

**MURGOR RESOURCES INC.**  
**INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTH PERIOD ENDED JULY 31, 2004**

**STATEMENT CONCERNING THE INTERIM FINANCIAL STATEMENTS**

Management has compiled the unaudited interim financial statements as at July 31, 2004 and for the three-month period ended July 31, 2004 and 2003. The statements have not been audited or reviewed by the company's auditors or any other firm of chartered accountants.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS AS AT SEPTEMBER 23, 2004**

The following management's discussion and analysis ("MD&A") of the results of operations and financial condition of Murgor Resources Inc. ("Murgor" or the "Company") for the three month period ended July 31, 2004 should be read in conjunction with the Company's audited financial statements and the related notes. The financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

### **FORWARD LOOKING STATEMENTS**

Except for historical information, this contains forward-looking statements relating to, among other things, regulatory compliance, and the sufficiency of current working capital, the estimated cost and availability of funding for the acquisition of properties and the continued exploration and development thereof. Such statements reflect current views of Murgor with respect to future events and are subject to certain risks, uncertainties and assumptions. Estimates provided for fiscal 2005 and beyond are based on assumptions of future events and actual results could vary significantly from these estimates. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the company.

### **OVERVIEW**

Murgor is a junior mining exploration company actively exploring several highly prospective gold and Cu-Ni-PGE properties at various stages of exploration in Quebec, Ontario and New Brunswick. The Company counters the need to continuously adjust to short term financial market fluctuations through the implementation of a mid to long term gold exploration and development strategy. This strategy focuses on acquiring low cost prospective gold and base metal properties in favourable geologic environments and progressively moving them to advanced exploration stages and beyond. This value-added progression is achieved through the innovative use of proven and cost efficient exploration technologies. Once properties have been moved successfully to advanced stages of exploration, a strategic joint venture partner is sought, to lever the Company's interest and finance further diamond drilling programs.

The Company's shares are listed for trading on the TSX Venture Exchange under the trading symbol MUG.

### **MINING PROPERTIES**

#### **Four Months of Intense Exploration**

Canadian mineral explorers have to make the best of our short field season and Murgor has certainly not wasted any time and effort to enhance the value of its properties during this time. During the summer of 2004, Murgor was exploring in Quebec, on its Barry, Windfall and Eagle River Gold Properties and, on its La Trève PGE-Cu-Ni Properties. In Ontario, exploration was focussed on the Mishibishu and Mystery Gold Properties and, in New Brunswick, exploration was conducted on the Mount Pleasant Gold Property. As outlined below, as exploration continued the potential for important discoveries on these properties has only increased.

## **QUEBEC**

### **THE BARRY-URBAN PROJECTS**

The Urban-Barry Gold Project is located approximately 100 km east of the town of Lebel-Sur-Quévillon and 180 km southwest of the town of Chibougamau in the Province of Québec. The Urban-Barry Gold Project is made up of three (3) properties within a radius of twenty (20) km at the eastern end of the Archean Abitibi Greenstone Belt. Together, the Barry, Windfall and Rivière de L'Aigle properties total 638 claims that cover more than 24,553 hectares (245 square km) of the most prospective ground of the Urban-Barry Greenstone Belt.

### **THE BARRY GOLD PROPERTY**

The Barry Property covers the Barry Gold Prospect (estimated at 610,000t at a grade of 7.0 g/t Au), along with approximately 11 km of strike length of the prospective Murgor shear zone. The Murgor Shear Zone hosts the Barry deposit.

#### **Murgor Options the Barry Gold Deposit to Osisko**

On May 3<sup>rd</sup>, 2004, Murgor signed a letter of intent with Osisko Exploration Ltd. and Freewest Resources Canada Inc., giving Osisko the right to acquire an interest of up to 65% of 5 claims of the Barry Property that include the Barry Gold Deposit (4 claims are 100% owned by Murgor, and one is owned 50% by Murgor and 50% by Freewest). The terms of the agreement with Osisko are as follows:

- Osisko has the right to acquire a 55% interest in the Barry property by: (i) paying an aggregate sum of \$225,000, payable over a one year period, (ii) issuing 100,000 common shares on signing of the Agreement; (iii) providing a 43-101 compliant, near-surface, drill-measured resource on the Property within twelve months of signing of the Agreement and (iv) providing a bankable feasibility study within twenty-four months of signing of the Agreement.
- Osisko can earn an additional 10% interest by (i) issuing an additional 200,000 common shares, (ii) issuing a production notice and (iii) securing financing for 100% of development costs associated with bringing the Property to production within thirty-six months of signing of the Agreement.
- The original vendors of the property retain a 2% NSR royalty on commercial production and, once production on the Property has exceeded 250,000 troy ounces of gold, Osisko's interest in the Property will be reduced to 60%, and the joint interest of Murgor and Freewest will be increased to 40%.

This is an excellent transaction for Murgor as it allows us to make every effort to bring the Barry Gold Deposit into production in a very short time frame, without having to finance any of the work. All the while Murgor can focus on exploring the rest of the Barry property and its other high potential properties.

#### **Osisko's Progress**

To date, Osisko has completed two (2) phases of drilling on the Barry Gold Deposit, totalling 834 meters in 22 shallow drill holes. The drilling programs were aimed at defining the up-dip, northwestern extension of the Main Zone of the Barry deposit, as well as exploring the southwestern strike extent of mineralization between lines 800E and 975E. The third phase of drilling started in August of 2004, and will focus on defining the northwestern limit of the deposit and the extent of near-surface mineralization to line 700E.

Results are very encouraging and include intersections such as 3.57 g/t Au over 26.6 meters in areas previously not considered by Murgor. With limited drilling, Osisko has already shown that it can increase the gold resource of the Barry deposit. The Barry Property covers the Barry Gold Prospect (estimated at 610,000t at a grade of 7.0 g/t Au), along with approximately 11 km of strike length of the prospective Murgor shear zone. The Murgor Shear Zone hosts the Barry deposit.

## THE WINDFALL GOLD PROPERTY

In early June of 2004, an extensive exploration program of geological mapping, prospecting, and sampling started at Windfall with a crew of 6-8 prospectors and geologists. A program of mechanical trenching followed in late July. On August 12<sup>th</sup>, Murgor was announcing preliminary results of its exploration efforts that included **four (4) new gold occurrences** discovered in the south central portion of the Windfall Property, clustered within a 1,200 meters radius. The occurrences are as follows:

1. **The IPE Gold Occurrence** where four grab samples assayed 750 ppb Au, 900 ppb Au, 9.82 g/t Au and 14.40 g/t Au. This occurrence sits on an old, untested Induced Polarization anomaly that is approximately 400 meters long.
2. **The Road Side Gold Occurrence** (450 meters from the IPE Occurrence) where four grab samples assayed 847 ppb Au, 1.00 g/t Au, 15.33 g/t Au and 16.55 g/t Au.
3. **The Float Gold Occurrence** (within 300 meters from the Road Side Occurrence) where four grab samples assayed 310 ppb Au, 440 ppb Au, 6.87 g/t Au and 9.83 g/t Au.
4. **The Simple Gold Occurrence** where four grab samples assayed 111 ppb Au, 230 ppb Au, 6.77 g/t Au and 119.90 g/t Au. This occurrence sits approximately 200 meters and on strike with an old, untested Induced Polarization anomaly of at least 300 meters long.

Murgor's lithochemical sampling program has also outlined a broad halo of anomalous gold values, approximately 800 meters in radius, within the property limits around the Noront Gold Prospect (June, 2003 discovery by a joint venture group formed of Noront Resources Ltd, Fury Explorations and Alto Ventures that announced a drill intercept of **10.25 g/t Au over a 22.85 m** core length). This intersection is located within 200m south of Murgor's Windfall property.

Gold values within this halo range from 26 ppb to 675 ppb Au. This halo of anomalous gold suggests that the extensions of the NGD may lie within Murgor's Windfall Property.

These discoveries joined two (2) auriferous zones previously discovered by Murgor in 1997:

1. **The J&B Gold Occurrence** where four (4) channel samples of 1.0 m long assayed from 23.0 g/t to 71.0 g/t Au, and
2. **The Debris Gold Occurrence** where two (2) channel samples of 1.0 m long assayed 104.0 g/t and 46.0 g/t Au.

To date, only six (6) drill holes, totalling 1,095 m, have tested the property with five (5) drill holes returning with gold values. The best intersections from this drilling program include 3.47 g/t Au over 1.9 m and 15.1 g/t over 1.2 m.

Follow-up work is underway in the areas of the showings and in other areas of interest where three grids have been outlined for a total of 166 kilometers of line cutting, and 136 kilometers of Induced Polarization geophysical surveys. Drilling is planned for the fall and winter of 2004, with follow-up in 2005.

## THE RIVIÈRE DE L'AIGLE GOLD-COPPER-ZINC PROPERTY

In July of 2004, a 40 kilometer grid was cut to cover NE-trending structures with magnetic-low signatures, as outlined by an earlier GPS-oriented ground-magnetic survey by Murgor. In late August, a 32 kilometres IP survey was completed. Results are pending.

In June of 2004, reconnaissance geological mapping outlined a high potential for the presence of volcanogenic massive sulphide Cu-Zn mineralization. Exhalative horizons were identified in the southern portion of the property, within garnet-chlorite altered felsic pyroclastic units. Anomalous values of up to 668 ppm Cu and 494 ppm Zn were encountered within these horizons. To follow-up on these observations, a helicopter borne EM/Mag survey of 850 line kilometres commenced on August 29 to cover the 45 square kilometre area of the southern portion of the property.

A geological mapping, prospecting and sampling exploration program is scheduled to follow-up on both geophysical surveys to verify surface expressions of the anomalies.

## **THE LA TRÈVE PGE-Cu-Ni PROPERTY**

The La Trève PGE-Cu-Ni Properties consist of 394 claims that cover 7,919 hectares in the Béréy, Lantagnac, Guettard and Daine Townships, approximately 80km WNW of the Chibougamau Mining District in northwestern Quebec.

In May of 2004, a ground magnetics, prospecting and sampling program was aimed at parts of the La Trève III and V properties to verify the surface expression of combined mag/HEM anomalies detected during a 2001 helicopter borne survey by Murgor. Although the anomalies were relocated in the field, prospecting proved fruitless due to a lack of outcrop.

In July of 2004, a forty (40) kilometer grid was cut on the La Trève I and IV properties to cover the La Trève I and La Trève IV PGE-Cu-Ni occurrences. In August 2004, the grid was the object of a detailed geological mapping, prospecting and sampling program that was conducted simultaneously with an Induced Polarization geophysical survey. The objective of the program is to locate a mineralized trend between the known mineral occurrences, as indicated by the magnetic surveys, and to further investigate Mag-EM helicopter borne anomalies from an earlier survey. All results are pending.

## **THE FANCAMP GOLD PROPERTY**

The 100% Murgor owned Fancamp property is located in the western part of the Fancamp Township, approximately 30 kilometres SE of the town of Chapais and 55 kilometres south of the town of Chibougamau in northwestern Québec. The property is accessible by car through a network of all-season logging roads from the towns of Chapais and Chibougamau.

In March of 2004, Murgor acquired, through map staking, a 100% interest in 17 claims (949 hectares) contiguous to the Fancamp Property, which now covers 56 claims (2,120 ha). This acquisition added coverage over another 5 kilometres of strike length of the Fancamp Deformation zone. The Fancamp Deformation Zone is host to the Chevrier Gold deposit (1.1Mt @ 6.4 g/t Au and 230Mt @ 0.3 g/t Au), which is located approximately 5 kilometres NE of the Fancamp Property. The area has been designated as a high priority exploration target for gold exploration by the Chibougamau office of the Quebec Ministry of Natural Resources. Please visit the "Project" section for more information on the Fancamp Property in Quebec.

## **ONTARIO**

### **THE MISHIBISHU GOLD PROPERTY**

The Mishibishu property consists of 114 mining claim units that cover 4,560 acres in northwestern Ontario, 50 kilometres west of the town of Wawa and 10 kilometres north of Lake Superior.

The property hosts numerous gold occurrences that include:

- The Marten Zone, which sits at the heart of the property, where drilling and trenching uncovered significant gold mineralization over a strike length of 300m (drill intercept of up to 5.05 g/t Au over 7.45 m), and
- The Dorset Zone, which sits immediately to the north of the property and locally straddles the property boundary over a strike length of 2 kilometers. Drill results at Dorset include 3.74 g/t Au over a true width of 21.53 m, 3.02 g/t Au over 5.92 m, and 5.23 g/t Au over 3.70 m in three separate drill holes. Although the Dorset Zone generally lies just outside of the property boundaries, its east and west strike extensions lie within the property.

In July of 2004, Murgor Resources Inc. conducted a geological mapping, prospecting and lithochemical sampling program at Mishibishu aimed at verifying surface expressions of Induced Polarization geophysical anomalies in the field and conducting reconnaissance work on areas of the property not covered by previous workers.

## **THE MISHIBISHU GOLD PROPERTY (Cont'd)**

Preliminary results have outlined four (4) areas of interest coincident with Induced Polarization anomalies:

### **1. ANOMALIES 26, 27 AND 33:**

Three new gold occurrences have been outlined in this area located at the highly strained, NW-trending contact of sedimentary rocks with mafic volcanic rocks. Mineralization consists of disseminated pyrite and quartz veining from which grab samples collected near the anomalies returned assays of **11.4 g/t Au, 7.8 g/t Au and 2.6 g/t Au**. Anomaly 33 is at least 300 meters long and on strike with the sample of 11.4 g/t Au. Anomalies 26 and 27 are up to 700 meters long and are on strike with the assays of 7.8 g/t and 2.6 g/t Au respectively.

### **2. ANOMALY 83:**

The anomaly is coincident with a 40 meters wide shear zone generally trending EW and dipping steeply to the north. The shear zone is on strike with the Dorset East Occurrence and has a strike length of at least 3 kilometres. The extent of the shear zone to the east is unknown. Five (5) grab samples have all returned anomalous gold assays of up to 902 ppb Au over a strike length of approximately 600 meters. The IP anomaly remains open to the east where the survey ended, and for 200 meters to the west. A large quartz vein within a parallel structure has also returned an assay of 487 ppb Au.

### **3. ANOMALY 78:**

The EW-trending anomaly cuts through a small and altered QFP granitic intrusion that shows gold values that are consistently anomalous. The geological setting is identical to that of the Eagle River Gold Mine, south of the property, and previous workers report two grab samples that assayed 1.45 g/t Au and 2.51 g/t Au.

### **4. AREA WEST OF THE MARTEN ZONE:**

A new gold occurrence was discovered approximately 350 meters west of the Marten Gold Occurrence. The mineralization consists of a 7 meters wide quartz-pyrite-arsenopyrite vein within a 10 meter wide, EW-trending subvertical shear zone. Assays from the limited exposure returned up to 2.8 g/t Au on grab samples. The vein is open to the east for a minimum of 200 meters and, to the west, for a minimum of 25 meters. The western part of the vein and shear zone are thought to be displaced to the south by cross faults.

Murgor is currently following up on all new gold occurrences with a mechanical trenching, detailed structural mapping and channel sampling program.

## **THE MYSTERY GOLD PROPERTY**

The Mystery property consists of 32 mining claim units that cover 1,280 acres in Moss Township, 120 kilometres west of the town of Thunder Bay, northwestern Ontario. The property is located in the Shebandowan Belt and covers the Northeast extension of the La Rose Shear Zone, where Freewest Resources Canada Inc. has intermittently exposed a mineralized corridor over a 3.5 kilometer strike length.

In July of 2004, Murgor conducted a reconnaissance geological mapping, prospecting and lithochemical sampling program at Mystery, aimed at locating the gold-bearing La Rose Shear Zone on the property.

The La Rose Shear Zone and associated swarm of felsic dikes were identified across the central part of the Mystery Property. The structure is locally exposed along a NE-trending topographic depression, along which assays of 1.39 g/t Au, 0.98 g/t Au and 0.57 g/t Au were returned with a number of highly anomalous assays of >100 ppb Au.

In late July and August, a 30 kilometer grid was cut covering the prospective shear zone, and a soil geochemical survey was carried-out. Assays from this survey are pending.

## **NEW BRUNSWICK**

### **THE MOUNT PLEASANT GOLD PROPERTY**

The 100% Murgor owned Mount Pleasant Gold Property consists of 47 claims (752 hectares), which are located 70 kilometres south of the city of Fredericton, in south-western New Brunswick. The property covers the same favourable geological setting as the Clarence Stream Gold Deposit, 10 kilometres to the west.

## THE MOUNT PLEASANT GOLD PROPERTY (Cont'd)

Initial interpretation of government geophysical surveys of the property outlined an unexplored, 4.5 km<sup>2</sup> dilational jog, located in the central part of the Mount Pleasant property, where a large Sn, Zn, Bi, W soil geochemical anomaly (not analyzed for Au by Billiton in 1980) was located. A dilational jog is a fault-bounded area of low pressure, where mineralizing fluids are drawn while the faults are active.

In early 2004, a ground magnetic and electro-magnetic (V.L.F.) survey conducted on flagged lines confirmed the presence of the dilational jog in the central east part of the property and in August, a thirty-seven (37) line kilometres soil geochemical survey was completed on the property to cover the dilational jog and bounding faults. Assay results and interpretation of the survey are pending.

## RESULTS OF OPERATIONS

### Three-month period ended July 31, 2004 compared with three-month period ended July 31, 2003

For the year three month ended July 31, 2004, the Corporation reported a net loss of \$24,633 (\$30,572 – July 31, 2003). Revenue totaled \$6,251 at July 31, 2004 as compared to a loss of \$38 at July 31, 2003. The increase of \$6,289 was comprised mainly of: \$3,536 of interest income on bank balances as a result of the equity financings in fiscal 2004 and \$2,715 in operator's fees charged for project administration. Interest and bank charges totaled \$NIL compared to \$38 (July 31, 2003).

The net loss for the three-month period included a write-off due to abandonment of properties of \$9,825 (\$8,055 – July 31, 2003). Expenses excluding the write-off due to abandonment of properties totaled \$21,059 (\$22,479 – July 31, 2003). The increase in Professional and accounting fees of \$3,420 to \$7,812 (\$4,392 – July 31, 2003) was as a result an increase of year-end accruals to reflect the significant increase in activities as a result of the private placement financings. Administration expenses and other of \$4,984 decreased by \$6,928 (\$11,912 – July 31, 2003) mainly due to the debt settlement agreement with Freewest Resources Canada Inc. based on the amounts owing as at April 30, 2003 and reduction in the monthly amount for shared office and related expenses. Filing costs and shareholders' information totaled \$8,263 compared to \$4,175 (July 31, 2003). The increase of \$4,088 related mainly to higher advertising, promotion, and public relation costs. Loss due to write-down of marketable securities was \$NIL (\$2,000 – July 31, 2003) as the market value of the underlying marketable securities had not changed from April 30, 2004.

## SUMMARY OF QUARTERLY RESULTS

The following table presents unaudited selected financial information for nine of the most recently completed financial quarters:

	2005	2004				2003			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	6,251	8,117	37,417	(30)	(38)	(357)	37	65	286
Net loss	(24,633)	(192,271)	(12,313)	(40,201)	(30,572)	(82,667)	(27,820)	(70,960)	(30,572)
Net loss per share – basic & diluted	(0.0006)	(0.0057)	(0.0005)	(0.0015)	(0.0012)	(0.0031)	(0.0011)	(0.0027)	(0.0012)

The Company has no dividend policy and has no intention of developing a dividend policy in the foreseeable future. The Company has paid no dividends and has no retained earnings from which it might pay dividends.

## LIQUIDITY

### Three-month period ended July 31, 2004 compared with three-month period ended July 31, 2003

As at July 31, 2004, the Company maintained a cash and equivalent position of \$744,339 (\$16,728 as at July 31, 2003) and working capital of \$792,286 as compared to a working capital deficiency of \$237,109 as at July 31, 2003. The Corporation has no long-term debt. Management is of the opinion that the current cash position is sufficient to meet current commitments. Full development of some mineral properties would require substantially more financial resources. Traditionally, the Corporation has been able to rely on its ability to raise financing in public and private negotiated equity offerings. The Corporation may also advance the development of mineral properties through joint-venture participation.

Murgor did not complete any financings during the three-month period ended July 31, 2004. During the quarter ended July 31, 2003, the Corporation issued 200,000 common shares in settlement of a \$20,000 debt to a director

## MINING PROPERTIES AND DEFERRED COSTS

	April 30, 2004	Expenditures	Proceeds from option agreements	(Write-off)	July, 31 2004
	\$	\$	\$	\$	\$
<b>Quebec</b>					
Fancamp Township					
Acquisition	35,251				35,251
Exploration	1,536,243	41			1,536,284
Benoist Township					
Acquisition	30,183				30,183
Exploration	849,993				849,993
Barry Township					
Acquisition	513,311	664	(45,000)		468,975
Exploration	1,736,829	18,165			1,754,994
Urban Township					
Acquisition	71,351				71,351
Exploration	486,386	63,582			549,968
La Treve					
Acquisition	128,918	230			129,148
Exploration	218,707	24,381			243,088
Others					
Acquisition	10,348	621			10,969
Exploration	46,584	12,135		(5,317)	53,402
	5,664,104	119,819	(45,000)	(5,317)	5,733,606

## MINING PROPERTIES AND DEFERRED COSTS (Cont'd)

	April 30, 2004	Expenditures	Proceeds from option agreements	(Write-off)	July, 31 2004
	\$	\$	\$	\$	\$
<b>Ontario</b>					
Mishibishu Township					
Acquisition	67,835				67,835
Exploration	61,591	33,057			94,648
Others					
Acquisition	2,400				2,400
Exploration	604	26,754		(2,561)	24,797
	132,430	59,811		(2,561)	189,680
<b>New Brunswick</b>					
Mount Pleasant					
Acquisition	8,027	500			8,527
Exploration	55,890				55,890
Other					
Acquisition					
Exploration		1,947		(1,947)	
	63,917	2,447		(1,947)	64,417
<b>Canadian Properties</b>	5,860,451	182,077	(45,000)	(9,825)	5,987,703

## RELATED PARTY TRANSACTIONS

Details of related party transactions are outlined in Note 5 of the interim financial statements.

## STOCK OPTION PLAN

On September 7, 2004, the Board of Directors of the Corporation adopted the 2004 Stock Option Plan (the "2004" Plan). Among the objectives of the 2004 Plan is to provide directors, officers and employees of, and service providers to, the Corporation with a proprietary interest through the granting of options to purchase common shares of the Corporation. The 2004 Plan is also intended to increase the interest in the Corporation's welfare of those directors, officers, employees and service providers who share primary responsibility for the management, growth and protection of the business of the Corporation, to furnish an incentive to such directors, officers, employees and service providers to continue their services for the Corporation and to provide a means through which the Corporation may attract persons to enter its employment.

Under the 2004 Plan, the Board of Directors of the Corporation may by resolution grant options to directors, officers, employees of and service providers to, the Corporation, provided that the total number of shares issued under the 2004 Plan does not exceed 4,000,000. The total number of shares which may be issued under the 2004 Plan represents approximately 8.8% of the Corporation's currently issued and outstanding shares. The Corporation expects to grant options under the 2004 Plan over a period of several years. At present, there are options outstanding in respect of 4,686,593

## **STOCK OPTION PLAN (Cont'd)**

common shares under the 1996 Plan, and options may be granted in respect of an additional 9,781 common shares under the 1996 Plan. The Corporation may continue to grant options under the 1996 Plan even after shareholder and regulatory approval is obtained for the 2004 Plan.

The 2004 Plan is subject to the approval of the Autorité des marchés financiers and, under Policy 4.4 of the TSX Venture Exchange, requires approval by a majority of the votes cast by the holders of the common shares other than the votes attaching to shares beneficially owned by insiders of the Corporation to whom options may be granted under the 2004 Plan and their associates.

Subject to regulatory and shareholder approval of the 2004 Plan, the Corporation granted on September 8, 2004, 250,000 stock options to a consultant at an exercise price of \$0.135 expiring on November 8, 2005 and a total of 100,000 stock options to three consultants at an exercise price of \$0.10 expiring on September 9, 2006.

## **CRITICAL ACCOUNTING POLICIES**

The Company prepares its financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") in Canada. The Company details its significant accounting policies in Note 2 to its audited financial statements, of which the Murgor has identified the following accounting policies, which are believed to be the most critical in fully understanding and evaluating the reported financial results:

The cost of mining properties and deferred costs are capitalized until the results of the projects are known. If a project is successful, the related expenditures will be amortized over a period of years pro-rata to anticipated income.

If a project is abandoned or if a permanent drop in value for a property is recognized, the related expenditures will be written off. A sale of an interest in claims is credited directly to expenditures until such time as all related expenditures are recovered. Direct costs incurred to maintain claims are capitalized.

## **CHANGES IN ACCOUNTING POLICIES**

Effective May 1, 2003, the Company adopted prospectively the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, Stock-based Compensation and other Stock-Based Payments and began expensing prospectively its stock-based compensation. Under this method, compensation cost should be measured at the grant date based on the fair market value of the award and should be recognized over the related service period. The cost of the stock option compensation plan is recognized in Deferred Exploration expenses and Administration Expenses with a corresponding credit to Contributed Surplus using the fair value based method of Accounting of Awards. The Company details in Note 4 (b) to its audited financial statements the affect of the changes. The new recommendations of the CICA for the calculation of earnings per share have no effect on the current period or prior period's calculations as any exercise would have been anti-dilutive.

## **FINANCIAL INSTRUMENTS**

The fair value of all of the Company's financial instruments approximates the carrying value unless otherwise noted. Cash, cash held for exploration, accounts receivable and accounts payable and accrued liabilities are non-interest bearing. Cash and cash equivalents include cash on hand, bank balances and term deposit with maturity of three months or less.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

Management is responsible for the preparation of the financial statements and other financial information relating to the Corporation included in this interim report. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada and necessarily include amounts based on estimates and judgements of management. Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

(signed) André C. Tessier, P.Eng, P.Geol  
President & CEO

(signed) Mark Schneiderman, CFE, CA  
Secretary-Treasurer

**MURGOR RESOURCES INC.**

**Interim Balance Sheets**

	<b>July 31 2004 (Unaudited) \$</b>	<b>April 30 2004 (Audited) \$</b>
<b>Assets</b>		
Current assets		
Cash	35,036	31,717
Cash held for exploration work	709,303	1,022,949
Accounts receivable	61,330	94,737
Due from related corporations (note 5)	122,817	46,962
Prepaid expenses (note 5)	<u>114,833</u>	<u>21,146</u>
	1,043,319	1,217,511
Mining properties and deferred costs	<u>5,987,703</u>	<u>5,860,451</u>
	<u><u>7,031,022</u></u>	<u><u>7,077,962</u></u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	243,883	258,996
Due to directors (note 5)	<u>7,150</u>	<u>14,344</u>
	<u>251,033</u>	<u>273,340</u>
<b>Shareholders' equity</b>		
Capital stock (note 4)	13,000,526	13,000,526
Contributed surplus (note 4)	95,800	95,800
Deficit	<u>(6,316,337)</u>	<u>(6,291,704)</u>
	<u>6,779,989</u>	<u>6,804,622</u>
	<u><u>7,031,022</u></u>	<u><u>7,077,962</u></u>

*See accompanying notes to financial statements*

Approved on Behalf of the Board:

(signed) André C. Tessier      Director

(signed) Mark Schneiderman      Director

**MURGOR RESOURCES INC.**  
**INTERIM STATEMENTS OF OPERATIONS AND DEFICIT**  
**(UNAUDITED)**

	Three-month period ended July 31	
	2004	2003
	<u>\$</u>	<u>\$</u>
<b>Revenue</b>		
Interest and other income	6,251	(38)
<b>Expenses</b>		
Professional and accounting fees	7,812	4,392
Administration expenses and other	4,984	11,912
Filing costs and shareholders' information	8,263	4,175
Write-off due to abandonment of properties	9,825	8,055
Loss due to write-down of marketable securities	-	2,000
	<u>30,884</u>	<u>30,534</u>
Net loss for the period	(24,633)	(30,572)
Deficit - beginning of period	(6,291,704)	(5,851,128)
Issue costs	-	(197)
<b>Deficit - end of period</b>	<u>(6,316,337)</u>	<u>(5,881,897)</u>
Basic and fully diluted net loss per share	<u>(0.0006)</u>	<u>(0.0012)</u>
Weighted average number of outstanding shares	<u>44,986,893</u>	<u>26,520,998</u>

*See accompanying notes to financial statements*

**MURGOR RESOURCES INC.**  
**INTERIM STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Three-month period ended July 31	
	2004	2003
	\$	\$
<b>Cash flows used in operating activities</b>		
Net loss	(24,633)	(30,572)
Adjustments for:		
Write-off due to abandonment of properties	9,825	8,055
Loss due to write-down of marketable securities	-	2,000
	<u>(14,808)</u>	<u>(20,517)</u>
Changes in non-cash components of working capital		
Accounts receivable	33,407	1,224
Due from related corporations	(75,855)	-
Prepaid expenses	(93,687)	(406)
Accounts payable and accrued liabilities	(15,113)	22,931
Due to related corporations	-	13,234
Due to directors	(7,194)	(19,000)
	<u>(158,442)</u>	<u>17,983</u>
Cash flows used in operating activities	<u>(173,250)</u>	<u>(2,534)</u>
<b>Cash flows used in investing activities</b>		
Mining claims acquired	(2,015)	(728)
Exploration expenditures deferred	(180,062)	(3,501)
Proceeds from option agreements	45,000	-
	<u>(137,077)</u>	<u>(4,229)</u>
Cash flows used in investing activities	<u>(137,077)</u>	<u>(4,229)</u>
<b>Cash flows from financing activities</b>		
Common shares issued	-	20,000
Issue costs	-	(197)
	<u>-</u>	<u>19,803</u>
Cash flows from financing activities	<u>-</u>	<u>19,803</u>
(Decrease) increase in cash and cash equivalents	(310,327)	13,040
Cash and cash equivalents - beginning of period	1,054,666	3,688
<b>Cash and cash equivalents - end of period</b>	<b><u>744,339</u></b>	<b><u>16,728</u></b>
<b>Cash and cash equivalents are composed of:</b>		
Cash	35,036	16,728
Cash held for exploration work	709,303	-
	<u>744,339</u>	<u>16,728</u>

*See accompanying notes to financial statements*

**MURGOR RESOURCES INC.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**JULY 31, 2004**  
**(UNAUDITED)**

**1. Basis of presentation**

The unaudited interim financial statements are prepared in accordance with generally accepted accounting principles in Canada and use the same accounting policies and methods used in the preparation of the company's most recent audited annual financial statements. All disclosure required for audited annual financial statements have not been included in these unaudited interim financial statements. These unaudited interim financial statements should be read in conjunction with the company's most recent audited annual financial statements.

In the opinion of management, the unaudited interim financial statements reflect all adjustments, which consist of normal and recurring adjustments, necessary to present fairly the financial position at July 31, 2004 and the results of operations and cash flows for the three-month period ended July 31, 2004 and 2003.

**2. Use of estimates**

The preparation of the unaudited interim financial statements in conformity with Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the amounts reported in the unaudited interim financial statements and accompanying notes. Management believes that the estimates used in the preparation of the unaudited interim financial statements are reasonable and prudent; however, actual results could differ from these estimates.

**3. Comparative figures**

Certain items in the comparative unaudited interim financial statements have been reclassified from statements previously presented to conform to the presentation of the 2004 unaudited interim financial statements.

**4. Capital stock**

(a) The authorized and issued capital stock of the Corporation consists of the following:

Authorized: An unlimited number of common shares

<b>Amount</b>	<b>Number of</b>
<b>\$</b>	<b>Shares</b>
<b>#</b>	<b>#</b>
13,000,526	44,986,893

Issued: Balance April 30, 2004 and July 31, 2004

(b) Stock option plan

<b>Number of</b>	<b>Weighted</b>
<b>Options</b>	<b>Average</b>
<b>#</b>	<b>Exercise</b>
<b>#</b>	<b>Price</b>
<b>\$</b>	<b>\$</b>
4,686,593	0.13

Balance April 30, 2004 and July 31, 2004

**MURGOR RESOURCES INC.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**JULY 31, 2004**  
**(UNAUDITED)**

**4. Capital stock (cont'd)**

(c) Warrants

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
	<b>#</b>	<b>\$</b>
Balance April 30, 2004 and July 31, 2004	11,816,475	0.13

(d) Contributed surplus

	<b>Amount</b>
	<b>\$</b>
Balance April 30, 2004 and July 31, 2004	95,800

**5. Related party transactions**

All related party transactions are in normal course of operations and are measured at the exchange value which is the amount of consideration established and agreed to by the related parties.

(i) Prepaid expenses include an amount of \$21,745 representing advances to the President for professional services in his capacity as consulting geologist and qualified person.

(ii) Certain directors of the Corporation are also shareholders and directors of related corporations. The related corporations charged an aggregate amount of \$3,368 (2003 - \$Nil) for administrative costs and services, shared office expenses and exploration expenditures.

(iii) Due to (from) related corporations significantly represent the net amount of charges for shared office and related expenses, as well as joint venture exploration expenditures between Murgor Resources Inc. and Freewest Resources Canada Inc..

Three directors and shareholders of the Corporation are also directors, officers and shareholders of Freewest Resources Canada Inc..

(iv) Amounts due to (from) related parties are non-interest bearing with no specific terms of repayment.

(v) \$20,000 (2003 - \$Nil) represents the remuneration to the President in his capacity as consulting geologist and qualified person.

**6. Subsequent events**

None