

## **Management's Discussion and Analysis**

*September 30, 2005*

Forest Gate Resources Inc. 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 accompanying unaudited consolidated financial statements and related notes. 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 period ended September 30, 2005, the Company incurred a net loss of \$700,307 (\$0.011 per share) compared to a net loss of \$108,083 (\$0.004 per share) for the same period last year. During the period the Company invested \$1,066,094 in its exploration programs.

### **General and administrative expenses**

General and administrative expenses increased from \$111,925 for the same period last year to \$723,642 for this period. This increase is a reflection of (i) hiring more employees and consultants to run the business, (ii) an increase in business activity, and (iii) the grant of stock options in this third quarter generating a non-cash charge of \$301,982.

### **Mining Properties**

The Company has three main areas of interest. The Company holds a 100% interest in the East Side and South Side diamond properties located near Prince Albert, Saskatchewan, 100% interests in the California Lake silver Property, Rio Road Gold property and Canoe Landing Lake Polymetallic deposit all situated near Bathurst, New Brunswick, and has entered into an agreement with Majescor Resources Inc. towards a joint venture on Majescor's Portage diamond property situated in the Otish Mountain region of northern Quebec.

In a subsequent event, on October 2005, Forest Gate acquired 100% interest of a property known as the West Side Property, a diamond property on the central-western border of Fort a la Corne forest, near Prince Albert, Saskatchewan. The West Side Property was acquired for 1.7 million shares and 1.5 million share purchase warrants of Forest Gate. The warrants are exercisable at \$0.60 at any time for the next two years. This transaction is subject to the obtaining of regulatory approvals and other contractual conditions.

### **Exploration and development programs**

The Company invested \$1,066,094 during the period in its exploration programs. This consisted of exploration and definition sampling on the Company's diamond properties in Saskatchewan, including its Dizzy kimberlite, Duke kimberlite and the 121 pipe situated on the East Side Property. The Dizzy and Duke kimberlite pipes are located approximately 4 kilometers northeast of the DeBeers-Kensington 140-141 kimberlite complex and 6 kilometers north of Shore Gold's Star kimberlite pipe. The Company also invested in the geophysical analysis of data on the South Side Property in Saskatchewan. Thirdly, the Company invested in regional and target-focused glacial till sampling on the Portage diamond property in Quebec.

No exploration work was conducted on the Company's New Brunswick properties during the last quarter.

As part of a Plan of Arrangement under the Canada Business Corporations Act, the Company has received approval for the spin-off of the Company's New Brunswick properties to Blue Note Metals Inc. Details on

this transaction are in the Company's Management Information Circular date April 15, 2005 and can be viewed via [www.sedar.com](http://www.sedar.com). As well, details on all other aspects of the Company's business can also be obtained at the same web site.

In July 2005, Forest Gate Resources Inc. entered into a revised letter of intent ("LOI") between its wholly-owned subsidiary, Blue Note Metals, Breakwater Resources and Breakwater's wholly-owned subsidiary, CanZinco Ltd., regarding the acquisition of the Caribou and Restigouche Mines. The LOI sets out the provisions that will form the basis of a definitive agreement to be entered into between the two companies.

Under the terms of the LOI, after raising sufficient funds, Blue Note will acquire the Caribou and Restigouche mines by (i) replacing the reclamation deposits with the New Brunswick government for environmental rehabilitation of approximately \$7 million, and (ii) issuing to CanZinco a C\$15 million convertible debenture with a maturity of five years. The debenture is repayable in shares at CanZinco's option or in cash or shares at maturity at Blue Note's option. Additionally, CanZinco has the right to convert the debenture in return for a direct 20% ownership of the mines; this must be exercised within one year from the commencement of commercial production. Blue Note has also agreed to spend \$1.5 million on exploration on the properties before the 12-month anniversary of the commencement of commercial production. CanZinco will also receive a royalty on zinc metal production in the event the price of zinc reaches US\$0.65 per pound or more as determined by the London Metals Exchange.

In July 2005, Forest Gate signed a memorandum of understanding ("MOU") with Majescor Resources Inc. of Montreal, to earn up to a 55% participating interest in Majescor's Portage property located north of Quebec's Otish Mountains. Under the terms of the MOU, Forest Gate must spend \$5 million over five years to earn a 50% working interest and can earn an additional 5% by funding a 200-tonne bulk sample from a kimberlite body. Forest Gate must spend \$500,000 on claim renewals and exploration by November 1, 2005, \$800,000 by November 1, 2006, \$1,000,000 by November 1, 2007, \$1,200,000 by November 1, 2008 and \$1,500,000 by November 1, 2009. Majescor will remain operator of the project, until \$5 million is invested, but Forest Gate will have a final say on the content and form of the exploration program on Portage. A formal joint venture between the two companies will be entered into when Forest Gate has earned its 50% working interest. As at September 30, 2005, Forest Gate had advanced \$300,000 for the Portage property.

### **Financing**

On September 30, 2005, Forest Gate completed a private placement for gross proceeds of \$1,500,000. The issue included a total of 3,947,368 flow-through shares at \$0.38. The proceeds of the financing will be used to further develop the Company's Canadian diamond exploration projects.

Northern Securities was paid a commission of 9% of the gross proceeds of the offering and was granted broker warrants to acquire up to 355,263 shares of the Company. The broker warrants are exercisable at \$0.38 per share for a period of two years.

Between July 1, 2005 and September 30, 2005, the Company issued approximately 814,000 common shares further to the exercise of approximately the same number of warrants and options generating proceeds of approximately \$146,000. The total number of shares in circulation on September 30, 2005 is 66,407,570.

On July 2005, a total of 3,300,000 stock options were issued under the stock option plan to directors and consultants. The options can be exercised for the purchase of one common share at \$0.25 over a period of five years.

At September 30, 2005, the Company had cash resources of approximately \$5.9 million. This cash position enables the Company to execute its planned exploration program.

In a subsequent event, on October 2005, Forest Gate acquired 100% interest of the West Side Property for 1.7 million shares and 1.5 million share purchase warrants of Forest Gate. The warrants are exercisable at

\$0.60 at any time for the next two years. This transaction is subject to the obtaining of regulatory approvals and other contractual conditions.

In a subsequent event in November 2005, Blue Note Metals Inc. ("Blue Note"), the wholly-owned subsidiary of the Company, has closed a private placement agreement with a Toronto-based investment bank that raised \$1,000,000 on a private placement basis, in exchange for up to 4,000,000 Units at a price of \$0.25 per Unit. Each Unit consists of one common share and one share purchase 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.

In another subsequent event, on November 9, 2005, Forest Gate and Blue Note Metals announced that effective at the close of market on November 10, 2005, holders of Forest Gate common shares at that time will receive 0.1168 Blue Note shares for each Forest Gate share according to the Plan of Arrangement.

Detailed information with respect to the company's operations can be obtained via [www.sedar.com](http://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.

*Signed: "Michael Judson"*

Michael Judson  
President and Chief Executive Officer  
Forest Gate Resources Inc.  
November 29, 2005  
Westmount, Quebec