

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

*December 31, 2005*

Forest Gate Resources Inc. (the "Company" or "Forest Gate") is a mineral exploration company with exploration activities in Saskatchewan and Quebec. 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 resource being targeted by the company is diamonds. This discussion and analysis of the Company should be read in conjunction with the accompanying audited 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.

November 9, 2005, Forest Gate and Blue Note Metals Inc. (Blue Note Metals Inc. then being a subsidiary of the Company) 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 shares of Blue Note Metals Inc. for each Forest Gate share pursuant to the Plan of Arrangement. Details on this transaction are in the Company's Management Information Circular dated April 15, 2005 and can be viewed at [www.sedar.com](http://www.sedar.com).

### **Results of operations**

For the fiscal year ended December 31, 2005, the Company incurred a net loss of \$1,691,312 (\$0.03 per share) compared to a net loss of \$563,980 (\$0.02 per share) for the same period last year. During the year the Company invested \$3,354,453 in its exploration programs.

For the quarter ended December 31, 2005, the Company incurred a net loss of \$350,992 (\$0.005 per share) compared to a net loss of \$103,816 (\$0.004 per share) for the same period last year. During the period the Company invested \$1,583,548 in its exploration programs.

### **General and administrative expenses**

The Company incurred general and administrative expenses of \$1,804,565 in fiscal 2005, compared to \$734,087 for the same period last year. This increase is a reflection of (i) an overall increase in business activity, (ii) an increase in employment and consultant expenses to operate the business, and (iii) the grant of stock options generating a non-cash charge of \$521,540.

For the quarter ended December 31, 2005, the Company incurred general and administrative expenses of \$390,150, compared to \$261,768 in 2004.

As a matter of policy, the Company reviews the carrying value of its mining properties and deferred exploration and development expenses. The Company has concluded that no adjustments to the carrying value of its Saskatchewan and Quebec assets are required.

We believe the internal control systems of the Company are sufficient to execute our business plan and to provide meaningful results upon which to manage our business.

### **Exploration Properties**

The Company has two main areas of interest. The Company holds a 100% interest in the East Side, West Side and South Side diamond exploration properties located near Prince Albert, Saskatchewan. The Company has also 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.

On October 2005, Forest Gate acquired 100% interest of the West Side Property, a diamond exploration property on the central-western border with the 122 kimberlite in the 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 \$0.55 at any time for the next two years. This transaction has obtained regulatory approvals and the Company has fulfilled its contractual conditions.

### **Exploration and development programs**

The Company invested \$3,354,453 during the year 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 kimberlite 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.

In July 2005, the Company signed a memorandum of understanding ("MOU") with Majescor Resources Inc., 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 invest \$5 million over five years to earn a 50% working interest and can earn an additional 5% by funding a 200-tonne bulk sample from a kimberlite body. The Company must invest \$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 the Company will have a final say on the content and form of the exploration program on Portage. A formal joint venture between the two companies will be entered into when the Company has earned its 50% working interest. As at December 31, 2005, the Company has invested \$794,791 on the Portage property.

On November 10, 2005, as part of a Plan of Arrangement under the Canada Business Corporations Act, the Company has transferred \$1,000,000 of working capital and the New Brunswick properties including California Lake, Rio Road and Canoe Landing Lake, to Blue Note Metals Inc. at their book value of \$738,229. Also, as part of the Plan of Arrangement, the Company transferred to Blue Note Metals, the Letter of Intent ("LOI") to acquire from Breakwater Resources Ltd. and its wholly-owned subsidiary, CanZinco Ltd., subject to various conditions, the Caribou and Restigouche Mines located near Bathurst, New Brunswick. Details on this transaction are in the Company's Management Information Circular dated April 15, 2005 and can be viewed via [www.sedar.com](http://www.sedar.com).

### **Financing**

In January, a total of 400,000 stock options were issued under the stock option plan to an employee and consultant. The options can be exercised for the purchase of one common share at \$0.15 over a period of five years.

In March, the Company closed a private placement of 20,000,000 units at \$0.25 per unit and 5,000,000 units at \$0.30 per unit. Each unit issued at \$0.25 consists of one common share and a half warrant, whereby one full warrant is exercisable to buy one common share at \$0.35 per share over a period of two years. The units issued at \$0.30 consists of one flow-through common share and a half warrant, whereby one full warrant is exercisable to buy one non-flow through common share at \$0.40 per share over a period of two years. The issue generated total gross proceeds of \$6,500,000.

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

In September, the Company closed a private placement of 3,947,368 flow-through shares at \$0.38 per share generating gross proceeds of \$1,500,000.

In October, the Company 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 \$0.55 at any time for the next two years.

In November, the company closed a private placement of 131,579 flow-through shares at \$0.38 per share. The issue generated total gross proceeds of \$50,000.

Pursuant to the exercise of approximately 12,224,000 warrants, 761,000 options under the stock option plan and 1,615,000 broker options, the Company issued approximately 14,600,000 common shares and 316,000 broker warrants generating gross proceeds of approximately \$2,792,000 throughout 2005. The total number of shares in circulation on December 31, 2005 is 72,223,574.

At December 31, 2005, the Company had cash resources of approximately \$5 million. This cash position enables the Company to execute its planned exploration program.

Detailed information with respect to the company's operations can be obtained on [www.sedar.com](http://www.sedar.com) and on its own web-site at [www.forestgate.ca](http://www.forestgate.ca).

### **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  
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Forest Gate Resources Inc.  
April 17, 2006  
Westmount, Quebec