Management’s Discussion and Analysis

For the year ended December 31, 2006

This Management’s Discussion and Analysis (MD&A) is designed to provide investors with an informed communication of the Company’s operations, performance and financial condition for the fiscal year ended December 31, 2006 and compares the 2006 financial results with those of 2005 for the same period. The MD&A also presents an outlook and expectations for 2007, as well as issues and risks that may have an impact on our future performance. It is intended to supplement the financial information and should be read in conjunction with our audited financial statements and related notes. This MD&A was prepared as at April 26, 2007.

The Company's shares trade under the symbol FGT on the TSX Venture Exchange.

We report our financial statements under Canadian generally accepted accounting principles (GAAP). All references to dollar amounts are in Canadian dollars unless otherwise indicated.

Additional information relating to our Company is available on SEDAR at www.sedar.com.

Caution regarding forward-looking information

Certain information in this MD&A includes forward-looking statements about our corporate direction and financial objectives that are subject to important risks, uncertainties and assumptions. In consequence, actual results in the future may differ materially from any conclusion, forecast or projection in such forward-looking information.

Examples of statements that constitute forward-looking information may be identified by words such as “may”, “could”, “should”, “believe”, “expect”, “plan”, “target” and other similar words and expressions. These statements reflect current expectations of management regarding future events and operating performance, and speak only as of the date of this report.

This forward-looking information includes, amongst others, information with respect to our objectives and strategies to achieve those objectives, as well as information with respect to our beliefs, plans, expectations, anticipations, estimates and intentions.

We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Our business

Forest Gate’s strategy is to be a significant international player and investor in the oil and gas industry. Management’s goal is to maximize shareholder value by seeking and participating in what management believes are undervalued oil and gas projects.

Forest Gate Enters Oil and Gas Exploration in the Celtic Sea, Ireland

In a news release dated February 22, 2007, Forest Gate announced that it has entered into an agreement to acquire a 15% working interest in two licenses for an offshore international oil and gas prospect in the Celtic Sea located off the south coast of Ireland.

The project operator is Providence Resources P.L.C. headquartered in Dublin, Ireland. Providence is involved in petroleum exploration licenses in Ireland, the United Kingdom, West Africa and the Gulf of Mexico and is listed on the AIM Exchange (London) and IEX Exchange (Dublin).

Providence is the oil and gas exploration vehicle of Sir Anthony O'Reilly, one of Europe's leading industrialists. Sir Anthony has been a leading investor in offshore Ireland oil and gas since 1981.

Management believes that this is a breakthrough deal for shareholders and believes that the Celtic Sea has enormous upside potential for oil and gas reserves.

Results of operations

For the fiscal year ended December 31, 2006, the Company incurred a net loss of $3,387,503 ($0.04454 per share) compared to a net loss of $1,691,312 ($0.03030 per share) for December 31, 2005.

The loss before the write-downs and income taxes for fiscal year 2006 is $1,504,171. An amount for future income taxes recovered of $632,185 has been recorded during the year 2006 and explains part of the difference in the net loss if compared to last year. The Company has recorded a share issue cost of $632,185 to account for the future tax cost of the exploration expenses it has renounced in March 2006 on the flow-through shares issued in 2005. The amount has been charged to share capital. An unrealized loss on short term investment has been recorded also for a net amount of $43,655.

The $3,387,503 loss includes a $2,471,862 write-down on property claim expenses and deferred exploration costs which were both recorded in the fourth quarter. The Company has decided to expand its business into oil and gas exploration. It is currently evaluating strategic options for its mining properties including further exploration, sale of properties and exploitation partnerships. Although management believes that the carried amount of these assets can be realized a partial write-down has been recorded, nonetheless.

For the last quarter ended December 31, 2006, the Company incurred a net loss of $3,344,949 ($0.04243 per share) compared to a net loss of $350,992 ($0.00501 per share) for the same period last year.

General & Administrative Expenses

Forest Gate incurred total expenses of $1,661,900 in fiscal 2006, compared to $1,804,565 for the same period last year. This decrease of 7.9% is a reflection of the grant of stock options generating a non-cash charge of $271,756 in 2006 compared to $521,540 last year.

For the last quarter ended December 31, 2006, the Company incurred total expenses of $513,021, compared to $390,150 in last quarter 2005.

Expenses consist primarily of salaries, professional and consulting fees, office expenses, travel and marketing expenses, and expenses relating to the business development of the Company.

Selected Quarterly Information

	Net Loss $ **Net (earnings) $**	**Per weighted average number of shares outstanding**
2006		
Fourth Quarter	3,344,949	0.04243
Third Quarter	298,494	0.00380
Second Quarter	334,526	0.00452
First Quarter	(590,466)	(0.00812)
2005		
Fourth Quarter	350,992	0.00501
Third Quarter	700,307	0.01133
Second Quarter	340,051	0.00552
First Quarter	299,962	0.01023

Other Properties

Forest Gate also possesses a number of additional diamond properties in Saskatchewan and Quebec.

As of December 31, 2006, total mining properties and deferred exploration costs were $3,042,149, compared to $3,813,330 as at last year.

The Company invested $2,578,907 in total before tax credits and government assistance and disposals during the fiscal year 2006 in its total exploration programs, including $209,018 in the last quarter terminating December 31, 2006. Tax credits for the year is $878,226 compared to $38,000 last year.

Saskatchewan Properties

The Company holds a 100% interest in the East Side, West Side and South Side diamond exploration properties located near Prince Albert, Saskatchewan. The Fort a la Corne area, located 50 km northeast of Prince Albert, is host to the largest diamondiferous kimberlite pipes in the world. This year approximately $100 million will be spent on exploration in that area and Forest Gate has key strategic properties located on the eastern and western flanks of this field.

The total investment thus far in Saskatchewan is $4,079,559 of which $1,884,455 has been invested on the East Side Property, $1,157,694 on the West Side Property, and $1,037,410 on the South Side Property. While management believes that the carried amount of these assets in Saskatchewan can be realized through operation or by way of opportunities with other partners in the industry, a complete write-down for the South Side Property investment has been recorded in the last quarter of fiscal year 2006. This is considered to be appropriate given the strategic orientation to direct current resources to oil and gas exploration.

East Side Property

Forest Gate reports in November 2006 that it has recovered 118 diamonds from two three-inch diameter drill holes targeting its portion of the 121 Pipe located on its East Side property. The 118 diamond tally also includes 10 macro diamonds, stones with two faces greater than 0.5 millimeters, with the largest measuring 1.91 mm x 1.20 mm x 0.68 mm. Eighty seven of the 118 diamonds are colored white while one is colored yellow and the other twenty were assorted colors.

South Side Property

Forest Gate reported in July 2006 that its recent exploration drilling on its South Side property has not intersected any kimberlite. Six holes were drilled to test anomalies south of the Saskatchewan River that lie on-trend with the Fort a la Corne kimberlite field. The vertical PQ-sized holes ranged from 281 meters to 308 meters in depth. The anomalies were all electromagnetic anomalies that were identified by the 3000-line kilometer airborne survey in April 2005.

West Side Property

Forest Gate reported in August 2006 that it has intersected kimberlite in a first drill-hole targeting the western extension of the 122 Pipe located on its owned West Side property. The second drill-hole has also intersected the kimberlitic body originally discovered in the first hole Forest Gate found in November 2006 from a single three-inch diameter drill hole 27 diamonds. The 27 diamond tally also includes two macro diamonds; stones with two faces greater than 0.5 millimeters, with the largest measuring 0.68 mm x 0.51 mm x 0.30 mm. Twenty five of the 27 diamonds are colored white.

Portage property

In addition, the Company has an agreement with Majescor Resources Inc. (“Majescor”) towards a joint venture on Majescor’s Portage diamond property situated in the Otish Mountain region of northern Quebec.

In 2005, Forest Gate signed an option agreement with Majescor 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 million by November 1, 2007, $1.2 million by November 1, 2008 and $1.5 million 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.

Forest Gate reported in August 2006 that they and joint venture partner Majescor have begun active exploration work on the Portage property located north of the Otish Mountains in north-central Quebec, adjacent to the diamondiferous Renard kimberlite cluster. The Portage project saw the bulk of activity in a six week field exploration program starting in August 2006. The program included a geochemical till sampling program that saw over 400 new samples taken in key areas around the 250,000 hectare property. Additionally, a new kimberlite boulder train was identified down-ice from the drill-proven Remick kimberlite dyke and just over two tonnes of kimberlite was collected and tested for macrodiamonds.

Forest Gate and Majescor reported in January 2007 that a total of 83 diamonds have been recovered from a 54.15 kg sample of coarse kimberlite float ("U0341-110") from the new U0341 dispersal train discovered in the Remick dyke sector of the Portage property in fall 2006.

As at December 31, 2006, the Company has invested $2,305,160 before tax credits and government assistance of $870,708 in the Portage property since day one. Even if no final decision has been made by management at this date concerning Portage future investments, a write-down for the whole Portage property investment has been recorded in the last quarter of fiscal year 2006. This is considered to be appropriate given the strategic orientation to direct current resources to oil and gas exploration.

Liquidity, Financing and Capital Resources

Cash and cash equivalents at December 31, 2006 totaled $3.6 million, which compares with $5.0 million at the end of last year.

The proceeds from the issue of equity via private placement financing for 2006 amounted to $1.6 million compared to $9.7 million last year.

A total of 200,000 warrants, 100,400 options issued under the Company's incentive stock option plan and 561,071 options issued to brokers were exercised for net proceeds of $238,754, which also resulted in the issue of 861,471 common shares and 201,368 broker warrants.

Pursuant to an agreement with its former subsidiary, Blue Note Mining, the exercise of 713,296 warrants by the Corporation's warrant holders has resulted in the payment to Blue Note in the amount of $13,325 cash.

During the second quarter of 2006 the Company closed a private placement of 3,407,786 flow-through shares at $0.305 per share. The issue generated total net proceeds of $939,216.

In the third quarter of 2006, Forest Gate completed two private placements, one of 1,946,230 flow-through shares at $0.305 per share and a second of 387,096 flow-through shares at $0.31 per share. Both issues generated total net proceeds of $331,388.

This year's change in short term assets can be attributable largely due to the repayment of $877,724 from its former subsidiary company Blue Note Mining on the loan receivable to Forest Gate. Capital expenditures (CAPEX) for the year were $25,150, $20,000 of which was for computer and office equipment.

Forest Gate has no short or long term debt. Accounts payable and accrued liabilities are related to services or goods rendered as December 31, 2006 from suppliers on basic operating activities. All of them are current and due 30 days from invoice date and the Company uses all cash discounts when available.

The number of shares issued & outstanding as at December 31, 2006 is 78,826,157 compared to 72,223,574 as December 31, 2005. As at April 26, 2007, 82,426,157 shares were issued and outstanding.

Subsequent Events

On March 14, 2007, Forest Gate received final TSX Venture Exchange approval for its Agreement to acquire a 15% working interest in two licenses for an off-shore international oil and gas prospect in the Celtic Sea, as initially reported in its February 22, 2007 news release.

In order to maintain its 15% working interest, Forest Gate is required to fulfill its financial obligations through cash calls. Although management is confident that it can raise the required funds, there can be no assurances as capital market conditions and other unforeseeable events may impact the Company's ability to finance and develop its projects.

Disclosure Controls, Procedures and Internal Controls

We evaluated our disclosure controls and procedures as defined in the rules under the Canadian Securities Administrators. Based on that evaluation, the president and chief executive officer and chief financial officer concluded that the design and operation of these disclosure controls and procedures were effective.

As of December 31, 2006 we believe that our internal control systems at Forest Gate are sufficient to execute our business plan and to provide meaningful results upon which to manage our business. No changes were made in our internal control systems during the fiscal year that have materially affected our financial reporting and controls.

Risk factors

All of the resource properties and its oil and gas interest of the Company are at an exploration stage only and are without a known body of commercial ore, minerals, or reserves. Mineral exploration and development, along with oil and gas exploration, 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.
April 26, 2007
Montreal, Quebec