

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

*June 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 June 30, 2006, the Company incurred a net loss of \$334,525 (\$0.005 per share) compared to a net loss of \$340,051 (\$0.006 per share) for the same period last year. During the period the Company invested \$310,349 in its exploration programs.

### **General and administrative expenses**

The Company incurred general and administrative expenses of \$378,407 in the current period, compared to \$387,085 for the same period last year. The decrease is due to an overall decrease in general and administrative expenses, offset by an increase in stock based compensation to directors and consultants (a non-cash charge of \$77,582).

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.

### **Exploration and development programs**

The Company invested \$310,349 during the period in its exploration programs. The Portage Project in the Otish Mountains of Quebec saw the return of the final 400 glacial till samples from the laboratory. The samples were collected in autumn 2005 and have been used to guide the next phase of exploration on the property currently underway.

Just at the close of the second quarter the company commenced an exploration drill program on the South Side property located near Melfort, Saskatchewan. Six PQ-sized 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 remains unknown at this point.

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 PQ-sized drill holes intersected kimberlite ranging from 1.8 metres to 23.2 metres in vertical thickness. The kimberlite was logged and sampled for microdiamonds. Results are expected prior to 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 June 30, 2006, the Company has invested \$1,814,630 on the Portage property.

## **Financing**

During the quarter ended June 30, 2006, the Company closed a private placement of 3,407,786 flow-through shares resulting in total gross proceeds of \$1,039,375. Share issue costs of \$99,321 were paid in relation to this flow-through issue.

Pursuant to the exercise of approximately 22,000 options issued to brokers, the Company issued 22,000 common shares, and generated net proceeds of approximately \$4,239. The total number of shares in circulation on June 30, 2006 is 76,492,831.

At June 30, 2006, the Company had cash resources of approximately \$4.9 million. This cash position enables the Company to execute its planned exploration programs.

In a subsequent event, in July 2006, the Company raised gross proceeds of \$593,600 by issuing 1,946,230 flow-through shares at \$0.305 per share.

In addition, in July 2006, the Company also raised gross proceeds of \$120,000 by issuing 387,096 flow-through shares at \$0.31 per share.

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

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

President and Chief Executive Officer

Forest Gate Resources Inc.

August 29, 2006

Westmount, Quebec