

**MURGOR RESOURCES INC.**  
**INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTH PERIOD ENDED JULY 31, 2006**

**STATEMENT CONCERNING THE INTERIM FINANCIAL STATEMENTS**

Management has compiled the unaudited interim financial statements as at July 31, 2006 and for the three-month period ended July 31, 2006 and 2005. The statements have not been audited or reviewed by the corporation's auditors or any other firm of chartered accountants.



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**As at September 27, 2006**

The following management's discussion and analysis ("MD&A") of the results of operations and financial condition of Murgor Resources Inc. ("Murgor" or the "Corporation") for the three month period ended July 31, 2006, 2005 and 2004 should be read in conjunction with the Corporation'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 2006 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 corporation.

## **OVERVIEW**

Murgor is a junior mining exploration corporation actively exploring several highly prospective gold and Cu-Ni-PGE properties at various stages of exploration in Quebec, Ontario and New Brunswick. The Corporation 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 Corporation's interest and finance further diamond drilling programs.

The Corporation's shares are listed for trading on the TSX Venture Exchange under the trading symbol MUG. Additional information on Murgor can be found on SEDAR ([www.sedar.com](http://www.sedar.com)) and on Murgor's web site ([www.murgor.com](http://www.murgor.com)).

## **MINING PROPERTIES**

The past few months have been very exiting at Murgor. The Company has continued its exploration work at Windfall, continued to add to its gold resource at the Barry deposit, and resurrected the Fancamp Gold project where a geophysical survey outlined a 2.7 kilometre long high chargeability and resistivity anomaly on strike with two gold occurrences with reported results of 8.22 g/t Au over 6.10 meters, 5.14 g/t Au over 3.36 meters and 4.60 g/t Au over 3.05 meters.

The most important development at Murgor in the recent months, however, occurred on July 19 when Murgor announced that it had signed a Letter of Intent with HudBay Minerals Inc. and Hudson Bay Exploration and Development (HBED) to acquire six properties in the Flin Flon greenstone belt of Manitoba and Saskatchewan. Four of these properties contain large historical resources of zinc, copper, gold and silver, and two other properties comprise a total of 1,800 square kilometres of highly prospective ground at the grassroots exploration stage. On September 12, 2006, Murgor had formalized the four agreements pertaining to the resource based properties.

Pending the formal agreements on this outstanding property package and anticipating significant working expenditures in Manitoba in the near future, Murgor has put several of its exploration properties on hold. This is the case for the Eagle River, Benoist and La Trève properties in Quebec, the Clay Lake, Mystery and Greenwater properties in Ontario and for the Elmtree Property in New Brunswick. On other properties, joint venture

partnerships were established: On March 22, 2006, Geodex Minerals Ltd. Was optioning the Mount Pleasant property in New Brunswick, and on May, 31, 2006, Terex Resources Inc. was optioning the Mishibishu property in Ontario.

Additional joint venture partnerships will be sought by Murgor on its other projects to allow the Corporation to focus on its newly acquired assets in Manitoba and Saskatchewan.

#### **Details of the agreement between Murgor, HBED and Hudbay Minerals Inc.**

The Flin Flon belt is one of the most prolific areas in the world for base metal Cu-Zn mineralization of Volcanogenic Massive Sulphide type. The belt has already produced 26 mines in the history of Hudbay and more than 155MT of polymetallic massive sulphide ore.

The property package includes a 100% interest in four properties covering an area of 54 square kilometres and including a combined polymetallic mineral resource of 6.8 MT in four deposits. The in situ metal value of the resource currently exceeds US \$1.1 billion. One of the deposits also includes a 300 meter ramp that reaches the halfway mark to the mineralization.

The property package also includes a 50% interest in two grassroots projects covering an area of more than 1,800 square kilometres, located 10 kilometres NW of the town of Flin Flon and 5 kilometres east of the town of Snow Lake. The acquisition of these two grassroots projects includes the data from 9,500 kilometres of HBED's SPECTREM airborne survey, an electromagnetic airborne geophysical method that is still one of the most sophisticated systems in existence today.

The cost of the acquisition is \$1.16 million payments in increasing yearly instalments, with increasing working commitments of \$13.05 million over a period of 4 years.

When it is completed, this new acquisition will constitute a major change in the strategic direction of Murgor with the Flin Flon properties becoming Murgor's priority and focus for exploration. The move is aimed at evolving Murgor into a polymetallic producer of zinc, copper, gold and silver.

## **QUEBEC**

### **THE BARRY PROPERTY:**

The Barry property is located approximately 100 km east of the town of Lebel-Sur-Quevillon and 180 km southwest of the town of Chibougamau in the Province of Quebec. The property consists of 255 claims covering 4,011 ha. The bulk of the property is held jointly by Murgor Resources and Freewest Resources Canada Inc., except for 14 claims (224 Ha) at the heart of the property, which are wholly-owned by Murgor. The Barry Au Deposit is located on ground that is 100% owned by Murgor.

### **BARRY DEPOSIT EXPLORATION:**

In 2006, exploration at the Barry deposit consisted of re-interpreting the geometry of the deposit, evaluating its gold resource through a National Instrument 43-101 compliant resource estimate, and increasing the gold resource through drilling. Other work included:

1. a detailed surveying of a 5 square kilometer area centered on the deposit for future resource estimates and for environmental permitting,
2. metallurgical testing of the Barry gold ore, and
3. testing of the host rocks of the deposit for acid generation.

The main objective of this work was to define a near surface gold resource that could be mined as soon as possible through open pit method.

A total of **79 drill holes** were completed on the deposit between December 2005 and May of 2006 for a total of **5,176 meters**. More than **5,500 samples** were collected for assaying from this drill core and from older drill holes left un-sampled by past joint venture partners.

Results from this exploration work culminated with a new geological interpretation that shows the Main Gold Zone of the deposit as a sub-horizontal and gently folded orebody flanked to the SE by a steeply dipping gold rich shear zone that extends from Gold Zones 43 to Gold Zone 48 (passing through Gold Zone 45). This newly interpreted geometry of the Main Zone explains why many past drill holes aimed at depth did not intersect significant mineralization.

On April 10<sup>th</sup>, 2006, Murgor published the results of its second NI 43-101 compliant resource estimate. The resources were calculated using a cut-off grade of 2.0 g/t Au and a specific gravity of 2.80 g/cm<sup>3</sup>, in a mineralized zone lying from surface to a vertical depth of 50 meters, over a strike length of approximately 500 meters. Gold Zones 48 and 45 have not yet been taken into account. The most recent resource estimate is summarized below:

<b>RESOURCE CATEGORY</b>	<b>TONNAGE</b>	<b>GRADE (g/t)</b>	<b>CONTAINED GOLD</b>
Indicated Resource	269,000 mt	4.10 g/t Au	<b>35,500 oz.</b>
Inferred Resource	450,000 mt	4.68 g/t Au	<b>67,600 oz.</b>

Fifty (50) drill holes have been completed on the deposit since this latest NI 43-101 resource estimate. The new drill results show the continuity between Gold Zones 43 and 45, and outlined additional extensions to the Main Zone. On June 21, Murgor issued a press release outlining the results of the first 41 drill holes of this campaign that showed the continuity between mineralized Zones 43 and 45. The results of the remaining 9 drill holes are still being evaluated.

Metallurgical tests done on the Barry deposit mineralization returned spectacular results, with cyanidation tests indicating gold extraction levels as high as 97.5% for samples grading 5.18 grams per tonne of gold. Overall, three processes of gold extraction were tested: cyanidation, flotation and Knelson gravity separation, with the best results coming from cyanidation (average recovery of 96.1%) and flotation (average recovery of 94.5%). The tests were conducted at the Queen's University Department of Mining Engineering mineral processing laboratories.

Finally, a study of the host rocks of the Barry Deposit was carried-out by Bodycote Material Testing, a laboratory that is certified by the Quebec Government, confirmed that the Barry mineralization and its host rocks are NOT acid generating.

#### **FUTURE EXPLORATION AT THE BARRY DEPOSIT:**

Current and future exploration efforts will focus on upgrading the current inferred resource to an indicated or measured category and on outlining additional near surface resources. The objective is to increase the gold resources at the Barry deposit to a level that will justify a feasibility study of the deposit. If the inferred resources can be upgraded then Murgor can economically justify including a small mill in the infrastructure costs. Otherwise, the ore would be transported at a nearby mill.

#### **BARRY PROPERTY-SCALE EXPLORATION:**

Exploration at the property-scale consisted of 61 line kilometers of line-cutting, 59 line kilometers of ground induced polarization geophysics and the completion of 8 drill holes for a total of 644 meters. More than 500 core samples were collected for assaying. The main objective of this work was to explore the extensions of the Barry Gold deposit taking into account the new interpretation of the geometry of the Barry deposit.

Eight (8) exploration drill holes aimed at a large (800m x 300m) geophysical anomaly have outlined three (3) new mineralized zones with excellent potential. This is Murgor's initial testing of this geophysical anomaly since refining its geological model of the mineralization at the Barry deposit. Only four drill holes from former joint venture partners had previously tested the area. The geophysical anomaly shows an identical signature as that of the Barry deposit (high magnetic, high chargeability and high resistivity). Results of the three holes are as follows (true thicknesses are approximately 57% to 70% of reported intercepts):

<b>DDH No</b>	<b>Coordinates</b>		<b>Az</b>	<b>Incl.</b>	<b>L (m)</b>	<b>Property</b>	<b>BEST RESULTS</b>
MB-242	650E	25N	150	-85	101	BU	<b>11.26 g/t Au over 1.7m from 66.7 to 68.4m</b>
MB-246	1200E	100N	150	-80	80	Barry	<b>4.99 g/t Au over 4m from 71.5 to 75.5m</b>
MB-247	1200E	200N	150	-80	86	Barry	<b>7.19 g/t Au over 1.1m from 4.8 to 5.9m</b> 1.78 g/t Au over 2.9m from 15.6 to 18.5m

#### **FUTURE PROPERTY-SCALE EXPLORATION AT BARRY:**

During the summer of 2006, exploration continued with a mapping, prospecting and sampling program. Results are pending and will be evaluated as they become available.

Murgor's 2006 drilling has shown that several mineralized zones of the Barry deposit remain open. These mineralized zones will be further defined in future drilling. Furthermore, several additional targets have been identified on the property by combining geophysical signatures and our most recent drilling results. These targets will be tested in 2007.

## **THE WINDFALL PROPERTY:**

The Windfall property is located approximately 100 km east of the town of Lebel-Sur-Quevillon and 180 km southwest of the town of Chibougamau in the Province of Quebec. The property which consists of 213 claims that cover 8,995 ha, is held jointly by Murgor and Freewest Resources Canada Inc.

## **WINDFALL EXPLORATION 2006:**

The exploration program at Windfall consisted of extensive mechanical trenching in the summer of 2005 followed by 200 line kilometres of line-cutting, a 191 line kilometre program of Induced Polarization ground geophysics, a 51 kilometre program of fixed loop Time Domain Electro-Magnetic (TDEM) ground geophysics survey and a 43 drill hole 5,623 meter drilling program that included more than 1,800 geochemical assays.

The most impressive results were obtained by drilling on Gold Zones F-17 and F-51.

### **At Zone F-17:**

The gold mineralization at Zone F-17 occurs in a NE-trending brittle-ductile shear zone dipping 70 degrees to the NW, with ore shoots of higher grades and widths occurring within the shear zone and raking approximately 10 degrees to the NE. To date three of these ore shoots have been defined at Zone F-17 spaced by approximately 30 meters of lower grade material:

1. The upper ore shoot has a minimum strike length of 100 meters and extends from surface to a vertical depth of 35 meters. Two drill holes Win-06-89 and Win-06-96 tested the NE extension of this ore shoot and intersected a cross fault where the mineralization was not present. The ore shoot remains open to the NE beyond this cross structure.
2. The middle ore shoot has a minimum strike length of 350 meters and extends from a vertical depth of approximately 25 meters to 100 meters. It is open at depth and on strike to the NE.
3. The lower ore shoot is only defined by two drill holes between 100 meters and 150 meters vertical depth.

The 2005-2006 drilling program has extended Zone F-17 for a strike length of at least 100 meters where it remains open towards the NE and at depth. The following results extended the zone to the east:

<b>WIN-05-79:</b>	<b>15.97 g/t Au over 7.60 meters</b>
<b>WIN-06-90:</b>	<b>9.76 g/t Au over 5.00 meters</b>
<b>WIN-06-95:</b>	<b>8.40 g/t Au over 3.00 meters</b>

### **Zone F-51:**

At Zone F-51, drill hole WIN-05-87 confirmed the north-eastern and depth extension of an ore shoot with the intersection of **44.47 g/t Au over a 2.0 meter** between 147 and 149 meters depth. Drill holes WIN-05-86 and 88 were drilled off the ore shoot and yielded no significant assays. The gold mineralization at Zone F-51 occurs in the same NE-trending, NW dipping structure as the F-17 Zone approximately 700 meters to the NE. Mineralization at Zone F-51 has a strike extent of approximately 200 meters is known to a depth of approximately 150 meters, and **is open to the NE and at depth**. The ore shoot of higher grades and widths occurring within the shear zone and plunges approximately 45 degrees to the NE. To date only one ore shoot is known at Zone F-51 but three of these ore shoots have been defined at Zone F-17 where ore shoots are plunging 10 degrees to the NE.

So far, the ore shoot of Zone F-51 is defined by the following drill holes:

<b>WIN-04-09:</b>	<b>3.29 g/t Au over 6.00 meters</b>
<b>WIN-05-13:</b>	<b>3.89 g/t Au over 7.50 meters</b>
<b>WIN-05-16:</b>	<b>8.03 g/t Au over 2.00 meters</b>
<b>WIN-05-37:</b>	<b>4.49 g/t Au over 2.00 meters</b>
<b>WIN-05-44:</b>	<b>8.61 g/t Au over 2.00 meters</b>
<b>WIN-05-87:</b>	<b>44.47 g/t Au over 2.00 meters</b>

## **FUTURE EXPLORATION AT WINDFALL:**

During the summer of 2006, work on the property consisted of a small program of mechanical trenching and a major effort of compilation and data integration.

Despite Murgor's very aggressive exploration work since January of 2004, the Windfall Property remains in its early stages of exploration. The known mineralized zones effectively remain open and will continue to be expanded by drilling. Current geophysical Induced Polarization coverage still amounts to less than 20% of the nearly 90 square kilometres area of the property and has only investigated the first ~75 meters depth. Furthermore, numerous geophysical targets in geologically favourable areas remain untested. These geophysical targets show high magnetic, high chargeability and often high conductivity signatures.

Additional drilling programs are warranted on the property to test the extensions of the known mineralized zones and to test the many promising geophysical targets. However, to allow Murgor to focus on the Flin Flon properties in Manitoba, Murgor will be seeking a partner to advance the exploration efforts at Windfall.

### **THE FANCAMP GOLD PROPERTY:**

The 100% Murgor owned Fancamp property covers 48 claims (1,989 ha) 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 north-western Québec.

Through staking in 2004, the Fancamp Property now covers, covers approximately a six (6) kilometres 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.

In January of 2005, Murgor resumed exploration at the Fancamp Property after a hiatus of nearly 10 years. In the mid-80's, Murgor conducted extensive exploration on the property that concentrated on two mineralized zones and included modest underground developments. This work yielded results such as 6.10 m. @ 8.22 g/t Au, 3.36 m. @ 5.14 g/t Au and 3.05 m. @ 4.60 g/t Au.

In 2006, Murgor carried-out a 60 kilometers of line cutting that was followed by a 46 kilometer induced polarization ground geophysics survey. Results of the geophysical survey show a 2.7 kilometer long high chargeability, high resistivity anomaly trending NE and flanking a high magnetic anomaly. All mineralized zones are situated within this anomaly.

### **CURRENT AND FUTURE EXPLORATION AT FANCAMP:**

Murgor is currently carrying-out a mechanical trenching and detailed mapping program on the property but to allow Murgor to focus on the Flin Flon properties in the future, Murgor will be seeking a partner to advance the exploration efforts at Fancamp.

### **THE EAGLE RIVER GOLD-COPPER-ZINC PROPERTY:**

The Eagle River property is located approximately 110 km east of the town of Lebel-Sur-Quevillon and 170 km southwest of the town of Chibougamau in the Province of Quebec. The property which consists of 183 claims that cover 10,311 ha, is held jointly by Murgor and Freewest Resources Canada Inc.

The Eagle River Property was initially staked for its gold potential in 2003, but preliminary geological mapping and sampling also revealed an excellent setting for base metal Cu-Zn mineralization of volcanogenic origin. The property covers 20 km of strike length of the northern extension of the NE-trending Barry Lake-Masere deformation corridor and 5 km of strike length of the EW-trending Urban-Barry deformation zone. The southwest part of the property covers the highly prospective zone of intersection between the two shear zones - an area that covers 25 km<sup>2</sup>. The Eagle River Property also covers rocks that are believed to be the eastern extension of the Windfall Felsic Complex to which gold is associated at the Windfall Property.

The summer 2005 exploration program at Eagle River consisted of property-scale geological mapping and prospecting carried-out simultaneously with a B-horizon soil survey. The soil surveys were designed to cover ground and helicopter-borne electromagnetic conductors. Zones of interest were later tested by mechanical trenching during the fall of 2005.

### **EAGLE RIVER EXPLORATION 2006:**

At the Eagle River Property, field work was carried-out in June 2005 with the completion of geological mapping, preliminary prospecting and soil geochemical surveys over prospective conductors. A total of 1,200 soil samples were collected while the surface expression of conductors were verified using "Beep Mats".

Only a few conductors were explained by surface prospecting. Samples of exhalative units near those conductors returned assays of up to 0.05% Cu and 0.2% Zn. A number of strong B-horizon soil anomalies were located over EM conductors with values of up to 743 ppm for Cu, 887 ppm for Zn, 100 ppm for Pb and 25 ppb for Au. A mechanical trenching and sampling program was carried-out in the fall 2005 to test those geochemical anomalies and although sulphide zones were discovered, no significant values were encountered.

#### **FUTURE EXPLORATION AT EAGLE RIVER:**

To allow Murgor to focus on the Flin Flon properties in Manitoba, Murgor will be seeking a partner to advance the exploration efforts on the Eagle River property.

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

The La Trève PGE-Cu-Ni Properties consist of 283 claims that cover 7,799 hectares in the Berey, Lantagnac, Guettard and Daine Townships, approximately 80 kilometres WNW of the Chibougamau Mining District in north-western Quebec. The La Trève I (106 claims) and La Trève II (27 claims) properties are owned 100% by Murgor. The remaining 150 claims, comprising the La Trève III, IV, V and extension properties, are jointly held by Murgor and Freewest (50% each).

All of the La Trève properties except La Trève II are subject to an agreement with Dianor Resources Inc. whereby Dianor holds the rights to explore, mine, extract and sell diamonds from the La Trève I, III, IV and V properties. All other commodities remain the property of Murgor and/or Freewest.

The best mineral occurrences at La Trève remain the La Trève I, IA and IV Cu-Ni-PGE occurrences (LT I: **12.9 g/t PGE, 0.45% Cu, 0.69% Co and 0.75% Ni**; LT IA: **1.27 g/t PGE, 0.19% Cu and 0.10% Ni** and LT IV: **1.17 g/t Pt+Pd+Au and 0.63% Cu-Ni-Co over 6.95m**).

Murgor carried-out a brief exploration program at the La Trève properties during the summer of 2005. The objective of the program was to verify, through geological mapping and prospecting, the surface expression of magnetic anomalies, conductors and Cu-Ni-Co-Pd MMI soil anomalies on the properties that were defined by Dianor during their exploration of the property for diamonds.

Field work could not locate any outcrop in the areas of interest so soil geochemistry was carried-out where possible. No results of interest were encountered.

#### **FUTURE EXPLORATION AT LA TRÈVE:**

To allow Murgor to focus on the Flin Flon properties in Manitoba, Murgor will be seeking a partner to advance the exploration efforts on the La Trève properties.

#### **THE BENOIST GOLD PROPERTY:**

The Benoist property consists of 92 mining claims covering 1,458 hectares located approximately 170 kilometres northeast of the Val D'Or mining district and 165 kilometres southwest of the Chibougamau mining district; 1 kilometre SE of the town of Miquelon in north-western Québec. The property is owned 50-50 by Murgor and Freewest Resources Canada Inc.

The Benoist property is located in the eastern part of the Archean, Abitibi greenstone belt. The property is underlain dominantly by intermediate to mafic volcanic flows and volcanoclastic rocks that are intruded by numerous small granodioritic quartz-phyric plutons. All rock types are crosscut by a number of NE-trending brittle-ductile shear zones which include the mineralized Pusticamica, South Gold and Lakeshore shear zones. The mineralized shear zones trend NE with sub-vertical dips.

Gold mineralization consists of massive pyrite veinlets with minor chalcopyrite and trace amounts of sphalerite, occurring within the Pusticamica shear zone and its splay, the South Gold shear zone within a quartz-phyric granodioritic intrusion. The mineralized body is sub-vertical with a strike length of 70 meters and a NS width of 40-50 meters. Alteration consists of silicification, sericitization, chloritization and pyritization. In 1993, Minnova calculated Inferred Reserves on the Pusticamica Zone, of **531,000 tons grading 0.161 oz/ton Au, 0.353 oz/ton Ag and 0.27% Cu** within a geological resource of 5.1 million tons grading 0.055 oz/ton Au.

The Benoist project remains a great asset to Murgor despite the fact that Murgor did not conduct any exploration work at Benoist in 2006. Murgor is seeking a partner to conduct exploration on this project.

## **ONTARIO**

### **THE CLAY LAKE and CLAY SOUTH Cu-Zn PROPERTY:**

The Clay Lake property consists of 5 claims (66 units) covering an area of 16,896 hectares in the Shebandowan greenstone belt west of Thunder Bay. The Clay Lake Property was acquired by staking in 2005, following a significant Cu-Zn discovery in the belt located approximately 5 kilometers to the SE.

In December 2005, Murgor and 50-50 joint venture partner Tribute Minerals Inc. acquired a 100% interest in 7 claims covering 1,296 hectares, contiguous to the Clay Lake property.

In May 2005, a 110 line kilometre helicopter-borne Magnetic-Electromagnetic VTEM survey was flown over the Clay Lake Property in an effort to locate possible conductors indicative of the same type of mineralization as Freewest's new Cu-Zn discovery. Results of this survey were very encouraging as a total of 9 untested conductors were defined on the property with 4 of these short conductors located at the contact between rhyolites and mafic volcanic rocks.

In the summer of 2005, Murgor launched an extensive exploration program of geological mapping, prospecting and litho-geochemical sampling designed to verify the surface expression of the VTEM conductors as well as their geological and geochemical setting. In January of 2006, a six (6) hole drilling program was carried-out at Clay Lake, totalling 931.5 meters with a total of 179 core samples sent for assay.

The summer exploration program was highlighted by the discovery of a new gold occurrence from which two grab samples returned assays of **19.2 g/t Au and 22.1 g/t Au**.

The new gold occurrence is located adjacent to a moderate EM conductor hosted by a sedimentary unit. Gold mineralization is hosted by a strongly potassic-altered, moderately sheared, quartz-feldspar porphyry dike of unknown thickness and consists of disseminated pyrite with minor quartz stockwork veining.

Elsewhere on the property, although it was impossible to verify the helicopter-borne conductors in the field due to the depth of the conductors or their location in bogs, fieldwork confirmed that the conductors are occurring at the stratigraphic top or within the rhyolite package. Furthermore, in the footwall of the westernmost conductor, whole rock geochemistry shows that the quartz-phyric rhyolite has a high silica content, is enriched in Fe, Ca and Mg, and is strongly depleted in Na (all suggestive of hydrothermal processes associated with a volcanogenic base metal mineralization).

Drilling encountered an important sulphide-bearing horizon up to 20 meters wide, over a strike length of at least 2 kilometers and sitting at the stratigraphic top of a rhyolitic unit. The horizon shows banded and stringer pyrite and pyrrhotite in felsic pyroclastic rocks that are intensely altered in chlorite-magnetite-sericite and locally garnet. Best results of the program are from drill hole MCL-06-05 where assays returned 0.33% Cu over 50 centimeters and 0.19% Cu over 1.0 meter.

### **FUTURE EXPLORATION AT CLAY LAKE:**

A deep penetrating ground electromagnetic survey and additional drilling are warranted to test the exhalative horizon at depth. To allow Murgor to focus on the Flin Flon properties in Manitoba, however, Murgor will be seeking a partner to advance the exploration efforts on the Clay Lake properties.

### **THE MISHIBISHU GOLD PROPERTY:**

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

The Property is located in the Archean Mishibishu Greenstone Belt, and is underlain by mafic volcanic rocks and clastic sedimentary rocks bounded to the east and west by large intrusive bodies of tonalitic composition.

The Mishibishu Property covers a strike length of 10 kilometres of the Mishi Creek Deformation Zone and a strike length of 3 kilometres of the Rook Lake Deformation Zone. Both deformation zones are EW- to NW-trending, dip steeply towards the north, and locally exceed 1 kilometre in width. Both shear zones have localized extensive shear-vein systems and high grade gold mineralization in a geological setting that is remarkably similar to the known gold deposits in the area, which are all owned by River Gold Inc:

- The producing Eagle River Gold Mine (2.86 Mt grading 8.84 g/t Au), located 6 kilometres to the south,
- The past producing Mishi open pit (1.25 Mt grading 4.8 g/t Au), located 12 kilometres to the north, and
- The past producing Magnacon Mine (1.54 Mt grading 6.9 g/t Au), also the site of the operating Eagle River Mill, located 12 kilometres to the north.

The property hosts numerous gold occurrences that have yielded potentially economic grades of mineralization, yet the property remains largely under-explored. Some 30 gold showings, assaying in excess of 1.0 g/t Au, have been located by previous workers, and 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, where drill results include 3.74 g/t Au over a 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.

#### **CURRENT AND FUTURE EXPLORATION AT MISHIBISHU:**

In May of 2006, management elected to option the Mishibishu property to Terex Resources Inc. Terex holds an extensive land position in the area and was a logical exploration partner for Mishibishu. Terex has commenced a drilling program of the Mishibishu on August 15, 2006.

#### **THE MYSTERY GOLD PROPERTY:**

The Mystery property consists of 32 mining claim units that cover 512 hectares in Moss Township, 120 kilometres west of the town of Thunder Bay, north-western Ontario. The Mystery property is located in the Shebandowan Belt and cover the Northeast extension of the La Rose Shear Zone, where Freewest Resources Canada Inc. has intermittently exposed a mineralized corridor over a 3.5 kilometre strike length in 2004.

In the summer of 2004, Murgor carried-out a modest exploration program that successfully outlined the La Rose Shear Zone crossing the central part of the property in a NE-trending topographic low. Along this topographic low, strongly deformed sedimentary rocks and boudinaged felsic dikes were sampled and returned anomalous gold values of up to 1.3 g/t Au.

This initial program was followed-up in the fall of 2004 by a 30 line kilometre soil geochemical survey and an induced polarization geophysical survey that outlined several high chargeability anomalies coincident with gold in soil anomalies. Later, in May of 2005, a helicopter-borne Magnetic-Electromagnetic VTEM survey outlined a number of weak conductors on the NE extension of the La Rose Gold-bearing structure.

In the summer of 2005, a brief exploration program of geological mapping, prospecting and sampling was carried-out at the Mystery property. The exploration program was designed to verify the surface expression of high chargeability induced polarization anomalies, helicopter-borne VTEM anomalies and B-horizon soil anomalies. No significant results were encountered.

#### **FUTURE EXPLORATION AT MYSTERY:**

To allow Murgor to focus on the Flin Flon properties in Manitoba, Murgor will be seeking a partner to advance the exploration efforts on the Mystery property.

#### **THE GREENWATER LAKE PROPERTY:**

The Greenwater Lake property consists of 22 mining claim units that cover 3,024 hectares located approximately 120 kilometres west of the town of Thunder Bay, north-western Ontario. The property is located in the Shebandowan Belt approximately 10 kilometres west of the past producing Shebandowan Mine (8.6MT @ 2.0% Ni, 1.0% Cu, 2.68 g/t Pd & Pt), and 5 kilometres east of the past producing North Coldstream Mine (2.7MT @ 2.0% Cu).

Murgor has acquired the right earn a 100% interest in the property on November 28, 2005. No work has been carried-out on the property yet and Murgor will be seeking a partner to advance the exploration efforts on this property.

## **NEW BRUNSWICK**

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

The 100% Murgor owned Mount Pleasant Gold Property consists of 47 claims (752 hectares), 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.

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.

On March 22, 2006, Murgor optioned the Mount Pleasant Property to Geodex Minerals Ltd. Geodex holds an extensive land position in the area and was a logical exploration partner for Mount Pleasant. At the time of this report, Geodex was carrying-out a summer exploration program at Mount Pleasant. No results have been published to date.

### **THE ELMTREE GOLD PROPERTY:**

The Elmtree Property consists of 76 mining claims covering 1,216 hectares, located approximately 25 km by road North West of the town of Bathurst, New Brunswick. On October 12, 2005, Murgor acquired the right to earn a 100% interest in the property.

The dominant and most important geological feature of the Elmtree Property is the Elmtree fault which transects the central part of the property and juxtaposes the units of the Ordovician Belledune River Melange to the north and the calcareous metasedimentary rocks of the Silurian Chaleur Group to the south. The Elmtree fault trends N070 degrees and dips steeply to the north-northwest and the property covers approximately nine (9) kilometres of its strike extent.

Approximately 3 kilometres west of the property, the Elmtree fault is intruded by a small gabbroic sill which is host to the Elmtree Gold Deposit and occurrences. At the Elmtree deposit, trenching has outlined mineralized zones assaying up to **8 g/t Au over 9.00 meters** and drilling has intersected zones of **up to 6.0 g/t Au over ~13 meters**.

Mineralization at the Elmtree deposit consists of gold bearing zones of disseminated sulphides (up to 25% combined sulphide) within zones of silica flooding. Sulfides consist of diminishing amounts of arsenopyrite, pyrrhotite, and pyrite with minor chalcopyrite, stibnite and sphalerite.

The deposit was discovered in 1984 through a grassroots prospecting program following up As-Sb soil and stream sediment anomalies.

### **ELMTREE EXPLORATION RESULTS 2006:**

In the fall of 2005 Murgor carried out a B-horizon soil geochemistry survey on the central part of the Elmtree Property. A total of 1,028 samples were collected to cover an area of 1.8 km by 2.2 km in the NS direction.

Three important soil anomalies were outlined above the Elmtree fault. The anomalies have coincident high values of up to 217 ppb Au, 26.8 ppm Ag, 1235 ppm As, 504 ppm Pb, 770 ppm Zn and 124 ppm Cu. These values are comparable to those reported historically above the Elmtree Gold deposit.

### **FUTURE EXPLORATION AT ELMTREE:**

A follow-up exploration of line-cutting, magnetic and induced polarization geophysical surveys and potentially drilling has been recommended following the initial soil geochemistry survey at Elmtree. Murgor will, however, be seeking a joint venture partner to continue the exploration on this project.

## RESULTS OF OPERATIONS

### Three-month period ended July 31, 2006 compared with three-month period ended July 31, 2005

For the three month ended July 31, 2006, the Corporation reported a net loss of \$124,892 (\$73,775 – July 31, 2005). Revenue totaled \$19,481 at July 31, 2006 as compared to \$30,955 at July 31, 2005. The net decrease of \$11,114 consisted of an increase of \$4,022 of interest income on bank balances as a result of the equity financings in fiscal 2006 and on the exercise of warrants which was offset by a reduction of \$15,496 in operator's fees charged for project administration due to lower joint venture exploration expenditures incurred during the period. Interest on the Part XII.6 tax as a consequence of the look-back rule were \$280 for July 31, 2006 (\$Nil – July 31, 2005).

The net loss for the three-month period ended July 31, 2006 included a write-off due to abandonment of properties of \$38,409 (\$55,454 – July 31, 2005). Included in the July 31, 2005 write-off due to abandonment of properties was \$39,318 related to the Urban/Greenshield project. Expenses excluding the write-off due to abandonment of properties totaled \$105,964 (\$49,276 – July 31, 2005). The increase in Professional and accounting fees of \$22,745 to \$37,985 (\$15,240 – July 31, 2005) was as a result of increased fees incurred during the period as well as higher year-end accruals to reflect the significant increase in activities of the Corporation. Administration expenses and other totaled \$15,388 at July 31, 2006 compared to \$7,185 at July 31, 2005. The increase of \$8,203 related mainly to office salaries expense resulting from a re-negotiation of shared office and related expenses with Freewest Resources Canada Inc. Filing costs and shareholders' information totaled \$19,028 compared to \$21,851 (July 31, 2005). The decrease of \$2,823 related mainly to lower advertising, promotion, and public relation costs incurred during the period. The cost of Marketable securities was \$31,000 as at July 31, 2006 (\$Nil – July 31, 2005) while their market value was \$27,000 (\$Nil – July 31, 2005) respectively. The corresponding loss on adjustment of value of marketable securities was \$4,000 at July 31, 2006 (\$Nil – July 31, 2005).

The Corporation prospectively adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") related to Stock based compensation and other stock payments in fiscal 2004. The fair value of the options granted during the fiscal year ended April 30, 2006 amounted to \$160,898 (after giving effect to the deduction of \$24,000 for the non-vested portion of the options which expired upon the resignation of the optionee in 2006) which was estimated by using the Black-Scholes option pricing model and is being recorded as an expense over the eighteen months vesting period. As a result, \$27,711 was included in deferred exploration expenditures and \$27,347 was reflected in the operations under Stock option compensation. The amounts to be recorded for 2007 and 2008 are \$114,334 and \$39,712 respectively. The fair value of the options granted in the three-month period ended July 31, 2006 amounted to \$26,589 which was estimated by using the Black-Scholes option pricing model and is being recorded as an expense over the eighteen months vesting period. For the three-month period ended July 31, 2006, \$Nil was included in deferred exploration expenditures (\$14,500 – July 31, 2004) and \$29,283 was reflected in Stock option compensation (\$5,000 – July 31, 2005).

### Three-month period ended July 31, 2005 compared with three-month period ended July 31, 2004

For the three month ended July 31, 2005, the Corporation reported a net loss of \$73,775 (\$24,633 – July 31, 2004). Revenue totaled \$30,955 at July 31, 2005 as compared to \$6,251 at July 31, 2004. The increase of \$24,704 was comprised of: \$4,394 of interest income on bank balances as a result of the equity financings in fiscal 2005 and \$20,310 in operator's fees charged for project administration. Interest and bank charges were \$NIL for July 31, 2005 and 2004 respectively.

The net loss for the three-month period ended July 31, 2005 included a write-off due to abandonment of properties of \$55,454 (\$9,825 – July 31, 2004). Included in the July 31, 2005 write-off due to abandonment of properties was \$39,318 related to the Urban/Greenshield project. Expenses excluding the write-off due to abandonment of properties totaled \$49,276 (\$21,059 – July 31, 2004). The increase in Professional and accounting fees of \$7,428 to \$15,240 (\$7,812 – July 31, 2004) was as a result of increased fees incurred during the period as well as higher year-end accruals to reflect the significant increase in activities of the Corporation. Administration expenses and other totaled \$7,185 at July 31, 2005 compared to \$4,984 at July 31, 2004. The increase of \$2,201 related mainly to higher director's and officer's liability insurance and an increase in the amount charged for shared office expenses. Filing costs and shareholders' information totaled \$21,851 compared to \$8,263 (July 31, 2004). The increase of \$13,588 related mainly to higher advertising, promotion, and public relation costs.

The Corporation prospectively adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) related to Stock based compensation and other stock payments in fiscal 2004. The fair value of the options granted during the fiscal year ended April 30, 2005 amounted to \$79,706 was estimated by using the Black-Scholes option pricing model and is being recorded as an expense over the eighteen months vesting period. As a result, \$2,500 was included in deferred exploration expenditures and \$5,000 was reflected in Stock option compensation for the year ended April 30, 2005 (\$Nil – July 31, 2004). For the three-month period ended July 31, 2005, \$14,500 was included in deferred exploration expenditures (\$Nil – July 31, 2004) and \$5,000 was reflected in Stock option compensation (\$Nil – July 31, 2004).

## SUMMARY OF QUARTERLY RESULTS

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

	2007	2006				2005		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	19,481	28,277	20,351	49,205	30,955	28,057	20,156	5,697
Net (loss) income	(124,892)	(423,326)	380,872	(127,434)	(73,775)	205,865	(38,301)	(82,830)
Basic net (loss) income per share	(0.0016)	(0.0056)	0.0056	(0.0020)	(0.0012)	0.0035	(0.0008)	(0.0018)
Fully diluted net (loss) income per share	(0.0016)	(0.0056)	0.0052	(0.0020)	(0.0012)	0.0031	(0.0008)	(0.0018)

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

## LIQUIDITY

### Three-month period ended July 31, 2006 compared with three-month period ended July 31, 2005

As at July 31, 2006, the Corporation maintained a cash and equivalent position of \$1,386,413 (\$1,161,415 as at July 31, 2005) and working capital of \$1,579,734 as compared to a working capital of \$1,511,892 as at July 31, 2005. 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 periods ended July 31, 2006 and July 31, 2005. A total of 3,920,266 shares were issued on the exercise of warrants with total proceeds to the Corporation of \$783,830 for the three-month period ended July 31, 2006. No warrants or stock options were exercised during the three-month period ended July 31, 2005.

### Three-month period ended July 31, 2005 compared with three-month period ended July 31, 2004

As at July 31, 2005, the Corporation maintained a cash and equivalent position of \$1,161,415 (\$744,339 as at July 31, 2004) and working capital of \$1,511,892 as compared to a working capital of \$792,286 as at July 31, 2004. 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, 2005 and July 31, 2004.

## MINING PROPERTIES AND DEFERRED COSTS

	April 30, 2006	Expenditures	Proceeds from option agreements	(Write-off)	July 31, 2006
	\$	\$	\$	\$	\$
<b>Quebec</b>					
Fancamp					
Acquisition	37,263	-	-	-	37,263
Exploration	1,652,456	29,164	-	-	1,681,620
Benoist					
Acquisition	31,218	-	-	-	31,218
Exploration	849,993	-	-	-	849,993
Barry					
Acquisition	409,896	2,184	-	-	412,080
Exploration	2,229,521	636,087	-	-	2,865,608
Windfall					
Acquisition	75,349	636	-	-	75,985
Exploration	1,860,872	20,449	-	(3)	1,881,318
La Trève					
Acquisition	141,769	-	-	-	141,769
Exploration	324,578	-	-	-	324,578
Eagle River					
Acquisition	10,018	-	-	-	10,018
Exploration	135,632	1,030	-	-	136,662
Others					
Acquisition	-	10,000	-	-	10,000
Exploration	-	10,208	-	(10,208)	-
	7,758,565	709,758	-	(10,211)	8,458,112
<b>Ontario</b>					
Mishibishu					
Acquisition	84,335	-	-	-	84,335
Exploration	248,650	-	-	-	248,650
Mystery					
Acquisition	2,400	-	-	-	2,400
Exploration	130,999	2,386	-	-	133,385
Clay Lake					
Acquisition	9,265	-	-	-	9,265
Exploration	232,075	1,342	-	-	233,417
Greenwater Lake					
Acquisition	21,230	-	-	-	21,230
Exploration	8	7	-	-	15
Others					
Acquisition	-	-	-	-	-
Exploration		4,042	-	(4,042)	-
	728,962	7,777	-	(4,042)	732,697

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

	April 30, 2006	Expenditures	Proceeds from option agreements	(Write-off)	July 31, 2006
	\$	\$	\$	\$	\$
<b>New Brunswick</b>					
Mount Pleasant					
Acquisition	9,655	-	(36,000)	-	(26,345)
Exploration	81,778	9	-	-	81,787
Elmtree					
Acquisition	8,849	-	-	-	8,849
Exploration	21,861	-	-	-	21,861
Other					
Acquisition	-	13	-	-	13
Exploration	-	3,049	-	(3,049)	-
	122,143	3,071	-	(3,049)	86,165
<b>Manitoba</b>					
Acquisition	-	-	-	-	-
Exploration	-	8,304	-	(8,304)	-
	-	8,304	-	(8,304)	-
<b>Canadian Properties</b>	<b>8,609,670</b>	<b>728,910</b>	<b>(36,000)</b>	<b>(25,606)</b>	<b>9,276,974</b>
<b>South America</b>					
Acquisition	-	-	-	-	-
Exploration	-	12,803	-	(12,803)	-
	-	12,803	-	(12,803)	-
<b>Stock Option Compensation</b>	<b>30,210</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,210</b>
	<b>8,639,880</b>	<b>741,713</b>	<b>(36,000)</b>	<b>(38,409)</b>	<b>9,307,184</b>

For the three-month period ended July 31, 2006, the Corporation incurred exploration expenditures totaling \$728,880 of which \$696,938 was incurred in Quebec; \$7,777 in Ontario; \$3,058 in New Brunswick; \$8,304 in Manitoba and \$12,803 in South America. The exploration expenditures incurred in Canada of \$716,077 were funded through the amount raised from Murgor's private placement equity financings.

## ADMINISTRATION EXPENSES AND OTHER

The table below details the amounts included in Administration expenses and other of \$15,388 for the three-month period ended July 31, 2006 (\$7,185 – July 31, 2005):

	July 31, 2006	July 31, 2005
	\$	\$
Office Expenses		
Dues and Subscriptions	420	343
Postage and Courier	105	-
Insurance	2,542	2,342
Office Supplies and Other	959	-
Rent and Office Services	3,000	4,500
Salaries	8,362	-
	<b>15,388</b>	<b>7,185</b>

## CAPITAL STOCK

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

#### Authorized:

An unlimited number of no par value common shares.

	Number of Shares	Amount
	#	\$
<b>Issued:</b>		
Balance at beginning, April 30, 2006 (audited)	76,392,964	16,653,016
Issuance of shares for exercise of options and warrants	4,670,266	1,644,519
Issued and fully paid	81,063,230	18,297,535
Tax benefits renounced on flow-through shares	-	(739,439)
	<u>81,063,230</u>	<u>17,558,096</u>
Balance at end, September 27, 2006 (unaudited)	<u>81,063,230</u>	<u>17,558,096</u>

### b) Stock option plan

	Number of Options	Weighted Average Exercise Price
	#	\$
Balance at beginning April 30, 2006 (audited)	6,511,593	0.13
Granted	160,000	0.27
Exercised	(125,000)	0.10
	<u>6,546,593</u>	0.13
Balance at end, September 27, 2006 (unaudited)	<u>6,546,593</u>	0.13

## Accounting for the stock-based compensation plan

The fair value of the options granted during the fiscal year ended April 30, 2005 amounted to \$55,706 after giving effect to the deduction of \$24,000 for the non-vested portion of the options which expired upon the resignation of the optionee in 2006. The fair value was estimated by using the Black-Scholes options pricing model with the following weighted-average assumptions and is being recorded as an expense over the eighteen month vesting period. For the fiscal year ended April 30, 2006 - \$41,138 (2005 - \$7,500), of which \$24,138 (2005 - \$5,000) as an administration expense and \$17,000 (2005 - \$2,500) as an exploration expense. For the fiscal year ended April 30, 2007 - \$7,068 as an administration expense. For the three-month period ended July 31, 2006 a total of \$Nil was recorded.

Number of Options granted	375,000	500,000
Weighted risk-free interest rate	2.45%	3.24%
Expected volatility	108.5%	116%
Dividend yield	Nil	Nil
Weighted average expected life	2 years	5 years

The fair value of the 1,600,000 options granted during the fiscal year ended April 30, 2006 amounted to \$160,898 and was estimated by using the Black-Scholes options pricing model with the following weighted average assumptions and is being recorded as an expense over the eighteen month vesting period. For the fiscal year ended April 30, 2006 - \$13,920, of which \$3,209 as an administration expense and \$10,711 as an exploration expense. For the fiscal year ended April 30, 2007 - \$107,266 and for the fiscal year ended April 30, 2008 - \$39,712. For the three-month period ended July 31, 2006 a total of \$29,283 was recorded as an administration expense.

Number of Options Granted	150,000	300,000	100,000	750,000	300,000
Weighted risk-free interest rate	4.25%	4.00%	4.00%	4.00%	4.00%
Expected volatility	91%	113%	110%	110%	110%
Dividend yield	Nil	Nil	Nil	Nil	Nil
Weighted average expected life	3 years	5 years	5 years	5 years	5 years

The fair value of the 160,000 options granted during the three-month period ended July 31, 2006 amounted to \$26,589 and was estimated by using the Black-Scholes options pricing model with the following weighted-average assumptions and is being recorded as an expense over the eighteen month vesting period. No expenses were recorded for the above options in the three-month period ended July 31, 2006 as no portion of the options were vested.

Number of Options granted	60,000	100,000
Weighted risk-free interest rate	4.25%	3.75%
Expected volatility	145%	223%
Dividend yield	Nil	Nil
Weighted average expected life	3 years	5 years

### c) Warrants

	Number of Warrants #	Weighted Average Exercise Price \$
Balance at beginning April 30, 2006 (audited)	21,767,566	0.19
Exercised	(3,920,266)	0.21
Expired	(3,726,019)	0.29
Balance at end, September 27, 2006 (unaudited)	<u>14,121,281</u>	<u>0.20</u>

## **RELATED PARTY TRANSACTIONS**

All related party transactions are in the 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. Certain directors of the Corporation are also shareholders and directors of related corporations.

The related corporations charged an aggregate amount of \$11,912 (\$22,055 – July 31, 2005) for administrative costs, services, shared office expenses and exploration expenditures. A total of \$24,000 (\$24,000 – July 31, 2005) in remuneration was paid to the President for professional services rendered in his capacity as a geologist and qualified person (QP). Prepaid expenses included an amount of \$394 (\$5,115 – July 31, 2005) representing advances to the President for professional services in his capacity as a geologist and qualified person (QP) and \$4,000 (\$4,000 – July 31, 2005) to an Officer for upcoming office and exploration expenditures.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Corporation does not have any off-balance sheet arrangements.

## **CRITICAL ACCOUNTING POLICIES**

The Corporation prepares its financial statements in conformity with Generally Accepted Accounting Principles (“GAAP”) in Canada. The Corporation detailed its significant accounting policies in Note 2 to its audited financial statements for the year ended April 30, 2006 and 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. The sale of an interest in claims or a grant received is credited directly to expenditures until such time as all related expenditures are recovered. Direct costs incurred to maintain claims are capitalized.

The Corporation has two stock option plans as described in note 4 to the audited financial statements for the year ended April 30, 2005. Effective May 1, 2003, the Corporation adopted prospectively the recommendations of the Canadian Institute of Chartered Accountants Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments* and began expensing prospectively its stock based compensation. Under these new standards, all stock-based payments made to non-employees must be systematically accounted for in the Corporation’s financial statements. Under this method, compensation cost should be measured at the grant date based on the fair 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.

Earnings per share computations are based upon the weighted average number of common shares outstanding during the years. The Corporation uses the treasury stock method, to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon the exercise of options and warrants. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. In the year of a loss, no diluted loss per share is provided as the inclusion of outstanding share purchase options and warrants would be anti-dilutive.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of income and expenses during the reporting period. Significant areas requiring the use of management estimates relate to impairment of mineral properties. Actual results could differ from those estimates.

The Corporation uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

The Corporation has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Corporation, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers.

## **CHANGES IN ACCOUNTING POLICIES**

The Corporation made no changes in or added any new accounting policies in the three-month period ended July 31, 2006. In fiscal 2005, the Corporation prospectively adopted the recommendation of the Emerging Issues Committee (“EIC”) of the Canadian Institute of Chartered Accountants (“CICA”). EIC 146 requires the recognition of the foregone tax benefit at the time of the renouncement provided that there is reasonable assurance that the expenditures will be incurred.

## **FINANCIAL INSTRUMENTS**

The fair value of all of the Corporation’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. The Corporation has established and maintains disclosure controls and procedures over financial reporting. The certifying officers have evaluated the effectiveness of the issuer’s disclosure controls and procedures as at July 31, 2006 and have concluded that such procedures are adequate and effective to ensure accurate and complete disclosures in this interim report.

(Signed: André C. Tessier)  
President & CEO

(Signed: Mark Schneiderman)  
Secretary-Treasurer & CFO

**MURGOR RESOURCES INC.**

**Interim Balance Sheets**

	<b>July 31 2006 (Unaudited) \$</b>	<b>April 30 2006 (Audited) \$</b>
<b>Assets</b>		
Current assets		
Cash	1,386,413	797,807
Cash held for exploration work	-	475,281
Marketable securities (note 3)	27,000	-
Accounts receivable	293,972	250,043
Due from related corporations (note 5)	194,584	229,211
Prepaid expenses (note 5)	18,068	18,123
	<u>1,920,037</u>	<u>1,770,465</u>
Mining properties and deferred costs	<u>9,307,184</u>	<u>8,639,880</u>
	<u><u>11,227,221</u></u>	<u><u>10,410,345</u></u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	340,303	203,072
Due to director (note 5)	-	8,576
	<u>340,303</u>	<u>211,648</u>
<b>Shareholders' equity</b>		
Capital stock (note 4)	17,545,596	16,761,766
Contributed surplus (note 4)	201,629	172,346
Deficit	<u>(6,860,307)</u>	<u>(6,735,415)</u>
	<u>10,886,918</u>	<u>10,198,697</u>
	<u><u>11,227,221</u></u>	<u><u>10,410,345</u></u>

*See accompanying notes to financial statements*

Approved on Behalf of the Board:

(signed) André C. Tessier      Director

(signed) Mackenzie I. Watson      Director

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

	<b>Three-month period ended</b>	
	<b>July 31</b>	
	<b>2006</b>	<b>2005</b>
	<u>\$</u>	<u>\$</u>
<b>Revenue</b>		
Interest	11,952	7,930
Operator's fees	7,529	23,025
	<u>19,481</u>	<u>30,955</u>
<b>Expenses</b>		
Professional and accounting fees	37,985	15,240
Administration expenses and other	15,388	7,185
Filing costs and shareholders' information	19,028	21,851
Interest expenses	280	-
Write-off due to abandonment of properties	38,409	55,454
Loss due to write-down of marketable securities	4,000	-
Stock option compensation	29,283	5,000
	<u>144,373</u>	<u>104,730</u>
Net loss for the period	(124,892)	(73,775)
Deficit - beginning of period	<u>(6,735,415)</u>	<u>(6,359,165)</u>
<b>Deficit - end of period</b>	<u><u>(6,860,307)</u></u>	<u><u>(6,432,940)</u></u>
Basic and fully diluted net loss per share	<u><u>(0.0016)</u></u>	<u><u>(0.0012)</u></u>
Weighted average number of outstanding shares	<u><u>78,955,564</u></u>	<u><u>61,853,516</u></u>

*See accompanying notes to financial statements*

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

	<b>Three-month period ended</b>	
	<b>July 31</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from (used in) operating activities</b>		
Net loss	(124,892)	(73,775)
Adjustments for:		
Write-off due to abandonment of properties	38,409	55,454
Loss due to write-down of marketable securities	4,000	-
Stock option compensation	29,283	5,000
	<u>(53,200)</u>	<u>(13,321)</u>
Changes in non-cash components of working capital		
Accounts receivable	(43,929)	(24,860)
Due from related corporations	34,627	(73,857)
Prepaid expenses	55	40,868
Accounts payable and accrued liabilities	137,231	63,559
Due to directors	(8,576)	-
	<u>119,408</u>	<u>5,710</u>
Cash flows from (used in) operating activities	<u>66,208</u>	<u>(7,611)</u>
 <b>Cash flows used in investing activities</b>		
Mining claims acquired	(12,833)	(17,555)
Exploration expenditures deferred	(728,880)	(444,783)
Proceeds from option agreements	5,000	-
	<u>(736,713)</u>	<u>(462,338)</u>
Cash flows (used in) investing activities	<u>(736,713)</u>	<u>(462,338)</u>
 <b>Cash flows from financing activities</b>		
Common shares issued for exercise of warrants	783,830	-
	<u>783,830</u>	<u>-</u>
Cash flows from financing activities	<u>783,830</u>	<u>-</u>
Increase in cash and cash equivalents	113,325	(469,949)
Cash and cash equivalents - beginning of period	<u>1,273,088</u>	<u>1,631,364</u>
<b>Cash and cash equivalents - end of period</b>	<b><u>1,386,413</u></b>	<b><u>1,161,415</u></b>
 <b>Cash and cash equivalents are composed of:</b>		
Cash	1,386,413	1,067,615
Cash held for exploration work	-	93,800
	<u>1,386,413</u>	<u>1,161,415</u>
 <b>ADDITIONAL INFORMATION</b>		
Shares received in consideration of sale of interest in mining properties	<b>31,000</b>	-

*See accompanying notes to financial statements*

**MURGOR RESOURCES INC.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**JULY 31, 2006**  
**(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 Corporation'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, 2006 and the results of operations and cash flows for the three-month period ended July 31, 2006 and 2005.

**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. Marketable securities**

Marketable securities are carried at the lower of cost and market. As at July 31, 2006, market value was \$27,000 (April 30, 2006 - \$Nil).

**4. Capital stock**

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

Authorized: An unlimited number of common shares

	<u>Amount</u>	<u>Number of</u>
	\$	Shares
		#
Balance April 30, 2006 (audited)	16,653,016	76,392,964
Issuance of shares allotted for exercise of stock options and warrants	108,750	625,000
Issuance of shares for exercise of warrants	<u>783,830</u>	<u>3,920,266</u>
Balance July 31, 2006 (unaudited)	<u><u>17,545,596</u></u>	<u><u>80,938,230</u></u>

**MURGOR RESOURCES INC.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
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**4. Capital stock (cont'd)**

(b) Stock option plan

	<u>Number of Options</u> #	<u>Weighted Average Exercise Price</u> \$
Balance April 30, 2006 (audited)	6,511,593	0.13
Granted	<u>160,000</u>	0.27
Balance July 31, 2006 (unaudited)	<u><b>6,671,593</b></u>	<u><b>0.13</b></u>

**Accounting for the stock-based compensation plan**

The fair value of the options granted during the fiscal year ended April 30, 2005 amounted to \$55,706 after giving effect to the deduction of \$24,000 for the non-vested portion of the options which expired upon the resignation of the optionee in 2006. The fair value was estimated by using the Black-Scholes options pricing model with the following weighted-average assumptions and is being recorded as an expense over the eighteen month vesting period. For the fiscal year ended April 30, 2006 - \$41,138 (2005 - \$7,500), of which \$24,138 (2005 - \$5,000) as an administration expense and \$17,000 (2005 - \$2,500) as an exploration expense. For the fiscal year ended April 30, 2007 - \$7,068 as an administration expense. For the three-month period ended July 31, 2006 a total of \$Nil was recorded.

Number of options granted	375,000	500,000
Weighted risk-free interest rate	2.45%	3.24%
Expected volatility	108.5%	116.0%
Dividend yield	Nil	Nil
Weighted average expected life	2 years	5 years

The fair value of the 1,600,000 options granted during the fiscal year ended April 30, 2006 amounted to \$160,898 and was estimated by using the Black-Scholes options pricing model with the following weighted average assumptions and is being recorded as an expense over the eighteen month vesting period. For the fiscal year ended April 30, 2006 - \$13,920, of which \$3,209 as an administration expense and \$10,711 as an exploration expense. For the fiscal year ended April 30, 2007 - \$107,266 and for the fiscal year ended April 30, 2008 - \$39,712. For the three-month period ended July 31, 2006 a total of \$29,283 was recorded as an administration expense.

Number of options granted	150,000	300,000	100,000	750,000	300,000
Weighted risk-free interest rate	4.25%	4.00%	4.00%	4.00%	4.00%
Expected volatility	91%	113%	110%	110%	110%
Dividend yield	Nil	Nil	Nil	Nil	Nil
Weighted average expected life	3 years	5 years	5 years	5 years	5 years

**MURGOR RESOURCES INC.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**JULY 31, 2006**  
**(UNAUDITED)**

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

**Accounting for the stock-based compensation plan (cont'd)**

The fair value of the 160,000 options granted during the three-month period ended July 31, 2006 amounted to \$26,589 and was estimated by using the Black-Scholes options pricing model with the following weighted-average assumptions and is being recorded as an expense over the eighteen month vesting period. No expenses were recorded for the above options in three-month period ended July 31, 2006 as no portion of the options granted were vested.

Number of options granted	60,000	100,000
Weighted risk-free interest rate	4.25%	3.75%
Expected volatility	145%	223%
Dividend yield	Nil	Nil
Weighted average expected life	3 years	5 years

(c) Warrants

	<u>Number of Warrants</u> #	<u>Weighted Average Exercise Price</u> \$
Balance April 30, 2006 (audited)	21,767,566	0.19
Exercised	(3,920,266)	0.20
Expired	<u>(2,392,685)</u>	0.21
Balance July 31, 2006 (unaudited)	<u><b>15,454,615</b></u>	<u><b>0.20</b></u>

(d) Contributed surplus

	<u>Amount</u> \$
Balance April 30, 2006 (audited)	172,346
Stock-based compensation	<u>29,283</u>
Balance July 31, 2006 (unaudited)	<u><b>201,629</b></u>

**MURGOR RESOURCES INC.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
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**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 \$394 (\$5,115 - July 31, 2005) representing advances to the President for professional services in his capacity as consulting geologist and qualified person and \$4,000 (\$4,000 - July 31, 2005) representing an advance to an Officer for office and exploration expenditures.

(ii) Certain directors of the Corporation are also shareholders and directors of related corporations. The related corporation charged an aggregate amount of \$11,912 (\$22,055 - July 31, 2005) for administrative costs and services, shared office expenses and exploration expenditures.

(iii) Due 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. and advances to Murgor Exploraciones S.A.C., a subsidiary in Peru.

Two directors and one officer are shareholders of the Corporation and these two directors are also directors, officers and shareholders of Freewest Resources Canada Inc..

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

(v) \$24,000 (\$24,000 - July 31, 2005) represents the remuneration to the President in his capacity as consulting geologist and qualified person.

**6. Comparative figures**

Certain comparative figures have been reclassified where necessary to conform to the current years presentations.