

Management's Discussion and Analysis December 2004

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 company are diamonds, gold, silver and base metals. This discussion and analysis of the Company should be read in conjunction with the accompanying 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 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 (\$0.03 per share) for fiscal 2003. During the period the Company invested \$228,263 in exploration and an additional \$96,422 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, Forest Gate 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 an 100% interest in two diamond properties near Prince Albert, Saskatchewan and 100% of the California Lake Silver Property and Canoe Landing Lake Polymetallic Deposit, both situated in Bathurst, New Brunswick.

Exploration and development programs

Forest Gate spent \$228,263 during the year on exploration and claim renewals of its mining properties. Forest Gate executed 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 by Forest Gate recently, and four tested the known silver zone for base metal mineralization. The anomalies, which we theorized 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 Forest Gate. 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 Hole 1 at Rio was an alteration zone intersected from 275.9 to 281.9 metres.

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 Forest Gate's Canoe Landing Lake polymetallic deposit and property this 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.

Forest Gate also hired mining engineering consultants, Ross-Finlay 2000 Inc, Val-d'Or, Quebec, to act as general contractors to conduct due diligence on the Caribou and Restigouche mines located near Bathurst. In October, Forest Gate signed a Letter of Intent with Breakwater Resources Ltd., Toronto, to acquire its 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.

The Company plans to transfer its agreement to purchase the Caribou and Restigouche mines and its New Brunswick metals properties to Blue Note Metals Inc., a wholly owned subsidiary of Forest Gate. Blue Note Metals would seek a separate listing on the TSX following approval of the transaction at an extraordinary shareholders meeting to be held on May 16, 2005.

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 at \$0.18, generating gross proceeds of \$252,000. The unit consists of one common flow-through share 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 2,333,667 warrants and 199,000 options.

In a subsequent event on March 30, 2005, Forest Gate completed a private placement for gross proceeds of \$6,500,000. The issue included a total of 20,000,000 units at \$0.25, each unit consisting of a common share and a half warrant exercisable at \$0.35 for two years generating proceeds of \$5 million, and the issuance of 5,000,000 flow-through units at \$0.30, each unit consisting of a flow-through share and a half warrant exercisable at \$0.40 per share for two years.

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 can be obtained via www.sedar.com and by consulting the Company's accompanying financial statements.

The Company has working capital to easily 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 its interest 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. Happily, the equity markets have a strong interest in the Company's business currently and this interest is expected to continue for several more years. Commodities are in the beginning of bull market driven by fundamental supply weakness and strong demand for metals from Asia. There also appears to be an incipient weakness in diamond supply, which will be also working to Company's advantage.

Detailed information with respect to the company's operations can be obtained via 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.

Michael Judson
President and Chief Executive Officer