs *[notes 6, 7 and 13]*	**(242,935)**	(330,914)	(21,268)
	16,850	(1,370,914)	(21,268)
Net increase (decrease) in cash and cash equivalents	**202**	(9,291)	5,286
Cash - beginning of year	**(2,582)**	6,709	1,423
Cash (bank indebtedness) - end of year	**(2,380)**	(2,582)	6,709

1. Description of operations

The Corporation's operations consist in the exploration of mineral properties, directly or through joint ventures. It is in the process of determining whether its properties contain economically recoverable reserves. Recovery of deferred exploration costs and mining properties depend on the existence of economically recoverable ore reserves, the Corporation's ability to obtain financing for its operations and future profitable commercial production.

2. Summary of significant accounting policies

The consolidated financial statements of the company 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 judgement within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Consolidated financial statements: The 2004 consolidated financial statements include the accounts of its wholly-owned subsidiary Blue Note Metals Inc. The subsidiary started operations in 2004.

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.

Office furniture and equipment: Office furniture 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

Mining properties and deferred exploration costs: Mining properties and deferred exploration costs are recorded at cost, less government grants, 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.

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.

...continued

2. Summary of significant accounting policies (continued)

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 option plan: The company has a stock option compensation plan which is described in Note 6. Any consideration paid by employees, directors and others on exercise of stock option is credited to share capital. The company uses the fair value method to account for stock-based compensation and other stock-based payments made in exchange for goods or services. This method is applied for all awards made to non-employees and employees.

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.

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. Comparative figures and changes in accounting policies

a) Effective January 1, 2002, the company retroactively adopted the liability method of tax allocation to account for income taxes as outlined in the Canadian Institute of Chartered Accountants (the "CICA") Handbook Section 3465. 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, 2002, the company adopted the new accounting recommendations of the CICA with respect to stock-based compensation and other stock-based payments as outlined in the CICA Handbook Section 3870. These recommendations establish standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments in exchange for goods and services. The company has adopted the fair value based method of accounting for all stock-based compensation. In 2001 and prior years, no stock-based compensation payments were made. Therefore, adjustments and restatement of prior year amounts is not required.

c) Effective January 1, 2004, the company adopted the new accounting recommendations of the CICA with respect flow-through shares as outlined in the CICA Handbook EIC-146. These recommendations establish standards for the recognition, measurement and disclosure of the future tax liabilities resulting from the renunciation of exploration costs to investors as a cost of issuing flow-through shares on the date the company renounces the expenditures to the shareholders. Prospective application is required.

d) Certain prior year figures have been reclassified in order to conform to the presentation adopted in the current year. These changes do not affect net income and prior year amounts.

4. Mining properties and deferred exploration costs

	Cost of Claims $	Deferred exploration costs $	Write-off of abandoned property $	Government grant *[note 13]* $	2004 Net $	2003 Net $	2002 Net $
Saskatchewan							
Fort à la Corne	**209,980**	**369,172**	**-**	**72,260**	**506,892**	417,879	128,479
New Brunswick							
Canoe Landing Lake	**177,496**	**134,153**	**-**	**-**	**311,649**	286,209	260,641
California Lake	**141,256**	**172,819**	**-**	**-**	**314,075**	197,459	190,387
Rio Road	**66,527**	**120,798**	**84,835**	**-**	**102,490**	8,874	-
	595,259	**796,942**	**84,835**	**72,260**	**1,235,106**	910,421	579,507

The total cost of claims acquired during the year amount to $96,422. This total includes the cost of its acquisition of the remaining 15% interest in the East Side diamond property in Fort à la Corne, bringing the Company's ownership of the property to 100%. See note 6(b).

Deferred exploration costs incurred during the year are as follows:

	$
Drilling for samples and lab analysis	**190,483**
Engineering	**45,134**
Surveys	**36,271**
Consulting	**7,554**
Travel	**5,255**
Equipment and other rentals	**4,674**
Line cutting	**6,636**
Mining	**3,280**
Permits and fees	**1,236**
Total before grants	**300,523**
Government grants	(72,260)
Total	**228,263**

5. Office furniture and equipment

	Cost $	Accumulated Depreciation and Amortization $	2004 Net $	2003 Net $	2002 Net $
Furniture and office equipment	**15,797**	**1,580**	**14,217**	-	-
Computer equipment	**14,723**	**2,208**	**12,515**	-	-
Leasehold improvements	**7,020**	**219**	**6,801**	244	487
	37,540	**4,007**	**33,533**	244	487

6. Share capital

The company is incorporated by the Canada Business Corporations Act.

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

	Share capital		Warrants		Options		Contributed	Total
	Number	$	Number	$	Number	$	Surplus $	$
Balance-December 31, 2001	6,226,753	676,625	-	-	-	-	-	**676,625**
Special warrants issued cash	-	-	704,090	77,450	-	-	-	**77,450**
Balance - December 31, 2002	**6,226,753**	**676,625**	**704,090**	**77,450**	**-**	**-**	**-**	**754,075**
Units issued for cash (a)	14,216,524	1,075,804	9,870,357	450,965	-	-	-	1,526,769
Stock-based compensation	-	-	-	-	1,037,600 [1]		112,120	112,120
paid on unit issue (a)	-	-	1,693,167	-	1,015,900 [2]		9,905	9,905
Exchange of special warrants	-	-	(704,090)	(77,450)	-	-	-	(32,388)
into units (a)	704,090	45,062	704,090	32,388	-	-	-	32,388
Warrants exercised (a)	149,600	29,322	(149,600)	(6,882)	-	-	-	22,440
Options expired (d)	-	-	-	-	(1,015,900)[2]		-	-
Stock based compensation charged to operations (c)	-	-	-	-	1,900,000 [3]		102,600	102,600
Balance - December 31, 2003	**21,296,967**	**1,826,813**	**12,118,014**	**476,471**	**2,937,600**	**-**	**224,625**	**2,527,909**
Equity issued (b)	2,975,000	228,887	825,000	79,550	-	-	-	308,437
Stock-based compensation paid on unit issue (b)	40,000	-	312,500	-	-	-	37,695	37,695
Warrants exercised (b)	2,532,667	501,775	(2,333,667)	(49,932)	-	-	(57,416)	394,427
Options exercised (b)					(199,000)		(14,527)	(14,527)
Options forfeited	-	-	-	-	(600,000)	-	-	-
Stock based compensation charged to operations (c)	-	-	-	-	675,000		58,391	58,391
Balance - December 31, 2004	**26,844,634**	**2,557,475**	**10,921,847**	**506,089**	**2,813,600**	**-**	**248,768**	**3,312,332**

[1] options to buy units [see note 6(a)(ii)]
[2] options to buy shares [see note 6(a)(i)]
[3] share option plan [see note 6(c)]

...continued

6. Share capital (continued)

(a) Issues during 2002 and 2003

i) The company completed an initial public offering on March 3, 2003 of units pursuant to a prospectus filed with the British Columbia, Alberta, Quebec and Ontario Securities Commissions to issue units at an issue price of $0.15. Each unit consists of one common share and one transferable purchase warrant entitling the holder to acquire one additional common share at $0.15 per share for a period of two years. A total of 6,799,191 units were issued, generating gross proceeds of $1,019,879 and net proceeds credited to share capital and warrants of $610,656, after payment of $329,221 for related issue costs and $80,002 for stock-based compensation to the agent. The stock-based compensation was paid in the form of 1,693,167 non-transferable share purchase warrants to acquire shares at $0.15 per share for a period of two years and 1,015,900 options to acquire shares at $0.15 for a period of 60 days. The fair value of these warrants and options, totalling $70,097 and $9,905 respectively, were estimated as described in note 6(f).

ii) During the last quarter of 2003, the company closed a private placement of 6,142,333 units and 1,275,000 flow-through shares. The unit, issued at $0.15 per unit, consists of one common share and one half of a common share purchase warrant entitling the holder to purchase one half of a common share over a period of two years at $0.20. The flow-through shares were offered at $0.20 per share. The units have a mandatory hold period of four months from closing. The issue generated total gross proceeds of $1,176,350 and net proceeds credited to share capital and warrants of $916,113, after payment of share issue costs of $218,214 and a stock-based compensation to the agent. The stock based compensation was paid in the form of 1,037,600 options to acquire 1,037,600 of the said units at an exercise price of $0.15 for a period of two years. The options have a fair value of $42,023 and was estimated as described in note 6(f).

iii) Special warrants

In 2002, the company issued special warrants for a cash consideration of $77,450, exchangeable for no additional consideration, into 704,090 units identical to those described in note 6(a)(i), consisting of one common share accompanied by a warrant to purchase one common share for $0.15 per share over a two year period. During 2003, the special share purchase warrants have been exchanged for 704,090 units.

(b) Issues during 2004

During the year, the following equity issues occurred:

i) 2,333,667 warrants and 199,000 options were exercised for proceeds of $379,900 resulting in the issue of 2,532,667 common shares.

ii) 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, calculated as described in note 6(f).

iii) the company closed a private placement of 1,325,000 flow-through shares at $0.17 per share. The issue generated total gross proceeds of $225,250 and net proceeds credited to share capital of $187,310 after payment of shares issue costs of $27,605 and a stock-based compensation of $10,335 to the agent paid in the form of 132,500 warrants to acquire shares at $0.17 per share for a period of two years. The fair value of these warrants was estimated at $0.078, calculated as described in note 6(f).

...continued

6. Share capital (continued)

(b) Issues during 2004 (continued)

iv) the company closed a private placement of 1,400,000 units comprising of flow-through shares at $0.18 per unit. The unit consists of one flow-through common share and one-half of a common share purchase warrant that entitles the holder of one warrant to buy one non-flow-through common share over a period of two years at $0.23 in the first year and $0.26 in the second year. The issue generated total gross proceeds of $252,000 and net proceeds credited to share capital and warrants of $125,120 and $62,300 respectively after payment of shares issue costs of $37,220 and a stock-based compensation of $27,360 to the agent paid in the form of 140,000 warrants to buy one non-flow-through common share over a period of two years at $0.23 in the first year and $0.26 in the second year, 40,000 non-flow-through common shares and 40,000 warrants to purchase non-flow-through common shares at $0.17 per share over a period of two years. The fair value of the equity instruments issued was estimated at $0.104, $0.20 (the fair market value at the time of the issue) and $0.12 respectively, calculated as described below in note 6(f).

v) the company has recorded an additional share issue cost of $148,043 to account for the future tax cost of the exploration costs it has renounced on the flow-through shares it has issued during the year.

(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 4,786,940 common shares.

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

	2004		2003	
	Granted	**Weighted Average Exercise Price $**	Granted	Weighted Average Exercise Price $
Balance - beginning of year	**1,900,000**	**0.15**	-	-
Options granted under the stock option plan (*)	**675,000**	**0.15**	1,900,000	0.15
Options exercised	**(199,000)**	**0.15**	-	-
Options cancelled	**(600,000)**	**0.15**	-	-
Balance - end of year	**1,776,000**	**0.15**	1,900,000	0.15

(*) The fair value of the options is estimated at $58,391 ($102,600 in 2003), calculated as described in note 6(f), is included as stock-based compensation of which an amount of $52,906 ($102,600 in 2003) relates to management compensation and the balance consists of compensation to consultants.

...continued

6. Share capital (continued)

(c) Stock option plan

As at December 31, 2004, the outstanding options, as issued under the stock option plan to directors and shareholders for the purchase of one common share per option, are as follows:

Option description	Granted	Exercisable	Weighted average Exercise price $	Expiry date
	1,401,000	**1,401,000**	**0.15**	**March 2008**
	25,000	**12,500**	**0.21**	**March 2009**
	300,000	**150,000**	**0.15**	**June 2009**
	50,000	**12,500**	**0.17**	**September 2009**
	1,776,000	**1,576,000**	**0.15**	

(d) Options and warrants to brokers

During 2003, the company issued, to brokers, warrants to buy shares as well as options to buy units of one common share and one-half of a warrant to buy one-half of a common share [see note 6(a)].

The activity and information concerning outstanding and exercisable warrants and options is as follows:

	Number of options	Weighted average exercise price $
Balance - December 31, 2002	**-**	**-**
Options/warrants granted	**2,053,500**	**0.15**
Options/warrants expired	**(1,015,900)**	**0.15**
Balance - December 31, 2003	**1,037,600**	**0.15**
Options/warrants granted	**-**	**-**
Balance - December 31, 2004	**1,037,600**	**0.15**

As at December 31, 2004, the company had the following options outstanding:

Option description	Granted	Exercisable	Weighted average Exercise price $	Expiry date
Options to buy units of 1 common share	**901,250**	**901,250**	**0.15**	**October 2005**
and ½ a warrant to purchase ½ a share	**136,350**	**136,350**	**0.15**	**November 2005**
	1,037,600	**1,037,600**		

...continued

6. Share capital (continued)

(e) Share purchase warrants

The company has, as at December 31, 2004, share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price $	Expiry date
6,713,181	0.15	March 2005
3,016,666	0.20	October 2005
54,500	0.20	November 2005
125,000	0.32	May 2006
132,500	0.17	July 2006
840,000	0.23 in year 1/ 0.26 in year 2	October 2006
40,000	0.18	October 2006
10,921,847		

(f) Fair value

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

	March 3, 2003 Issue		March 18, 2003 Stock option plan issue	2003 Issues during the last quarter of 2003
	Warrants	Options	Options	Options
Risk-free interest rate	3.76%	3.76%	3.76%	3.1%
Expected life (years)	2	0.16	5	2
Expected volatility	50%	50%	50%	50%
Expected dividend yield	nil	nil	nil	nil
Weighted average grant date fair value	$0.046	$0.013	$0.072	$0.045

	Stock option plan issues during 2004		
	50,000 options	25,000 options	600,000 options
Risk-free interest rate	4.11%	2.37%	3.87%
Expected life (years)	5	3	3
Expected volatility	110%	50%	183%
Expected dividend yield	nil	nil	nil
Weighted average grant date fair value	$0.164	$0.112	$0.153

...continued

6. Share capital (continued)

(f) Fair value (continued)

	Warrant issues during 2004			
	To Agent on flow-through shares			
	1,325,000 share issue	**1,400,000 share issue**		**To Leader Mining**
Risk-free interest rate	**3.12%**	**3.25%**	**3.25%**	**2.8%**
Expected life (years)	**1**	**2.00**	**2**	**2**
Expected volatility	**183%**	**110%**	**110%**	**104%**
Expected dividend yield	**nil**	**nil**	**nil**	**nil**
Weighted average grant date fair value	**$0.078**	**$0.104**	**$0.120**	**$0.138**

7. Supplemental disclosures of expenses and cash flow information

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

	2004 $	2003 $	2002 $
Increase in:			
Accounts receivable	**(41,412)**	(35,958)	32,585
Prepaid expenses	**(31,771)**	(2,625)	-
Increase (decrease) in:			
Accounts payable and accrued liabilities	**(70,409)**	6,830	44,386
	(143,592)	(31,753)	76,971

ii) Interest paid and received

Interest paid during the year amounts to $2,669 (2003 - $3,268; 2002 - $1,490). Interest received during the year amounts to $22,064 (2003 - $13,518; 2002 - $nil).

iii) Non cash-transactions

Non-cash transactions have been incurred in relation to stock-based compensation for the issue of stock options and warrants as partial payment of share issue costs and other services. In addition, shares and warrants have been issued in the acquisition of the remaining 15% interest in the East Side diamond property in Fort à la Corne. A full description of these transactions can be found in notes 6(b) and (c).

8. Financial instruments, credit and price risk management

a) Fair values

The carrying amount of financial instruments, other than the loan to the subsidiary, approximates fair value because of the short-term maturity of these items. The fair value of the loan to the subsidiary cannot be determined since it is non-interest bearing to a related party.

b) Interest risk

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

9. Losses to carry forward

The Corporation has losses 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	**170,000**
2010	**391,000**
2014	**511,000**
	1,269,000
Less: Loss used to reduce future income tax liability relating to flow-through share issues	**(477,000)**
Total losses for which a potential tax benefit is not recorded	**792,000**

10. 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. The company 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.

During the year, the Company received $477,250 ($255,000 in 2003; nil in 2002) following two flow-through investments.

11. 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.

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. Government grants

During the year, the company earned and received government grants for mineral exploration costs amounting to $72,260 (nil in 2003 and 2002).

14. Commitments

In 2004, the company has entered into 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.

15. Related party transactions

a) Transactions with affiliated companies

	2004	2003	2002
	$	$	$
Management fees to an affiliated company	**-**	2,843	7,253
Consulting fees to shareholders	**-**	-	14,648

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

b) Amounts due to a director and affiliated company for 2003 and 2002 are non-interest bearing and due on demand.

c) Accounts payable for 2003 and 2002 include $71,275 owed to affiliated companies.

d) Sundry receivables for 2003 include an advance to a shareholder director of $3,025.

e) Affiliated companies are companies that are controlled by some of the company's shareholders.

16. Subsequent events

a) On October 3, 2004 the company signed a Letter of Intent to acquire the Caribou and Restigouche Mines located near Bathurst, New Brunswick from Breakwater Resources Ltd. through its wholly-owned subsidiary Blue Note Metals Inc. This acquisition is subject to the fulfillment of various conditions including the financing of the requisite capital investment.

b) In the first quarter of 2005, the company issued approximately 9,189,903 common shares further to the exercise of approximately the same number of warrants, thus generating gross proceeds of approximately $1,377,000.

c) On March 30, 2005 the Company completed a private placement for gross proceeds of $6,500,000. A total of 20,000,000 common shares and 5,000,000 flow-through common shares were issued as follows:

(i) $5,000,000 in Units at $0.25 per unit, with each Unit consisting of a common share and a half warrant exercisable at $0.35 per share for a period of two years; and

(ii) $1,500,000 in Flow-Through Units, at $0.30 per Flow-Through Unit, with each Flow-Through Unit consisting of a flow-through common share and a half warrant exercisable at $0.40 per share for a period of two years.

d) Blue Note Metals Inc. (“Blue Note”), the wholly-owned subsidiary of the Company, has entered into a financing agreement with a Toronto-based investment bank that proposes to raise up to $2,000,000 on a private placement basis, in exchange for up to 8,000,000 Units at a price of $0.25 per Unit. It is anticipated that each Unit will consist of one common share and one share purchase warrant (the “Warrant”) with each whole warrant being exercised at a price of $0.30 per share for a period of two years following the public listing of Blue Note.

e) Following the Blue Note financing, Forest Gate proposes to transfer to Blue Note a 100% ownership of:

(i) the Canoe Landing Lake polymetallic deposit,

(ii) the California Lake silver property and

(iii) the Rio Road gold property, as well as an assignment of the Letter of Intent agreement that the company has entered into with Breakwater to acquire the Caribou and Restigouche Mines. The Company may also transfer cash of up to $1 million to Blue Note. This will be done in the context of the proposed distribution, by way of plan of arrangement under the Canada Business Corporations Act, of the shares of Blue Note to the shareholders of the Company.

Concurrently, with this transfer of assets, by way of a plan of arrangement, under the Canada Business Corporations Act, the company plans to transfer its holdings in Blue Note directly to shareholders of the Company, and proposes to subsequently cause the shares of Blue Note to be listed on a recognized stock exchange.

SCHEDULE G

PRO FORMA FINANCIAL STATEMENTS FOR

FOREST GATE RESOURCES INC.

AND

BLUE NOTE METALS INC.

Forest Gate Resources Inc.

Pro-Forma Financial Statements

December 31, 2004

Contents

COMPILATION REPORT

To the Directors of
Forest Gate Resources Inc.

We have reviewed, as to compilation only, the accompanying unaudited pro-forma balance sheet of **Forest Gate Resources Inc.** as at December 31, 2004 which has been prepared for inclusion in the Management Proxy Circular of **Forest Gate Resources Inc.** dated April 19, 2005. In our opinion, the pro-forma balance sheet has been properly compiled to give effect to the proposed transaction and assumptions described in the accompanying notes thereto.

Signed "Lippman Leebosh April"

Chartered Accountants

Montreal, Quebec
April 15, 2005

Forest Gate Resources Inc.

Balance Sheet

At December 31

	Forest Gate Resources $	Private Placement $	Transfer to Blue Note $	Forest Gate Pro-Forma $
Assets				
Current assets				
Cash and short-term investments	623,500	5,750,000	(1,000,000)	5,373,500
Accounts receivable	77,370	-	-	77,370
Prepaid expenses	34,396	-	-	34,396
Deferred financing costs	16,000	-	-	16,000
Due from Blue Note Minerals Inc.	-	-	119,175	119,175
Deferred acquisition costs	119,175	-	(119,175)	-
	870,441	5,750,000	(1,000,000)	5,620,441
Mining properties and deferred exploration costs	1,235,106	-	(728,214)	506,892
Office furniture and equipment	33,533	-	-	33,533
	2,139,080	5,750,000	(1,728,214)	6,160,866
Liabilities				
Current liabilities				
Bank indebtedness	2,380	-	-	2,380
Accounts payable and accrued liabilities	173,549	-	-	173,549
	175,929	-	-	175,929
Shareholders' equity				
Share capital	2,557,475	5,750,000	(1,728,214)	6,579,261
Warrants	506,089	-	-	506,089
Contributed surplus	248,768	-	-	248,768
	3,312,332	5,750,000	(1,728,214)	7,334,118
Deficit	(1,349,181)	-	-	(1,349,181)
	1,963,151	-	-	5,984,937
	2,139,080	5,750,000	(1,728,214)	6,160,866

1. Basis of presentation

The accompanying unaudited pro-forma balance sheet of Forest Gate Resources Inc. (“FGT”) has been prepared in accordance with generally accepted accounting principles for inclusion in the Management Proxy Circular for the special and annual meeting of shareholders of FGT dated April 19, 2005 (“Proxy Circular”) and is based on:

- The audited financial statements of FGT for the year ended December 31, 2004
- The transactions proposed in the Proxy Circular

In the opinion of FGT, this pro-forma balance sheet contains all material adjustments necessary for a fair presentation applicable to the preparation of the pro-forma balance sheet.

The pro-forma balance sheet should be read in conjunction with the financial statements of FGT included elsewhere in the Proxy Circular.

2. Pro-forma Assumptions and Adjustments

The pro-forma balance sheet reflects the financial position of the company as at December 31, 2004 after giving effect to a) the transfer of assets to Blue Note Mining Inc. (“BNM”) and b) the private placement in the amount of $6,500,000, more fully described as follows:

a) Transfer of assets

The pro-forma balance sheet has been prepared on the basis that all of the company’s assets in the province of New Brunswick are transferred to BNM at their carrying value. These assets consist of a) certain rights pursuant to a Letter of Intent to acquire the Caribou and Restigouche Mines located near Bathurst, New Brunswick from Breakwater Resources Ltd., b) $1million in cash and c) the following mining assets:

Mining property	**Cost of Claims** $	**Deferred exploration costs** $	**Write-off of abandoned property** $	**2004 Net** $
Canoe Landing Lake	**177,496**	**134,153**	**-**	**311,649**
California Lake	**141,256**	**172,819**	**-**	**314,075**
Rio Road	**66,527**	**120,798**	**84,835**	**102,490**

b) The private placement in the amount of $6,500,000

The pro-forma balance sheet reflects the issue of 25 million shares for $6,500,000 completed in March 2005, net of transaction costs of $750,000.

Blue Note Metals Inc.

Pro-Forma Financial Statements

December 31, 2004

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COMPILATION REPORT

To the Directors of
Blue Note Metals Inc.

We have reviewed, as to compilation only, the accompanying unaudited pro-forma balance sheet of **Blue Note Metals Inc.** as at December 31, 2004 which has been prepared for inclusion in the Management Proxy Circular of Forest Gate Resources Inc. dated April 19, 2005. In our opinion, the pro-forma balance sheet has been properly compiled to give effect to the proposed transaction and assumptions described in the accompanying notes thereto.

Signed "Lippman Leebosh April"

Chartered Accountants

Montreal, Quebec
April 15, 2005

Blue Note Metals Inc.

Balance Sheet

At December 31

	Blue Note $	Private Placement $	Transfer from Forest Gate $	Blue Note Pro-Forma $
Assets				
Current assets				
Cash and short-term investments	**100**	**2,000,000**	**1,000,000**	**3,000,100**
Deferred acquisition costs	**119,175**	**-**	**-**	**119,175**
	119,275	**2,000,000**	**1,000,000**	**3,119,175**
Mining properties and deferred costs	**-**	**-**	**728,214**	**728,214**
	119,275	**2,000,000**	**1,728,214**	**3,847,389**
Liabilities				
Current liabilities				
Due to Forest Gate Resources Inc.	**119,175**	**-**	**-**	**119,175**
Shareholders' equity				
Share capital	**100**	**2,000,000**	**1,728,214**	**3,728,314**
Retained earnings	**-**	**-**	**-**	**-**
	100	**2,000,000**	**1,728,214**	**3,728,214**
	119,275	**2,000,000**	**1,728,214**	**3,847,389**

1. Basis of presentation

The accompanying unaudited pro-forma balance sheet of Blue Note Metals Inc. (“BNM”) has been prepared in accordance with generally accepted accounting principles for inclusion in the Management Proxy Circular (“Proxy Circular”) and is based on:

- The audited financial statements of Forest Gate Resources Inc. (“FGT”) for the year ended December 31, 2004
- The transactions proposed in the Proxy Circular

In the opinion of BNM, this pro-forma balance sheet contains all material adjustments necessary for a fair presentation applicable to the preparation of the pro-forma balance sheet.

The pro-forma balance sheet should be read in conjunction with the financial statements of FGT included elsewhere in the Proxy Circular.

2. Pro-forma Assumptions and Adjustments

The pro-forma balance sheet reflects the financial position of the company as at December 31, 2004 after giving effect to a) the transfer of assets to BNM from FGT and b) the private placement in the amount of $2,000,000, more fully described as follows:

a) Transfer of assets

The pro-forma balance sheet has been prepared on the basis that assets belonging to FGT in the province of New Brunswick are transferred to BNM at their carrying value. These assets consist of a) certain rights pursuant to a Letter of Intent to acquire the Caribou and Restigouche Mines located near Bathurst, New Brunswick from Breakwater Resources Ltd., b) $1million in cash and c) the following mining assets.

Mining property	Cost of Claims $	Deferred exploration costs $	Write-off of abandoned property $	2004 Net $
Canoe Landing Lake	**177,496**	**134,153**	**-**	**311,649**
California Lake	**141,256**	**172,819**	**-**	**314,075**
Rio Road	**66,527**	**120,798**	**84,835**	**102,490**

b) The private placement in the amount of $2,000,000

The pro-forma balance sheet reflects the issue of 8 million shares for $2,000,000 which are anticipated to be issued concurrently with the arrangement.

SCHEDULE H

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

General

Primary responsibility for the Company's financial reporting obligations, information systems, financial information disclosure, risk management and internal controls is vested in management and overseen by the Board of Directors (the "Board").

The Audit Committee is a standing committee of the Board, the primary function of which is to assist the Board in fulfilling its financial oversight responsibilities, which will include monitoring the quality and integrity of the Company's financial statements and the independence and performance of the Company's external auditor, acting as a liaison between the Board and the Company's auditor, reviewing the financial information that will be publicly disclosed and reviewing all audit processes and the systems of internal controls management and the Board have established.

Composition and Process

6. The Audit Committee will be comprised of a minimum of three directors. All of the members of the Audit Committee will be independent, as that term is defined in Multilateral Instrument 52-110 *Audit Committees,* unless otherwise exempted by MI 52-110.

7. Audit Committee members will be appointed by the Board on an annual basis for a one-year term and may serve any number of consecutive terms, which are encouraged to ensure continuity of experience.

8. All members of the Audit Committee will be financially literate, with financial literacy being the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

9. The Chair of the Audit Committee will be appointed by the Board on an annual basis for a one-year term and may serve any number of consecutive terms. The Audit Committee Chair will arrange for an alternate chair if he or she is planning to be absent.

10. The Audit Committee Chair will, in consultation with management, the external auditor and internal auditor (if any), establish the agenda for Audit Committee meetings and ensure that properly prepared agenda materials are circulated to the members with sufficient time for review prior to the meeting. The external auditor will also receive notice of all meetings of the Audit Committee. The external auditor will be entitled to attend and speak at each meeting of the Audit Committee concerning the Company's annual audited financial statements, and any other meeting at which the Audit Committee feels it is necessary or appropriate. The Audit Committee may employ a list of prepared questions and considerations as a portion of its review and assessment process.

11. The Audit Committee will meet a minimum of four times per year, at least once per quarter, and may call special meetings as required. A quorum at meetings of the Audit Committee will be a majority of its members. The Audit Committee may hold its meetings, and members of the Audit Committee may attend meetings, by telephone conference call.

12. At all meetings of the Audit Committee every question will be decided by a majority of the votes cast. In case of an equality of votes, the Audit Committee Chair will not be entitled to a casting vote.

13. The minutes of Audit Committee meetings will accurately record the decisions reached and will be distributed to Audit Committee members with copies to the Board, the and the external auditor.

14. The chief executive officer, the chief financial officer, any other director or any other person may attend and participate in meetings of the Audit Committee, if invited.

Authority

15. The Audit Committee will have unrestricted access to the Company's personnel and documents and will be provided with the resources necessary to carry out its responsibilities.

16. The Audit Committee will have direct communication channels with the external auditor and internal auditor (if any).

17. The Audit Committee will have the authority to retain (or terminate) any outside counsel, advisors or consultants it determines necessary to assist it in discharging its functions, independently of the Board, chair of the Board or chief executive officer. The Audit Committee will be provided with the necessary funding to compensate any counsel, advisors or consultants it retains.

18. The Audit Committee will enquire about potential claims, assessments and other contingent liabilities.

19. The Audit Committee will periodically review with management depreciation and amortization policies, loss provisions and other accounting policies for appropriateness and consistency.

20. The Audit Committee will, through its Chair, report to the Board following each meeting on the major discussions and decisions made by the Audit Committee, and will report annually to the Board on the Audit Committee's responsibilities and how it has discharged them.

Relationship with External Auditors

21. The Audit Committee will review and discuss with the external auditor any disclosed relationships or services that may impact the objectivity and independence of the external

auditor and, if necessary, obtain a formal written statement from the external auditor setting forth all relationships between the external auditor and the Company.

22. The Audit Committee will take, or recommend that the Board take, appropriate action to oversee the independence of the external auditor.

23. The Company's external auditor must report directly to the Audit Committee.

24. The Audit Committee must recommend to the Board:

    (a) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company; and

    (b) the compensation of the external auditor.

25. Unless otherwise permitted by MI 52-110, the Audit Committee must pre-approve all non-audit services to be provided by the external auditor, together with estimated fees, and consider the impact, if any, on the independence of the external auditor.

26. The Audit Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting.

27. The Audit Committee will implement structures and procedures as it deems necessary to ensure that it meets with the external auditor on a regular basis independent of management.

Accounting Systems, Internal Controls and Procedures

28. The Audit Committee will obtain reasonable assurance from discussions with and/or reports from management and reports from the external auditor that accounting systems are reliable and that the prescribed internal controls are operating effectively for the Company and its subsidiaries and affiliates. The Audit Committee will review and consider any recommendations made by the external auditor, together with management's response, and the extent to which recommendations made by the external auditor have been implemented.

29. The Audit Committee will ensure that adequate procedures are in place for the review of the Company's disclosure of financial information extracted or derived from the Company's financial statements and will periodically assess the adequacy of those procedures.

30. The Audit Committee will review and discuss with management and the external auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Company's financial statements or accounting policies.

31. The Audit Committee will review and discuss with management and the external auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.

32. The Audit Committee will review with the external auditor the quality of the Company's accounting principles and direct the external auditor's examinations to particular areas.

33. The Audit Committee will review control weaknesses identified by the external auditor together with management's response, and review with the external auditor their opinion of the qualifications and performance of the key financial and accounting executives.

34. The Audit Committee will review and discuss with management and the external auditor any proposed changes in major accounting policies and the financial impact thereof.

35. The Audit Committee will review and discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

36. The Audit Committee will establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

37. The Audit Committee will review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company.

38. The Audit Committee will review the Company's insurance policies, including directors and officers coverage, and make recommendations to the Board.

39. The Audit Committee will establish a periodic review procedure to ensure that the external auditor complies with the Canadian Public Accountability Regime under Multilateral Instrument 52-108 *Auditor Oversight*.

Financial Disclosure Responsibilities

The Audit Committee will review, prior to presentation to the Board for approval and the Company's dissemination to the public, all material financial information required to be disclosed by securities regulations. In fulfilling this responsibility, the Audit Committee will, without limitation, review:

40. The Company's annual and quarterly financial statements, management discussion and analysis and earnings news releases.

41. The Company's financial reporting procedures and internal controls to be satisfied that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from its financial statements, other than disclosure described in the previous paragraph, and periodically assessing the adequacy of those procedures.

42. Disclosures made to the Audit Committee by the Company's chief executive officer and chief financial officer during their certification process of the Company's financial statements about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.

Other Responsibilities

43. Review with the external auditor and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Company and the manner in which these matters are being disclosed in the financial statements.

44. Investigate fraud, illegal acts or conflicts of interest.

45. Discuss selected issues with corporate counsel, the external auditor or management, or conduct special reviews or other assignments from time to time as requested by the Board, or by management with the Board's approval.

46. Review loans made by the Company to its directors, officers, employees and consultants.