

# **Forest Gate Resources Inc.**

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

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**For the quarter ended March 31, 2008**

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This Management's Discussion and Analysis ("MD&A") of financial position and results of operations, as provided by the management of Forest Gate Resources Inc. ("Forest Gate" or the "Company"), should be read in conjunction with the audited financial statements and related notes thereto for the year ended December 31, 2007 and 2006. Forest Gate's accounting policies are in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts are in Canadian dollars unless otherwise indicated.

This MD&A is dated May 14, 2008. The Company's shares trade under the symbol FGT on the TSX Venture Exchange. These documents and additional information about Forest Gate are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward-Looking Statements**

Certain information in this MD&A of the Company's financial position and results of operations constitutes forward-looking information. These statements and this information represent Forest Gate's intentions, plans, expectations and beliefs, and are subject to risks, uncertainties and other factors, of which many are beyond the control of the Company. All information other than statements of historical fact may be forward-looking information. 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. Readers are cautioned not to place undue reliance on these forward-looking statements or information. You will find more information about the risks that could cause our actual results to significantly differ from our current expectations in the "Risks and Uncertainties" section. 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.

### **Corporate Overview**

Forest Gate is a Canadian-based international oil and gas exploration and production company that seeks to create shareholder value through the exploration and exploitation of high-impact projects worldwide. The Company is also pursuing, on a selective basis, low-risk Canadian hydrocarbon production to generate cash flow while focusing on developing international assets. It holds various participating interests in oil and gas exploration and production projects in Ireland and Canada.

Historically, the Company has worked in mineral exploration and, with the identification of new opportunities, decided to change its strategic orientation towards oil and gas exploration. In February 2007, Forest Gate entered into an agreement to acquire a working interest in two licenses in an offshore international oil and gas prospect in the Celtic Sea located off the south coast of Ireland.

In November 2007, the Company entered into a joint venture agreement in a coalbed methane project. The leases have been acquired and four coalbed methane (CBM) test wells were drilled in the Nevis area, located in Central Alberta.

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In December 2007, Forest Gate reported the drilling of a single well on a potential oil and gas target at Ferrybank, also located in Central Alberta, with its partner Emerald Bay. This represented the second joint venture signed in 2007 with Emerald Bay.

In March 2008, Forest Gate reported that it had entered into a third joint venture agreement with Emerald Bay to acquire a 38% working interest in the Kelsey exploration well in Alberta.

#### Results of Operations

For the quarter ended March 31, 2008, Forest Gate incurred a net loss of \$390,590 (\$0.00325 per share) when compared to a net loss of \$572,171 (\$0.00719 per share) for the quarter ended March 31, 2007.

	2008 \$	2007 \$
Revenues	4 199	31 094
Expenses	549 363	792 092
Loss from operations	545 164	760 998
Loss on short term investments	-	50 961
Write-down of mining properties and deferred exploration costs	-	26 599
Loss before income taxes and discontinued operations	545 164	838 558
Future income taxes recovered	(161 979)	(266 387)
Net loss from continuing operations	383 185	572 171
Net loss from discontinued operations	7 405	-
<b>Net loss</b>	<b>390 590</b>	<b>572 171</b>

The net loss in 2008 includes \$7,405 (March 31, 2007 - \$0) net loss from discontinued operations for the mining exploration business. The Company has expanded its business into oil and gas exploration and is currently evaluating strategic options to sell its mining properties.

An amount for future income taxes recovered of \$161,979 (March 31, 2007 – \$266,387) has been recorded during the first quarter 2008. The Company has recorded a share issue cost to account for the future tax cost of the exploration expenses it has renounced on the flow-through shares issued. This amount has been charged to share capital.

#### Expenses

Forest Gate incurred total expenses from continuing operations of \$549,363 in the quarter ended March 31, 2008 compared to \$792,092 in fiscal year 2007. This decrease of 30.6% is a reflection of the investment required to expand into the oil and gas industry which had been required in 2007.

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	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Salaries and levies	<b>127 987</b>	143 153
Value of stock option granted	<b>54 731</b>	86 560
Professional and consulting fees	<b>147 245</b>	160 585
General and administration expenses	<b>102 028</b>	131 007
Registration and filing fees	<b>25 630</b>	18 131
Corporate marketing and business development	<b>86 105</b>	228 752
Investor relations	<b>2 018</b>	16 337
Financial charges	<b>270</b>	2 742
Depreciation of property and equipment	<b>3 349</b>	4 825
	<b>549 363</b>	792 092

Expenses consist primarily of salaries, professional and consulting fees, general and administration fees and expenses relating to the business development of the Company.

### ***Selected Quarterly Information***

For the quarter ended March 31, 2008, the Company incurred a net loss of \$390,590 (\$0.00325 per share) compared to a net loss of \$572,171 (\$0.00719 per share) for the same quarter last year.

		<b>Net loss</b>	<b>Per weighted</b>
		<b>Net (earnings)</b>	<b>average number of</b>
		<b>\$</b>	<b>shares outstanding</b>
		<b>\$</b>	<b>\$</b>
<b>2008</b>	First quarter	390 590	0.00325
<b>2007</b>	Fourth quarter	609 205	0.00528
	Third quarter	572 580	0.00621
	Second quarter	632 207	0.00767
	First quarter	572 171	0.00719
<b>2006</b>	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)

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### Oil and Gas Participating Interest

Forest Gate owns a number of participating interests in oil and gas exploration in Ireland and Canada. As of March 31, 2008, total participating interests and deferred exploration costs in oil and gas exploration were \$6,788,235 compared to \$2,511,676 as at March 31, 2007.

	Participating Interest \$	Deferred exploration costs \$	2008 Net \$	2007 Net \$
Ireland	612 000	5 474 346	6 086 346	2 511 676
Canada	-	701 889	701 889	-
	612 000	6 176 235	6 788 235	2 511 676

#### *Ireland - Celtic Sea*

In February 2007, Forest Gate reported that it had entered into an agreement to acquire a 15% working interest in an offshore international oil and gas prospect in the Celtic Sea located off the south coast of Ireland. The 15% working interest was held by a private Calgary based international energy company called Arriba Capital Corporation Inc. ("Arriba"). The project operator is Providence Resources P.L.C. ("Providence") with headquarters 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).

In March 2007, Forest Gate received final TSX Venture Exchange approval for this transaction. Under the terms of the agreement and after regulatory approval, the Company paid 3,600,000 common shares of Forest Gate (\$0.17 per share) to Arriba principals and entered into consulting agreements and granted one million options to them. As part of the agreement, the Company paid 586,104 Euros (\$902,249) to Providence for outstanding cash calls on work already performed. The Irish Minister for Communications, Marine and Natural Resources had approved the granting of a new Petroleum Exploration License to Providence and its existing partners including Forest Gate. Successful conclusions were also reported by the Ocean Bottom Seismic Survey on potential presence of additional hydrocarbons and gas chimney in the prospect area tested.

In July 2007, it was announced that Forest Gate had signed, on June 29, 2007, a Joint Operating Agreement ("JOA") with its Celtic Sea consortium partners regarding its upcoming oil and gas drilling program off the coast of Southern Ireland.

In September 2007, the Company reported that it had forfeited 7.5% of its 15% interest in the JOA.

In October 2007, Forest Gate reported that, in accordance with the JOA dated June 29, 2007, it had been issued a Notice of Default for inability to pay its September 2007 cash call within a specific period of time from Operator, Providence. Forest Gate also reported later that month that in accordance with the JOA it had remedied the Notice of Default and still owned a 7.5% interest in the JOA.

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The Company, together with its Celtic Sea partners, reported also in October 2007, that the appraisal well on its Hook Head field showed a significant oil accumulation and a high quality reservoir. The well has now been suspended for future re-entry and potential production.

In February 2008, Forest Gate confirmed that it has secured a semi-submersible rig for a drilling campaign in the Celtic Sea during the summer of 2008. This follows the announcement confirming the presence of a significant oil accumulation at the Hook Head structure with the drilling of the appraisal well. The success of Hook Head would justify economic development of the additional Celtic Sea fields.

#### ***Canada - Alberta***

In November 2007, Forest Gate reported that it had entered into a joint venture agreement with Emerald Bay Energy Inc. ("Emerald Bay"), based in Calgary, to acquire a working interest in an Alberta property, which potentially hosts natural gas in coal bed methane. Leases have been acquired by the consortium for the drilling of four coal bed methane test wells in the Nevis area, located in Central Alberta. All four wells were drilled by the end of the year 2007. The Company's commitment to the four well drilling program was fully funded.

The project operator is Emerald Bay with headquarters in Calgary, Alberta, and with land holdings and operations in Alberta and South Texas. Just Freehold Energy Corporation, Calgary, is another partner in the Consortium.

In December 2007, Forest Gate reported the drilling of a single well on a potential oil and gas target at Ferrybank with partner Emerald Bay. This represented the second joint venture signed in 2007 with Emerald Bay. The participating interest is 37.5% in the Ferrybank property before payout and an 18.75% interest after payout, subject to gross overriding royalties.

In February 2008, Forest Gate announced that it has discovered crude oil at Ferrybank, Alberta. The discovery well was tested and produced over 92 barrels of crude oil with no water during 13 hours of swabbing. There are no comparable wells in the area, therefore further completion operations are required to determine potential initial production rates.

In February 2008, Forest Gate also announced that the four Nevis methane wells had began producing natural gas at a rate comparable to the average offset well initial daily production rates of between 125 and 400 thousand cubic feet per day. The four wells are flowing natural gas at an initial rate of approximately 450 thousand cubic feet of gas per day. The Company expects this rate to potentially double over the coming months as facilities are optimized. Forest Gate's participating interest in this project is 10% before payout.

In March 2008, Forest Gate reported that it had entered into a third joint venture agreement with Emerald Bay to acquire a 38% working interest in the Kelsey exploration well in Alberta. The Company also reported that its co-owned Ferrybank is producing oil. The well produced approximately 135 barrels of oil in the first 36 hours, which appears to be 100% oil, as the original sample indicated no water.

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#### **Other Properties**

Forest Gate also owns a number of diamond properties in Canada. As of March 31, 2008, total mining properties and deferred exploration costs were \$3,083,220 (December 31, 2007 - \$3,083,220) and are recorded under "assets of business held for sale". The Company spent \$7,405 during the first quarter of 2008 which represents basic administration costs.

The Company decided in 2007 to expand its business into oil and gas exploration. It is currently evaluating selling its mining properties. Although management believes that the carried amount of these assets can be realized by way of total disposal, the Company formally adopted a plan to divest its mining operations and focus on oil and gas exploration and operations.

#### ***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.

The total investment thus far in Saskatchewan is \$4,125,982 of which \$3,083,220 are shown as "assets of business held for sale" (\$1,921,519 has been invested on the East Side Property and \$1,161,701 on the West Side Property), and \$1,042,762 on the South Side Property. While management believes that the carried amount of these assets in Saskatchewan can be realized through disposition, a complete write-down for the South Side Property investment has been recorded at the end of fiscal year 2006 (\$1,037,410) and the additional expenses of \$5,352 incurred during 2007 were also written off. This is considered to be appropriate given the strategic re-orientation to direct current resources to oil and gas exploration.

#### ***Quebec property***

The Company had 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.

On May 7, 2007, the Company announced that it had terminated its joint venture with Majescor, thereby relinquishing its participation in exploring the Portage property in Quebec. This strategy is consistent with Forest Gate's recent expansion to international oil and gas exploration.

As at December 31, 2007, the Company has invested \$2,435,650 before tax credits and government assistance of \$770,708 in the Portage property. A write-down for Portage property investment was recorded in December 2006 (\$1,434,452) and the remaining balance was written-off in 2007.

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### **Liquidity, Financing and Capital Resources**

Cash and cash equivalents as at March 31, 2008 totaled \$663,952, compared to \$892,537 at December 31, 2007 and \$1,874,763 at March 31, 2007.

#### ***Investments***

This periods' change in cash and cash equivalents includes a total payment of Emerald Bay cash calls amounting to \$308,896 (Nevis project \$52,371 and the Ferrybank project \$256,525).

#### ***Issue of Equity***

Gross proceeds from the issue of a non-brokered private placement of Equity amounted to \$326,955 during the first quarter of 2008.

The Company closed a private placement of 2,712,000 shares at \$0.13 per share. The issue generated total gross proceeds of \$352,560 and net proceeds credited to share capital of \$194,871 after payment of share issue costs. Share issue costs include \$25,605 of cash finder's fee, a stock-based compensation of \$122,040 in the form of 2,712,000 warrants and \$10,044 to agents paid in the form of 196,960 broker warrants.

#### ***Other activities***

The total interest received in first quarter 2008 was \$4,199 (first quarter 2007 - \$31,094). There were no capital expenditures (CAPEX) for this period (first quarter 2007 - \$7,024).

Forest Gate does not have any long term debt. Accounts payable and accrued liabilities are related to services or goods rendered to March 31, 2008 from suppliers for basic operating activities. All liabilities are current and due 30 days from the invoice date (except for those with a special arrangement). The Company uses all cash discounts when available.

#### ***Share Capital***

The weighted average number of shares issued and outstanding as at March 31, 2008 is 120,002,240 compared to 79,586,157 as at December 31, 2007. As of March 31, 2008 there were 121,760,560 shares issued and outstanding compared to 119,048,570 at December 31, 2007. As at May 14, 2008, 121,760,570 shares were issued and outstanding.

### **Disclosure Controls, Procedures and Internal Controls**

We evaluated our disclosure controls and procedures as defined in the rules under the Canadian Securities Administrators. The Board of Director's duties include the assessment of the integrity of the Company's internal control and information system. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

As of March 31, 2008 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.

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### Risks and uncertainties

**Exploration and development:** all the resource properties and the oil and gas participating interests of the Company are at an exploration stage only and are without a known body of commercial ore, minerals or reserves. The business of exploring for developing and producing oil and gas involves a high degree of risk. Oil and gas reserves may never be found or, if discovered, may not result in production at reasonable costs or profitability.

**Dependence:** oil and gas activities are conducted presently through partners and in respect of which the Company is not the operator. Forest Gate is dependent upon its operating partners for the financial and technical support which they contribute to the Company's oil and gas projects. If those operating partners are unable to fulfill their own contractual obligations, the Company's interests could be jeopardized, resulting in project delays, additional costs and loss of the participating interests.

**Environmental:** the Company's oil and gas participating projects are subject to environmental regulations in the jurisdictions in which they operate. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the projects in which the Company holds interests which are presently unknown to the Company and which have been caused by previous or existing partners or operators of the projects or by illegal mining activities.

**Liquidity:** 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. The business of exploring, developing and producing is also capital intensive and, to the extent that cash flows from operation activities and external sources become limited or unavailable, the ability of Forest Gate and of its operating partners to meet their respective financial obligations which are necessary to maintain their interests in the underlying projects could be impaired.

**Foreign exchange:** the Company's operations and financial results are exposed to currency fluctuations. Forest Gate holds funds in Canadian dollars but a significant amount of its investments and costs are done in US dollars, Euros and British Pounds. The Company does not engage in any hedging activities to mitigate its foreign exchange risk. Material declines in the value of the Canadian dollar vis-à-vis any of the other currencies relevant to the Company's business could have a negative impact on its financial statements.

**Governmental:** government approvals and permits are generally required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be delayed or prohibited from proceeding with planned exploration or development of projects. Although the governments of the various countries or provinces in which Forest Gate operates have been stable recently, there is no assurance that political and economic conditions will remain stable.

*Signed: "Michael Judson"*

Michael Judson  
President and Chief Executive Officer  
Forest Gate Resources Inc.  
May 14, 2008  
Montreal, Quebec