

**FREEWEST RESOURCES CANADA INC.**  
**INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE-MONTH PERIOD ENDED JANUARY 31, 2006**

**STATEMENT CONCERNING THE INTERIM FINANCIAL STATEMENTS**

Management has compiled the unaudited interim financial statements as at January 31, 2006 and for the three-month ended January 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 MARCH 27, 2006**

The following management's discussion and analysis ("MD&A") of the results of operations and financial condition of Freewest Resources Canada Inc. ("Freewest" or the "Corporation") for the three-month period ended January 31, 2006 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 Freewest 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**

Freewest is a Canadian exploration corporation that focuses on grass roots exploration mainly in Eastern Canada. Freewest has a reputation within the Industry of acquiring properties located in good geological settings, with the potential to host large ore bodies. Management is a strong believer in working with prospectors who continue to offer the Corporation a good selection of early stage prospects. The Corporation's management team has a proven track record of being involved in a number of gold and base metal discoveries over the past 37 years. Freewest's exploration strategy involves combining prospecting and geological expertise with the use of modern geophysical and geochemical techniques to search for buried ore deposits. The Corporation is also a strong believer in conducting exploration through joint ventures with larger mining firms to share the risks and benefits of the firm's expertise in mine development and production.

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

## **MINING PROPERTIES**

### **QUEBEC**

#### **THE BARRY-URBAN PROJECT**

The Barry-Urban Gold Project is located 100 kilometres east of Lebel-Sur-Quévillon and 180 kilometres from Chibougamau in the Province of Quebec. The project consists of 4 properties located within a 20 kilometre radius at the eastern end of the prolific Abitibi Greenstone Belt. The properties are known as Barry, Windfall, Eagle River and Greenshield. With the exception of a small portion of the Barry property encompassing the Barry gold deposit (100% Murgor), the project is a joint-venture (FWR-MUG JV) involving Freewest Resources Canada Inc. (50% interest) and Murgor Resources Inc. (50%). Currently, the Windfall property is the priority property of the FWR-MUG JV within the Barry-Urban Project and has received the bulk of exploration work.

## WINDFALL PROPERTY

The 2004-2005 exploration programs consisted of property-scale geological mapping, prospecting, trenching, ground geophysical surveys and diamond drilling. Diamond drilling has to date tested 3 economically significant gold deposits known as the F17, F51 and F11 zones with very encouraging results.

The F17 zone occurs in a northeast-trending shear zone dipping steeply to the northwest. The gold occurs in at least 2 shallowly-plunging ore shoots that plunge at approximately 10 degrees to the northeast. The drilling was successful in defining the geometry of the zone and also on conclusively determining the controls on gold mineralization. This understanding of controls on gold mineralization is extremely important in planning future drilling programs in continuing efforts to develop a mineral resource.

The F51 zone is located 700 metres to the northeast of the F17 zone and is thought to occur in the same northeast-trending shear zone as the latter. The ore shoot plunges at 45 degrees to the northeast and has been traced over a strike length of 100 metres and to a vertical depth of about 150 metres. The zone remains open to the northeast and down-plunge to depth.

At the F11 Zone, felsic dikes appear to cut the auriferous shear zone and accordingly, disrupt the ore shoots. Preliminary structural interpretations suggest that the ore shoots at the F11 Zone are controlled by the same plunge as the F17 zone that is, a 10 degree plunge to the northeast.

Management of the FWR-MUG JV is very enthusiastic about the prospects on the Windfall property. The next phase of diamond drilling, slated for early 2006, will test the projected down-plunge extensions of all of the F17, F51 and F11 gold zones in order to build a mineral resource. Efforts will also be made to test numerous Induced Polarization anomalies on the property to find new occurrences.

Drilling is now underway and is expected to continue throughout this field season.

## BENOIT

This 3,680 hectare property is located near Lebel-sur-Quevillon in south-central Quebec. It contains a gold deposit with an informal resource of 531,000 tons grading 0.161 oz/ton gold. This resource is contained within a larger inventory of 5.1 million tons grading 0.06 oz/ton gold. Murgor Resources Inc. has earned a 50% interest in the property. The property has excellent potential to host additional gold deposits.

## ONTARIO

### SUNGOLD

During March of 2005, Freewest announced the discovery of high-grade volcanic-hosted copper-zinc sulphides near Wye Lake on its Sungold property. Massive sulphides collected from the discovery outcrops yielded values of 12.40% copper and 10.01% zinc in one sample and 0.25% copper and 32.80% zinc in another. The new discovery was made by Freewest prospectors utilizing Beep Mat electromagnetic instruments, following up on the results of a property-wide airborne geophysical survey. The 100%-owned Sungold property comprises 94 square kilometers and is located 120 kilometres west of Thunder Bay in the Shebandowan Greenstone Belt of northwestern Ontario.

The discovery, aside from its exceptional quality (very high grade), is significant in that it is hosted in similar-age volcanic rocks that contain the Geco, Mattabi, Winston Lake and South Bay base-metal deposits located in northwestern Ontario. Geco was by far the largest deposit followed by Mattabi, however, all four were of excellent grade and quality and were profitable mines for a number of years.

Since its discovery, the Wye Lake occurrence has been the focus of integrated and systematic exploration programs involving geological mapping, prospecting, horizontal-loop electromagnetic surveys (HLEM), induced polarization surveys (IP), magnetometer surveys, trenching and diamond drilling. Trenching exposed stringer-type copper-zinc mineralization with lesser semi-massive and massive sulphide styles of mineralization (sphalerite-pyrrhotite-chalcopyrite-pyrite-magnetite) over an

intermittent strike length of 800 metres. Ground geophysical anomalies including HLEM and IP are coincident with the mineralized zone.

The host rocks for mineralization are intermediate to felsic volcanic flows and fragmentals characterized by moderate to strong chloritic, sericitic and silicic alteration. The mineralized horizon is overlain by an exhalite comprising a cherty tuff sedimentary unit and is underlain by a strongly chloritized footwall consisting of lapilli tuff and tuff breccia. The volcanic rocks are underlain by a large ultramafic to mafic subvolcanic intrusion. The geological setting, host rocks, alteration and mineralogy of the Wye Lake prospect are all typical of a classic high-temperature Archean volcanogenic-hosted massive sulphide (VHMS) mineralizing system.

By year end in 2005, an initial phase of diamond drilling comprising 25 holes tested the Wye Lake prospect over a strike length of 1 kilometre and to a maximum vertical depth of 150 metres. Drilling intersected the Wye Lake horizon over widths of 2 to 10 metres confirming the existence of excellent quality massive sulphides locally, but failed to intersect a commercially viable deposit within the area drilled.

Drilling is highlighted by intercepts of 6.21% zinc over 4.43 metres and 1.22% copper over 5.74 metres in drill holes WL05-02 and WL05-07, respectively. The better intersections were encountered along an apparent shallow southwest-plunging axis, suggesting that sulphides have been affected by post-mineral deformation. Shallow plunging, stretching lineations mapped in surface trenches are consistent with the plunge of mineralization evident in the drilling. Notably, mineralization is open along strike and to depth. The better drill intercepts are tabulated below.

Despite the modest results encountered in the initial drilling program and the detailed and intensive ground work conducted on the Wye Lake prospect, the Sungold property remains in its early stages of exploration. Only small portions of the large property have been systematically explored in the same manner as at Wye Lake and the presence of numerous conductors defined by the airborne geophysical survey is cause for optimism. Commonly, massive sulphide deposits in productive camps occur in clusters, both along strike from known deposits and in several stratigraphic horizons within the volcanic pile. The fact that the Wye Lake prospect is situated in the lowest volcanic sequence above the subvolcanic intrusion, suggests that any geophysical and/or geochemical anomalies situated along strike and stratigraphically above Wye Lake are prospective.

At least 4 strong, short strike-length airborne conductors similar in signature to the conductor reflecting mineralization at the Wye Lake occurrence are targeted for diamond drilling. Ground HLEM surveys conducted over the Island Lake, Pats Lake, Russell and McGinnes airborne anomalies reveal strong conductors at shallow depth. The Island and Pats Lake conductors are coincident with prominent magnetic highs while the Russell and McGinnes conductors are supplemented by the presence of litho-geochemical anomalies indicating strong hydrothermal alteration in the underlying bedrock. Such targets are characterized by strongly altered felsic volcanic rocks and exhalite containing abundant, chlorite, garnet, actinolite, pyrrhotite and pyrite. Initial diamond drilling of these anomalies is slated for early March of this year.

A deep penetrating ground electromagnetic survey (InfiniTEM) has been completed for the Wye Lake prospect and its projected strike extent, to check for conductors occurring to depths of up to 300 metres. A strong 300-500 metre long anomaly has been located and is presently being drilled.

Strong base-metal and gold prices will ensure that extensive systematic exploration work is conducted on the Sungold property this field season. Numerous gold occurrences have been discovered on the Sungold property, invariably hosted within northeast-trending high strain zones and characterized by strong hematitic and silicic alteration as well as heavy pyritization. These gold occurrences will see follow-up trenching and diamond drilling this field season.

## **McFAULDS**

Following the announcement of several new massive sulphide discoveries in 2003, Freewest acquired a 100% interest in 9 mineral claims in the McFaulds Lake area in the James Bay Lowlands of Northern Ontario. The property (22.7 square kilometres) is situated in the Sachigo Greenstone Belt approximately 12 kilometres southwest of the McFaulds No. 1, No. 2, No. 3 and Grid F volcanic-hosted massive sulphide (VHMS) discoveries made by the Spider Resources Inc. – KWG Resources Inc. Joint-Venture (joint-venture).

Over the last 3 years, the joint-venture has announced several significant intercepts of massive sulphide from various occurrences on their large property, the best of which assays 8.02% copper over 18.50 metres from the McFaulds No. 3 deposit. Further to the north in the same greenstone belt, Probe Mines Ltd. has also reported a new VHMS discovery on their property, where hole M6 intersected 3.10% copper over a core length of 7.8 metres at the Tamarack occurrence. These are all significant new discoveries and are strongly suggestive of the emergence of a new VHMS district developing within this part of the Sachigo Greenstone Belt.

An airborne geophysical survey was flown over the McFaulds property in 2003. The survey revealed 3 distinct clusters of high amplitude, multi-channel electromagnetic (EM) anomalies, interpreted to be bedrock conductors possibly related to massive sulphide mineralization. One such conductor was drilled by Freewest in 2004 with 2 drill holes, one of which intersected 13.5 metres of semi-massive pyrite within a thick unit of felsic tuff and agglomerate (hole FWM-04-01). The remaining conductors were not drilled at that time.

In 2005, Freewest finalized an option agreement involving 12.7 square kilometres (5 of the original 9 mineral claims) with the joint-venture, whereby it must spend \$3.0 Million on exploration over a 4-year period to earn an initial 50% interest in the property. The joint venture may earn a cumulative 60% interest on the property, by delivering a bankable feasibility study on any mineralization identified and a 65% cumulative interest, by arranging project financing to put the property into commercial production.

The principal target of diamond drilling for the joint-venture on the optioned property is the B anomaly, a two kilometre-long conductor and coincident magnetic high. Portions of the B anomaly are characterized by high conductance and high magnetic susceptibility and are similar in geophysical signature with the McFaulds No.1 and No. 3 massive sulphide deposits.

The joint-venture drilled three holes to test the geophysical anomalies. The second hole, FW-06-03 intersected two massive chromitite cumulate bands of 1.05 and 0.6 meters at 153.27m and 159m in a serpentinized peridotite. The serpentinized ultramafic rock has a variable amount of disseminated and seams of magnetite giving it a strong magnetic signature. Core samples of these intersections were selected for assay and submitted to ALS Chemex Labs. The upper band of chromitite assayed 22.7% Cr, 0.166 g/t Pt, 0.24 g/t Pd over 1.05 meters. The lower band of chromitite assayed 23.7% Cr, 0.21 g/t Pt and 0.462 g/t Pd, over 0.6 meters. The other two holes showed anomalous values of Cu Zn.

## **LAROSE**

The 100%-owned Larose property consisting of 35.5 square kilometres is located in the Shebandowan Greenstone Belt, 120 kilometres west of Thunder Bay in northwestern Ontario. Freewest acquired the property in 2003 following the discovery of a number of high grade gold occurrences made by a local Thunder Bay prospector. Under the acquisition agreement, Freewest is required to spend \$500,000 over a period of 4 years. The vendors retain a 3% Net Smelter Return Royalty, with the Corporation having the right to purchase 50% of it.

Initial exploration programs conducted by Freewest were successful in exposing a mineralized structural corridor containing gold over 4000 metres in strike length. The corridor, known as the Main Zone, consists of a series of discrete northeast-trending shear zones containing multi-ounce gold grades in sedimentary rocks over an intermittent 4 kilometre strike length. The Main Zone is further divided into several discrete occurrences including Larose (64.8 g/t gold), J & R (8.8 g/t gold), P (372.0 g/t gold), Snoopy (10.2 g/t gold), Porphyry (3.9 g/t gold), Northwest View (62.9 g/t gold), Sweet Spot (15.0 g/t gold) and the T trench (170.0 g/t gold).

To test the Main Zone, 30 drill holes were completed in 2003 and 2004, the best results include 2.27 g/t gold over 5.0 metres, 8.74 g/t gold over 2.00 metres and 7.31 g/t gold over 1.80 metres. The drilling to date has been only completed to very shallow depths of up to 75 vertical metres. Recent structural studies indicate a possible shallow southwest plunge to mineralization thus; gold zones may form plunging shoots.

The geological setting at Larose is very similar to the Malartic District of Quebec; an environment characterized by host rocks including folded greywacke, quartz-feldspar porphyry and syentic intrusive rocks. The Malartic district has documented gold production of well over 8 million ounces of gold.

As a result of corporate strategy, efforts are currently being made to option the Larose property to interest parties.

## **NEW BRUNSWICK**

### **CLARENCE STREAM**

With the increase in the gold price over the last year and strong prices forecasted for the coming year, the 100%-owned Clarence Stream property continues to be the Corporation's most important asset. The large property comprises 11,296 hectares and is well-located 70 kilometers southwest of the City of Fredericton in southwestern New Brunswick. It is situated 10 kilometres from the former-producing Mount Pleasant tin-tungsten-molybdenum-indium mine, a facility that contains outbuildings, electricity and a fully-permitted tailings pond. Clarence Stream's proximity to such a facility would impact favourably on capital costs at such time that a mineable resource is established.

The focus of exploration efforts this past year has been on diamond drilling, in continuing efforts to increase the existing gold mineral resource and to discover new occurrences. An independent 43-101 compliant audit of mineral resources at Clarence Stream substantiated the gold mineral resource calculated internally by the Corporation. Ongoing efforts will be directed at increasing the gold resource by diamond drilling to a level of 400,000 ounces of gold, a threshold that is believed to support a viable mining operation. In anticipation of reaching this threshold, the Corporation will complete further mineralogical studies and mineral beneficiation work at the bench-scale to determine gold recoveries on Clarence Stream mineralization.

On the exploration front, attention was focused on drilling of the Proximal deposits situated adjacent to the Central Zone. In doing so, the A zone was discovered and returned some very encouraging results. Additional drilling was also completed on the N and West Zones in order to increase the mineral resource for the Proximal deposits.

A National Instrument 43-101 compliant resource calculation was recently completed by Roscoe Postle Associates (RPA) at Clarence Stream. For gold, it reported an Indicated Mineral Resource of 648,000 tonnes at an uncut grade of 7.30 grams per tonne gold, or 152,000 ounces and an additional Inferred Mineral Resource of 540,000 tonnes at an uncut grade of 6.58 grams per tonne, amounting to 115,000 ounces. RPA also estimated antimony mineral resources in the Anomaly-A area at the site of the AD Zone. Indicated antimony resources are estimated at 126,000 tonnes averaging 2.3% antimony, or 6,395,000 pounds of antimony and additional Inferred Resources at 5,000 tonnes averaging 2.8% antimony, or 311,000 pounds of antimony.

The mineral resources estimated by RPA are comprised of several zones, consisting of the Proximal deposits and the Distal deposits, or Anomaly-A deposits. Most of the deposits are open for expansion along strike and all are open at depth, indicating excellent potential to expand the gold resource of known deposits. This is illustrated at the site of the Proximal deposits where gold mineralization has been traced intermittently along strike for two kilometers (open-ended along strike) and to very shallow depths. With the exception of the Central Zone, drilled to a maximum vertical depth of 250 metres, all of the remaining zones are drilled to average vertical depths of between 50 to 75 metres. Similarly, the Distal deposits known as the AD, MW, 93 and Murphy Zones are open along strike and down-plunge. Drilling will be conducted on all of these zones in an extensive diamond drilling program to be completed this field season.

On the property scale, the limits of gold mineralization have yet to be defined with the current configuration of deposits exhibiting district-scale dimensions. Numerous gold-in-soil geochemical anomalies remain to be drill tested. Significantly, all of the gold zones discovered to date are associated with strong gold-in-soil geochemical anomalies thus; the probability for making additional discoveries remains high.

The Corporation is very optimistic that the threshold level of 400,000 ounces of gold to support commercial production will be reached in the coming year, thereby taking advantage of increased gold prices and market conditions. This will require accelerated drilling programs and it is anticipated that a minimum of 2 diamond drills will be turning at Clarence Stream for a good part of the exploration year.

## **GOLDEN RIDGE**

The Golden Ridge property comprising 372 mineral claims (5,952 hectares) is located in York County, New Brunswick, approximately 80 kilometers west of Fredericton. During the period 1997 to 1999, Freewest discovered widespread gold, antimony, and base-metal mineralization hosted within extensive phyllic alteration zones within the Poplar Mountain Volcanic Complex (PMVC). The PMVC is an Ordovician-age volcanic centre, comprising dacitic subvolcanic intrusions, dacitic to andesitic volcanoclastic and mafic volcanic rocks.

Subsequent trenching and drilling by Freewest resulted in the identification of multiple, sub-parallel northwest-trending structures containing wide zones of gold mineralization. The best drill result of 4.4 g/t gold over 6.0 meters, comprised part of a broader 13.5 meter-wide zone, averaging 2.5 g/t gold. In addition, a number of high-grade antimony-quartz boulders assaying up to 26% antimony were also discovered within a large antimony-in-soil anomaly. The antimony mineralization may be indicative of a classical zoning pattern, typical of intrusion-related systems, whereby gold-antimony-arsenic mineralization are located peripheral to a gold-bearing core.

Boulders of fine-grained, banded massive sulphide mineralization were also discovered on the property, approximately 2 km north of the identified gold zones. These boulders returned high-grade assays of 20.9% zinc, 15.6% lead, 224 g/t silver and 8.4 g/t gold. Similar and better grades were obtained from massive sulphide clasts in volcanic breccias situated within the PMVC in Maine. These discoveries confirm the presence of high-grade volcanic-hosted massive sulphide (VHMS) styles of mineralization within the PMVC and are clearly a target for follow-up.

In late 2002, Freewest optioned the property to First Narrows Resources Corporation. The option agreement requires First Narrows to spend C\$1,100,000 on exploration over five years in order to earn a 50% interest in the Golden Ridge property.

With current high precious and base metal prices and a spectrum of mineralization styles within the PMVC including intrusion-related gold deposits and volcanogenic massive sulphide deposits, it is anticipated that a substantial exploration program will be conducted by First Narrows this field season on this under-explored, high-potential property.

## **RESULTS OF OPERATIONS**

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

For the three month ended January 31, 2006, the Corporation reported a net income of \$278,857 or \$0.0025 per share, compared to net income of \$242,678 or \$0.0027 per share in the same period of 2005.

Revenue totaled \$34,282 at January 31, 2006 as compared to \$30,854 at January 31, 2005. The increase of \$3,428 consisted of \$13,338 from interest income as a result of the more funds on deposit and higher interest rates offset by a lower gain of \$9,910 on the disposal of marketable securities.

The net income for the three-month period included a write-off due to abandonment of properties of \$63,493 (\$70,285 – January 31, 2005). Expenses excluding the write-off due to abandonment of properties totaled \$143,722 compared to \$161,145 for the three-month period ended January 31, 2005. Professional fees totaled \$35,610 for the three-month period ended January 31, 2006 compared to \$87,110 for the three-month period ended January 31, 2005. The decrease of \$51,500 was related to underaccrual of audit fees for the year ended October 31, 2004 reflected in the period ending January 31, 2005. Filing costs and shareholders' information increased by \$11,950 to \$40,171 compared

\$28,221 at January 31, 2005 and was due to increased advertising, promotion, and public relation costs due to increased corporate activity. Administrative expenses and others increased by \$6,533 to \$50,881 from \$44,348 as at January 31, 2005 as a result of the increased office expenditures and rent as a result of the rental of new office premises. Interest expenses of \$5,233 (\$Nil – January 31, 2005) were incurred as a result of the period in which the exploration expenditures were incurred. Stock option compensation expenses as described in the Critical Accounting Policies section totaled \$11,337 for the three-month period ended January 31, 2006 compared to \$Nil for the three-month period ended January 31, 2005.

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

For the three month ended January 31, 2005, the Corporation reported a net income of \$242,678 or \$0.0027 per share, compared to an income of \$516,391 or \$0.0068 per share in the same period of 2004.

Revenue totaled \$30,854 at January 31, 2005 as compared to \$10,956 at January 31, 2004. While interest income decreased by \$565, as a result of the less funds on deposit and lower interest rates, they were offset by a gain of \$23,795 on the disposal of marketable securities. Other income totaled \$Nil at January 31, 2005 compared to \$3,332 at January 31, 2004 which consisted of the tax credit refund of certain Quebec exploration expenditures not renounced to private equity investors.

The net income for the three-month period included a write-off due to abandonment of properties of \$70,285 (\$197,632 – January 31, 2004). Expenses excluding the write-off due to abandonment of properties totaled \$161,145 compared to \$187,725 for the three-month period ended January 31, 2004. Professional fees totaled \$87,110 for the three-month period ended January 31, 2005 compared to \$51,765 for the three-month period ended January 31, 2004 and was related to an increase in professional services provided during the period and estimated year-end accruals. Filing costs and shareholders' information increased by \$9,474 to \$28,221 compared \$18,747 at January 31, 2004 and was due to increased advertising, promotion, and public relation costs due to increased corporate activity. Stock option compensation expenses as described in the Critical Accounting Policies section totaled \$Nil for the three-month period ended January 31, 2005 compared to \$75,000 for the three-month period ended January 31, 2004.

## **SUMMARY OF QUARTERLY RESULTS**

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

	<b>2006</b>	<b>2005</b>				<b>2004</b>		
	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	
Revenue	34,282	(112,064)	159,787	9,660	30,854	4,086	10,245	18,650
Net income (loss)	278,857	(121,236)	(152,616)	(1,226,774)	242,678	692,343	(270,111)	(333,049)
Net income (loss) per share	0.0025	(0.0012)	(0.0016)	(0.0133)	0.0027	0.0081	(0.0032)	(0.0040)

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 January 31, 2006 compared with three-month period ended January 31, 2005**

As at January 31, 2006, the Corporation maintained a cash or equivalent position of \$2,933,010 (\$1,982,083 as at January 31, 2005) and working capital of \$2,845,037 as compared to a working capital of \$1,980,118 as at January 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.

Freewest raised a total \$1,576,600 through one (1) private placement \$(1,411,845 flow-through amount and \$164,755 in common shares amount) compared to \$1,499,555 through two (2) private placements (\$1,343,194 flow-through amount and \$156,361 in common shares amount) for the three-month period ended January 31, 2005. Issue costs related to the financings totaled \$96,036 at January 31, 2006 as compared to \$109,600 at January 31, 2005. A total of \$Nil was raised through the exercise of warrants for common shares as compared to \$14,000 as at January 31, 2005.

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

As at January 31, 2005, the Corporation maintained a cash or equivalent position of \$1,982,083 (\$3,434,523 as at January 31, 2004) and working capital of \$1,980,118 as compared to a working capital of \$3,484,227 as at January 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.

Freewest raised a total \$1,499,555 through two (2) private placements (\$1,343,194 flow-through amount and \$156,361 in common shares amount) compared to \$2,395,000 through five (5) private placements (\$1,741,400 flow-through amount and \$653,600 in common shares amount) for the three-month period ended January 31, 2004. Issue costs related to the financings totaled \$109,600 at January 31, 2005 as compared to \$192,043 at January 31, 2004. A total of \$14,000 was raised through the exercise of warrants for common shares as compared to \$313,763 through the exercise of warrants for flow-through shares as at January 31, 2004.

## MINING PROPERTIES AND DEFERRED COSTS

	October 31, 2005	Expenditures	Proceeds from option agreements	(Write-off)	January 31, 2006
	\$	\$	\$	\$	\$
<b>Quebec</b>					
Benoit					
Acquisition	401,894	-	-	-	401,894
Exploration	95,692	-	-	-	95,692
Barry					
Acquisition	145,642	24	-	-	145,666
Exploration	475,327	37,564	-	-	512,891
Verneuil					
Acquisition	209,482	-	-	-	209,482
Exploration	33,476	-	-	-	33,476
Windfall					
Acquisition	109,828	20,000	-	-	129,828
Exploration	1,508,919	215,009	-	-	1,723,928
Eagle River					
Acquisition	7,675	2,160	-	-	9,835
Exploration	316,799	1,364	-	-	318,163
La Treve					
Acquisition	41,251	96	-	-	41,347
Exploration	99,752	-	-	-	99,752
Beauce					
Acquisition	-	-	-	-	-
Exploration	-	26,818	-	-	26,818
Others					
Acquisition	28,335	-	(27,000)	-	1,335
Exploration	2,454	2,044	-	(2,044)	2,454
	<b>3,476,526</b>	<b>305,079</b>	<b>(27,000)</b>	<b>(2,044)</b>	<b>3,752,561</b>
<b>Ontario</b>					
Larose					
Acquisition	59,263	-	-	-	59,263
Exploration	917,029	-	-	-	917,029
Lizar					
Acquisition	286,232	20,000	-	-	306,232
Exploration	422,257	-	-	-	422,257
McFaulds					
Acquisition	(39,622)	-	(47,750)	-	(87,372)
Exploration	149,124	-	-	-	149,124

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

	October 31, 2005	Expenditures	Proceeds from option agreements	(Write-off)	January 31, 2006
	\$	\$	\$	\$	\$
<b>Ontario (Cont'd)</b>					
Sungold					
Acquisition	147,777	4,454	-	-	152,231
Exploration	1,563,767	501,647	-	-	2,065,414
Adel					
Acquisition	60,775	-	-	-	60,775
Exploration	152,245	3,939	-	-	156,184
Folson Lake					
Acquisition	(8,300)	-	-	-	(8,300)
Exploration	237,195	324	-	-	237,519
Others					
Acquisition	58,379	300	-	-	58,679
Exploration	1,870	51,042	-	(50,953)	1,959
	<b>4,007,991</b>	<b>581,706</b>	<b>(47,750)</b>	<b>(50,953)</b>	<b>4,490,994</b>
<b>New Brunswick</b>					
Golden Ridge					
Acquisition	74,740	-	-	-	74,740
Exploration	760,544	-	-	-	760,544
Clarence Stream					
Acquisition	451,749	-	-	-	451,749
Exploration	5,176,856	258,226	-	-	5,435,082
Others					
Acquisition	(17,187)	-	-	-	(17,187)
Exploration	25,976	13,666	-	(10,496)	29,146
	<b>6,472,678</b>	<b>271,892</b>	-	<b>(10,496)</b>	<b>6,734,074</b>
<b>Canadian Properties</b>	<b>13,957,195</b>	<b>1,158,677</b>	<b>(74,750)</b>	<b>(63,493)</b>	<b>14,977,629</b>
<b>Stock Option Compensation</b>	<b>175,751</b>	-	-	-	<b>175,751</b>
	<b>14,132,946</b>	<b>1,158,677</b>	<b>(74,750)</b>	<b>(63,493)</b>	<b>15,153,380</b>

For the three-month period ended January 31, 2006, the Corporation incurred exploration expenditures totaling \$1,111,642 of which \$282,798 was incurred in Quebec; \$556,952 in Ontario and \$271,892 in New Brunswick. The exploration expenditures incurred in Canada were funded through the amount raised from Freewest's private placement equity financings.

## 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) During the period the Corporation retained the services of certain members of the board of directors of the Corporation to carry out work on its exploration projects. For the period ended January 31, 2006, the total amount of such services was \$18,900 (2005 - \$18,900).
- (ii) Prepaid expenses included an amount of \$12,389 representing advances to a director and an officer for upcoming exploration and office expenses.
- (iii) The related corporation charged an aggregate amount of \$253,936 (2005 - \$188,939) for mining properties and exploration expenditures.
- (iv) The Corporation charged related corporation an aggregate amount of \$7,263 (2005 - \$19,940) for administrative costs and services, shared office expenses and mining properties costs.
- (v) Due to related corporation significantly represent the net amount of charges for shared office and related expenses, as well as joint venture exploration expenditures between Freewest Resources Canada Inc. and Murgor Resources Inc..
- (vi) Amounts due to related parties are non-interest bearing with no specific terms of repayment.

Certain directors and shareholders of the Corporation are also directors, officers and shareholders of the related corporations.

## CRITICAL ACCOUNTING POLICIES

The Corporation prepares its financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") in Canada. The Corporation details its significant accounting policies in Note 2 to its audited October 31, 2005 financial statements, of which the Freewest 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 8b to the audited October 31, 2005 financial statements. Effective November 1, 2002, 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 in 2003. 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.

Basic per share amounts are calculated using the weighted number of shares outstanding for the period. The dilutive loss per share, which is calculated using the treasury method, is equal to the basic loss per share due to the anti-dilutive effect of the total share options and warrants outstanding.

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.

Effective as of the audited October 31, 2004 financial statements, 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 there is reasonable assurance that the expenditures will be incurred.

## **Financial Instruments**

The Corporation’s financial instruments consist of cash, cash held for exploration work, marketable securities, accounts receivable, accounts payable and accrued liabilities, and due to related parties. It is management’s opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments. Due to their short term nature, the fair value of these financial instruments approximates their carrying value.

## **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: Mackenzie I. Watson, P.Eng)  
President & CEO

(Signed: Ronald Kay)  
Director

**FREEWEST RESOURCES CANADA INC.  
BALANCE SHEETS  
AS AT**

	<b>January 31 2006 (Unaudited)</b>	<b>October 31 2005 (Audited)</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	1,635,508	2,625,446
Cash Held for Exploration Work	1,297,502	-
Marketable Securities (note 4)	315,383	276,633
Accounts Receivable	174,565	255,122
Prepaid Expenses	50,113	44,385
	<u>3,473,071</u>	<u>3,201,586</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>	30,321	32,431
<b>MINING PROPERTIES AND DEFERRED COSTS</b>	<u>15,153,380</u>	<u>14,132,946</u>
	<u><u>18,656,772</u></u>	<u><u>17,366,963</u></u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts Payable and Accrued Liabilities	361,491	480,417
Due to Related Parties (note 6)	<u>266,543</u>	<u>176,777</u>
	<u>628,034</u>	<u>657,194</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK (note 5)</b>	35,948,117	34,831,189
<b>STOCK OPTIONS (note 5b)</b>	656,413	645,076
<b>WARRANTS (note 5c)</b>	94,024	86,141
<b>DEFICIT</b>	<u>(18,669,816)</u>	<u>(18,852,637)</u>
	<u>18,028,738</u>	<u>16,709,769</u>
	<u><u>18,656,772</u></u>	<u><u>17,366,963</u></u>

See accompanying notes  
to financial statements.

Approved on Behalf of the Board:

(Signed: Mackenzie I. Watson) Director

(Signed: Ronald Kay) Director

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

	Three-month period ended January 31	
	2006	2005
	\$	\$
<b>REVENUE</b>		
Interest	20,397	7,059
Gain on Disposal of Assets	13,885	23,795
	<u>34,282</u>	<u>30,854</u>
<b>EXPENSES</b>		
Professional Fees	35,610	87,110
Filing Costs and Shareholders' Information	40,171	28,221
Administrative Expenses and Others	50,881	44,348
Amortization	490	655
Interest	5,233	-
Write-off Due to Abandonment of Properties	63,493	70,285
Loss on Adjustment of Value of Marketable Securities	-	811
Stock Option Compensation	11,337	-
	<u>207,215</u>	<u>231,430</u>
<b>LOSS BEFORE RECOVERY OF INCOME TAXES</b>	(172,933)	(200,576)
<b>RECOVERY OF INCOME TAXES</b>	451,790	443,254
<b>NET INCOME</b>	278,857	242,678
<b>DEFICIT - BEGINNING OF PERIOD</b>	(18,852,637)	(17,328,977)
<b>ISSUE COSTS</b>	(96,036)	(109,600)
<b>DEFICIT - END OF PERIOD</b>	<u>(18,669,816)</u>	<u>(17,195,899)</u>
<b>BASIC AND FULLY DILUTED NET INCOME PER SHARE</b>	<u>0.0025</u>	<u>0.0027</u>
<b>WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES</b>	<u>112,559,457</u>	<u>89,867,854</u>

See accompanying notes  
to financial statements.

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

	<b>Three-month period ended January 31</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	278,857	242,678
Adjustments for:		
Gain on Disposal of Asset	(13,885)	(23,795)
Adjustment of Value of Marketable Securities	-	811
Write-off Due to Abandonment of Properties	63,493	70,285
Amortization	490	655
Stock Option Compensation	11,337	-
Recovery of Future Income Taxes	(451,790)	(443,254)
	<u>(111,498)</u>	<u>(152,620)</u>
 Changes in non-cash working capital components		
Accounts Receivable	80,557	(52,921)
Prepaid Expenses	(5,728)	(20,368)
Accounts Payable and Accrued Liabilities	(118,926)	3,094
Due to Related Parties	89,766	162,056
	<u>45,669</u>	<u>91,861</u>
 Cash Flows Used In Operating Activities	<u>(65,829)</u>	<u>(60,759)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of Common Shares and Warrants	164,755	170,360
Issuance of Flow-Through Shares	1,411,845	1,343,195
Issue Costs	(96,036)	(109,600)
	<u>1,480,564</u>	<u>1,403,955</u>
 Cash Flows From Financing Activities	<u>1,480,564</u>	<u>1,403,955</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Disposal of Asset	24,885	44,795
Mining Properties Acquisition Expenditures	(47,034)	(70,677)
Mining Properties Exploration Expenditures	(1,113,174)	(709,236)
Proceeds from Option Agreements	25,000	-
Government Grants	3,152	-
	<u>3,152</u>	<u>-</u>
 Cash Flows Used In Investing Activities	<u>(1,107,171)</u>	<u>(735,118)</u>
 <b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>	<b>307,564</b>	<b>608,078</b>
 Cash and cash equivalents - beginning of period	<u>2,625,446</u>	<u>1,374,005</u>
 <b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<b><u>2,933,010</u></b>	<b><u>1,982,083</u></b>
<b>CASH AND CASH EQUIVALENTS CONSISTS OF:</b>		
Cash	1,635,508	797,745
Cash Held for Exploration Work	1,297,502	1,184,338
	<u>2,933,010</u>	<u>1,982,083</u>
 <b>ADDITIONAL INFORMATION</b>		
Shares received in consideration of sale interest in mining properties	<u>49,750</u>	<u>-</u>

See accompanying notes  
to financial statements.

**FREEWEST RESOURCES CANADA INC.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**JANUARY 31, 2006**  
**(UNAUDITED)**

**1. NATURE OF OPERATIONS**

The Corporation, directly and through joint ventures, is in the process of exploring its mining properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

The recoverability of amounts shown for mining properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Corporation's interest in the underlying mining claims, the ability of the Corporation to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition of the properties.

**2. 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 corporation'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 January 31, 2006 and the results of operations and cash flows for the three-month period ended January 31, 2006 and 2005.

**3. 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.

**4. MARKETABLE SECURITIES**

Marketable securities are carried at the lower of cost and market. As at January 31, 2006, cost was \$315,383 (October 31, 2005 - \$276,633). Market value at January 31, 2006 was \$475,649 (October 31, 2005 - \$276,633).

**5. 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.

**Issued:**

Balance at beginning, October 31, 2005 (audited)

Issuance of shares under flow-through agreements

Issuance of shares for cash

Issuance of allotted shares of mining properties

Issued and fully paid

Tax benefits renounced on flow-through shares

Balance at end, January 31, 2006 (unaudited)

	<b>Number of Shares</b>	<b>Amount</b>
	<b>#</b>	<b>\$</b>
Balance at beginning, October 31, 2005 (audited)	109,637,946	34,789,339
Issuance of shares under flow-through agreements	7,094,700	1,411,845
Issuance of shares for cash	788,300	156,873
Issuance of allotted shares of mining properties	270,000	41,850
Issued and fully paid	117,790,946	36,399,907
Tax benefits renounced on flow-through shares	-	(451,790)
Balance at end, January 31, 2006 (unaudited)	117,790,946	35,948,117

**FREEWEST RESOURCES CANADA INC.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**JANUARY 31, 2006**  
**(UNAUDITED)**

**5. CAPITAL STOCK (Cont'd)**

**b) Stock option plan**

	<u>Number of Options</u> #	<u>Weighted Average Exercise Price</u> \$
Balance at beginning October 31, 2005 (audited)	8,215,000	0.32
Granted	200,000	0.20
Expired	<u>(350,000)</u>	<u>0.36</u>
Balance at end, January 31, 2006 (unaudited)	<u>8,065,000</u>	<u>0.32</u>

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

The fair value of 200,000 options was estimated using Black-Scholes option pricing model with the following weighted-average assumptions:

Weighted risk-free interest rate	2.75%
Expected volatility	112.0%
Dividend yield	Nil
Weighted average expected life	2 years

The expenses related to the 200,000 stock options granted to a financial consultant on November 1, 2005 were \$11,337 classified under the "Administration".

**c) Warrants**

	<u>Number of Warrants</u> #	<u>Average Exercise Price</u> \$
Balance at beginning October 31, 2005 (audited)	4,004,560	0.29
Granted	7,883,000	0.25
Expired	<u>(105,000)</u>	<u>0.22</u>
Balance at end, January 31, 2006 (unaudited)	<u>11,782,560</u>	<u>0.26</u>

**6. 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) During the period the Corporation retained the services of certain members of the board of directors of the Corporation to carry out work on its exploration projects. For the period ended January 31, 2006, the total amount of such services was \$18,900 (2005 - \$18,900).

(ii) Prepaid expenses include an amount of \$12,389 representing an advances to a director and an officer for upcoming exploration and office expenses.

**FREEWEST RESOURCES CANADA INC.**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**JANUARY 31, 2006**  
**(UNAUDITED)**

**6. RELATED PARTY TRANSACTIONS (Cont'd)**

(iii) The related corporation charged an aggregate amount of \$253,936 (2005 - \$188,939) for mining properties and exploration expenditures.

(iv) The Corporation charged related corporation an aggregate amount of \$7,263 (2005 - \$19,940) for administrative costs and services, shared office expenses and mining properties costs.

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

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

Certain directors and shareholders of the Corporation are also directors, officers and shareholders of the related corporations.

**7. 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 2006 unaudited interim financial statements.