

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

*September 30, 2006*

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 unaudited 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 quarter ended September 30, 2006, the Company incurred a net loss of \$298,494 (\$0.004 per share) compared to a net loss of \$700,307 (\$0.011 per share) for the same period last year. During the period the Company invested \$1,192,588 in its exploration programs.

### **General and administrative expenses**

The Company incurred general and administrative expenses of \$334,584 in the current period, compared to \$723,642 for the same period last year. The decrease is due to an overall reduction in business development expenses and stock based compensation to directors and consultants (a non-cash charge of \$45,935 in the current period).

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. In addition, the Company has 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.

### **Exploration and development programs**

The Company invested \$1,192,588 during the period in its exploration programs. The Portage Project in the Otish Mountains of Quebec saw the bulk of activity with a six week field exploration program starting in August. The program included a geochemical till sampling program that saw over 400 new samples taken in key areas around the 250,000 hectare property. Results are expected before the new year. Additionally, a new kimberlite boulder train was identified down-ice from the drill-proven Remick kimberlite dyke. Just over two tonnes of kimberlite was collected and the sample will be tested for macrodiamonds. The kimberlite was shipped to the Dense Media Separation plant run by De Beers in Grand Prairie, Alberta for crushing and processing.

During the month of July the company embarked on an exploration drill program on the South Side property located near Melfort, Saskatchewan. Six three-inch diameter drill holes were collared and completed to test electromagnetic anomalies discovered in April 2005 during a 3000 line kilometre airborne survey. The South Side drilling did not intersect any kimberlite and the cause of the anomalies is thought to be deeper and resistive overburden in this area. A complete review of the data is underway.

The drill then moved 75 kilometres north to the main Fort a la Corne kimberlite complex and drilled four more holes, two on the West Side property (on the company's portion of the 122 Kimberlite) and two on the East Side property (on the company's portion of the 121 Kimberlite). All four vertical three-inch diameter drill holes intersected kimberlite ranging from 1.8 metres to 23.2 metres in vertical thickness. The kimberlite was logged and sampled for microdiamonds. Full results will be available before year's end.

In 2005, the Company signed an option agreement with Majescor Resources Inc., to earn up to a 55% undivided recorded and beneficial interest in Majescor's Portage property located north of Quebec's Otish Mountains. Under the terms of the agreement, 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 had to invest \$500,000 on claim renewals and exploration by November 1, 2005, and has to invest \$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 September 30, 2006, the Company has invested \$2,239,277 on the Portage property.

## **Financing**

During the quarter ended September 30, 2006, the Company closed a private placement of 1,946,230 flow-through shares resulting in total gross proceeds of \$593,600. Share issue costs of \$48,470 were paid in relation to this flow-through issue.

The Company also closed a private placement of 387,096 flow-through shares resulting in total gross proceeds of \$120,000. Share issue costs of \$23,645 were paid in relation to this flow-through issue.

The proceeds of these financing activities will be used to further develop the Company's Canadian diamond exploration projects.

At September 30, 2006, the Company had cash resources of approximately \$4.7 million. This cash position enables the Company to execute its planned exploration programs.

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.  
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Montreal, Quebec