

Midland Exploration Inc.

(An exploration stage company)

Financial Statements

September 30, 2007 and 2006

December 4, 2007

Auditor's report

To the Shareholders of Midland Exploration Inc.

We have audited the balance sheets of Midland Exploration Inc as at September 30, 2007 and 2006 and the statements of operations, comprehensive income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Midland Exploration Inc.

(An exploration stage company)

Balance Sheets

As at September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (note 4)	3,865,012	288,370
Accounts receivable	18,528	-
Sales tax receivable	45,592	7,298
Taxes credits and mining rights receivable	80,268	-
Prepaid expenses	29,638	-
	<u>4,039,038</u>	<u>295,668</u>
Exploration funds	-	30,781
Mining assets (note 5)		
Mining properties	401,053	275,857
Deferred exploration expenses	603,154	248,504
	<u>1,004,207</u>	<u>524,361</u>
	<u>5,043,245</u>	<u>850,810</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	62,131	242,434
Advance for exploration work (note 5c and d)	367,960	-
	<u>430,091</u>	<u>242,434</u>
Shareholders' equity		
Capital stock (note 6)	7,025,634	2,306,234
Contributed surplus (note 6d)	395,992	12,365
Deficit	<u>(2,808,472)</u>	<u>(1,710,223)</u>
	<u>4,613,154</u>	<u>608,376</u>
	<u>5,043,245</u>	<u>850,810</u>

See accompanying notes.

On behalf of the Board

(s) Jean-Pierre Janson
Jean-Pierre Janson
Director

(s) Gino Roger
Gino Roger
President, Director

Midland Exploration Inc.

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Statement of Operations, Comprehensive Income and Deficit

For the years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
	\$	\$
Revenues		
Interest	86,318	-
Project management fees (note 5c and d)	19,179	-
	<u>105,497</u>	<u>-</u>
Expenses		
Stock-based compensation (note 6c)	258,627	-
Administrative expenses and other	164,966	8,251
Investors relations	52,186	15,782
Professional fees	96,734	69,358
General exploration	13,264	29,335
Fair value variation for financial instruments held for trading	1,706	-
	<u>587,483</u>	<u>122,726</u>
Loss before income taxes	(481,986)	(122,726)
Recovery of future income taxes (note 7)	41,000	49,000
	<u>(440,986)</u>	<u>(73,726)</u>
Loss and comprehensive income	(440,986)	(73,726)
Deficit – Beginning of year	(1,710,223)	(1,586,872)
Share and warrant issue expenses	(657,263)	(49,625)
	<u>(2,808,472)</u>	<u>(1,710,223)</u>
Deficit – End of year	(2,808,472)	(1,710,223)
Basic and diluted loss per share	<u>(0.03)</u>	<u>(0.01)</u>
Weighted average number of basic and diluted outstanding shares	<u>16,335,141</u>	<u>10,022,592</u>

See accompanying notes.

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Statement of Cash Flows

For the years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
	\$	\$
Cash flows from		
Operating activities		
Loss	(440,986)	(73,726)
Adjustment for		
Stock-based compensation expense	258,627	-
Future income taxes recovery	(41,000)	(49,000)
	<u>(223,359)</u>	<u>(122,726)</u>
Changes in non-cash working capital items		
Accounts receivable	(12,423)	-
Sales tax receivable	(38,294)	(7,298)
Taxes credits and mining rights receivable	(3,179)	-
Prepaid	(29,638)	-
Accounts payable and accrued liabilities	(26,899)	5,795
Advance for exploration work	(19,179)	-
	<u>(129,612)</u>	<u>(1,503)</u>
	<u>(352,971)</u>	<u>(124,229)</u>
Financing activities		
Capital stock issued	4,627,000	337,499
Share and warrant issue expenses	(523,863)	(625)
	<u>4,103,137</u>	<u>336,874</u>
Investing activities		
Additions to mining properties	(248,794)	(857)
Disposal of mining properties (note 5a, c, d)	105,000	25,000
Additions to deferred exploration expenses	(575,511)	(3,260)
Advance received for exploration work	515,000	-
	<u>(204,305)</u>	<u>20,883</u>
Net change in cash and cash equivalents during the year	3,545,861	233,528
Cash and cash equivalents – beginning of year	319,151	85,623
Cash and cash equivalents – end of year	<u>3,865,012</u>	<u>319,151</u>
Less: Exploration funds	-	(30,781)
Cash and cash equivalents presented on the Balance Sheets	<u>3,865,012</u>	<u>288,370</u>
Additional information		
Value of expired warrants transferred to contributed surplus	-	12,365
Broker warrants granted for capital raising	92,400	-
Stock-based compensation included in deferred exploration expenses	125,000	-
Additions of mining properties and deferred exploration expenses included in accounts payable and accrued liabilities	30,258	183,662
Additions of mining properties and deferred exploration expenses applied against the advance received for exploration work	127,861	-
Accounts receivable applied against deferred exploration expenses	6,105	-
Tax credits receivable applied against deferred exploration expenses	77,089	-
Future income taxes accounted for in share issue expenses	41,000	49,000
Interest cashed	73,895	-

See accompanying notes

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Notes to Financial Statements

September 30, 2007 and 2006

1. Statute of incorporation and nature of activities

Midland Exploration Inc. ("the Company"), incorporated on October 2, 1995 under Part IA of the Quebec Companies Act, is a company in the mining exploration business. The Company's operations include the acquisition, exploration, production, development and, where possible, operating of mining properties.

Until it is determined that properties contain mineral reserves or resources that can be economically mined, they are classified as exploration properties. The recoverability of deferred expenditures is dependent upon: the discovery of economically recoverable reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain the necessary financing to complete exploration, development and construction of processing facilities; obtaining certain government approvals; and attaining profitable production. The Company will periodically have to raise additional funds to continue operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

2. Change in accounting policies

On October 1, 2006, the Company adopted two new accounting policies published by the Canadian Institute of Chartered Accountants relating to financial instruments:

1. Section 3855, "Financial Instruments – Recognition and Measurement", provides guidance on when a financial instrument must be recognized on the balance sheet and how it must be measured. It also provides guidance on the presentation of gains and losses on financial instruments.
2. Section 1530, "Comprehensive Income", requires an entity to recognize certain gains and losses in a separate statement, until such gains and losses are recognized in the statement of income.

The Company has evaluated that these new sections have no impact on the opening deficit as of October 1st, 2006. Cash and cash equivalents will be classified as held for trading and recorded at their fair value and their change in fair value are included in the statement of operations. Recorded at their amortized cost, accounts receivable will be classified as loans and receivables, accounts payable and accrued liabilities and advance for exploration work will be classified as other liabilities.

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3. Accounting policies

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas where management judgement is applied are mining assets valuations, stock-based compensation and future income taxes. Actual results could differ from those estimates and such differences could be material.

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, bank balances and short-term liquid investments with original maturities of three months or less or cashable at any time without penalties.

Exploration funds

These funds are restricted in use for exploration expenses pursuant to flow-through financing agreements.

Mining assets

Exploration properties include rights in mining properties and deferred exploration expenses. Expenditures incurred on non-producing properties identified as having development potential are deferred until the economic viability of the project has been established, at which time these costs are added to mining properties. Costs are written off when properties are abandoned or when cost recovery is uncertain. Management has defined uncertainty as either there being no financial resources available for development over a three-year period or results from exploration work do not justify further investment. Expenditures not related to specific properties are accounted for in the statements of operations.

Proceeds on the sale of exploration properties are applied by property in reduction of the mining properties, then in reduction of the deferred exploration expenses and any residual is recorded in the statement of operations. Governmental assistance, mining duties credits and other credits related to exploration work are applied against the deferred exploration expenses.

Funds received from partners on certain properties where the Company is the operator in order to perform exploration work as per agreements, are accounted for in the balance sheet as advances for exploration work. These advances are reduced gradually when the exploration work are performed.

Flow-through shares

When the Company commits the proceeds from the issuance of flow-through shares to exploration expenses recognized as mining assets, the future income tax cost related to the resulting temporary difference is recorded as a share issue expense in favour of investors when the renunciation forms are filed with the tax authorities.

Income taxes

The Company follows the liability method of accounting for income taxes whereby future income tax assets and liabilities are determined based on the differences between the accounting reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates that are expected to be in effect in the periods in which assets or liabilities will be realized or settled. A valuation allowance is provided to the extent that it is not more likely than not that future income tax assets will be realized.

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3. Accounting policies (cont'd)

Stock-based compensation and other stock-based payments

The Company applies the fair value method to account for options granted to its employees, officers, directors and consultants.

Any consideration paid on exercise of stock options or purchase of stock is credited to capital stock. If stock or stock options are repurchased, the excess of the consideration paid over the carrying amount of the stock or stock options cancelled is charged to deficit.

Share and warrant issue expenses

Share and warrant issue expenses are accounted for in the year in which they are incurred and are recorded as an increase in deficit in the year in which the shares are issued.

Earning (loss) per share

Earning (loss) per share is calculated using the weighted average number of shares outstanding during the year. Diluted net earning (loss) per share is calculated using the weighted average number of shares outstanding during the year based on the application of the treasury stock method for the calculation of the dilutive effect of warrants and stock options.

The diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of warrants and stock options.

Financial instruments

Fair value

The Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The actual results may differ from those estimates and the use of different assumptions or methodologies may have material effect on the estimated fair value amounts. As at September 30, 2007, all financial instruments (accounts receivable, accounts payable and accrued liabilities and advance for exploration work) have fair values which approximate their carrying values due to the relatively short period to maturity of the instruments.

Interest rate risk

Accounts receivable, accounts payable and accrued liabilities and advance for exploration work are non-interest bearing. See note 4 for details of interest rates for cash and cash equivalents.

Credit Risk

The Company is subject to concentrations of credit risk through cash and cash equivalents and the interest receivable classified in the accounts receivables. The Company maintains substantially all of its cash and cash equivalents in financial instruments guaranteed by major financial institutions in Canada.

4. Cash and cash equivalents

As of September 30, 2007, cash and cash equivalents include \$3,211,686 (nil as of September 30, 2006) of guaranteed investment certificates and bankers acceptance bearing interest between 4.05% and 4.44%, maturing between October 29, 2007 and September 2, 2008 (nil as of September 30, 2006) and both instruments are cashable any time without any penalties.

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5. Mining assets

Mining properties	As at September 30, 2006	Additions	Disposals	As at September 30, 2007
	\$	\$	\$	\$
Quebec				
Maritime-Cadillac	275,091	30,000	(25,000)	280,091
Vermillon	766	2,114	-	2,880
Weedon	-	27,118	(27,118)	-
Gatineau	-	35,305	(35,305)	-
James Bay Au	-	93,439	-	93,439
James Bay Mo	-	8,970	-	8,970
James Bay U	-	15,223	-	15,223
Project Generation	-	450	-	450
	<u>275,857</u>	<u>212,619</u>	<u>(87,423)</u>	<u>401,053</u>

Mining properties	As at September 30, 2005	Additions	Disposals	As at September 30, 2006
	\$	\$	\$	\$
Quebec				
Maritime-Cadillac	270,000	30,091	(25,000)	275,091
Vermillon	-	766	-	766
	<u>270,000</u>	<u>30,857</u>	<u>(25,000)</u>	<u>275,857</u>

Deferred exploration expenses	As at September 30, 2006	Additions	Disposal	Tax credits	As at September 30, 2007
	\$	\$		\$	\$
Quebec					
Maritime-Cadillac	149,370	4,509	-	(530)	153,349
Vermillon	99,134	221,085	-	(33,384)	286,835
Weedon	-	67,633	(12,882)	(5,829)	48,922
Gatineau	-	54,476	(4,695)	(7,418)	42,363
James Bay Au	-	56,754	-	(18,823)	37,931
James Bay Mo	-	15,674	-	(5,183)	10,491
James Bay U	-	10,495	-	(3,273)	7,222
Project Generation	-	18,690	-	(2,649)	16,041
	<u>248,504</u>	<u>449,316</u>	<u>(17,577)</u>	<u>(77,089)</u>	<u>603,154</u>

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Notes to Financial Statements

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5. Mining assets (cont'd)

Deferred exploration expenses	As at September 30, 2005	Additions	Disposal	Tax credits	As at September 30, 2006
	\$	\$		\$	\$
Québec					
Maritime-Cadillac	91 582	57,788	-	-	149,370
Vermillon	-	99,134	-	-	99,134
	<u>91 582</u>	<u>156,922</u>	<u>-</u>	<u>-</u>	<u>248,504</u>

a) Maritime Cadillac

On January 6, 2005, the Company entered into an agreement for the acquisition of a mining exploration property in Abitibi, Quebec, owned in part by an officer of the Company and known as "Maritime-Cadillac", for the following consideration:

- Five annual payments of \$30,000 each for a total of \$150,000; the Company has the option to pay half of this amount by the issuance of common shares of its capital stock;
- Issuance of 2,400,000 common shares recorded at a price of \$0.10 per share; the transaction has been recorded at the fair value of the common shares given up at the date of the transaction. The fair value of the common shares has been determined based on the last issuance of shares;
- Payment of a 2% net smelter return royalty; the Company can buy back half of the royalty for a payment of \$1,000,000; and
- On March 7, 2006, an amendment to the agreement establishes that the Company will not have to retrocede the property if the Company ceases to carry out exploration work on it.

On June 1, 2006, the Company entered into an option agreement with Agnico-Eagle Mines Limited ("Agnico-Eagle") whereby Agnico-Eagle was offered the right to earn a 50% undivided interest in the Maritime-Cadillac property and, after having earned such interest, to participate with the Company in a joint operation to further explore and develop the property. The consideration is:

- Four annual payments of \$25,000 for a total of \$100,000;
- A commitment to carry out work in the amount of \$300,000 the first year, \$300,000 the second year and \$400,000 for the third year for a total of \$1,000,000; and

Subject to approval by the relevant regulatory authorities, Agnico-Eagle will contribute 9.9% up to a maximum of \$200,000 of the Company's initial public offering if it's completed before December 31, 2007. Agnico-Eagle did effectively contribute \$200,000 at the March 2, 2007 initial public offering ('IPO').

Following the acquisition of a 50% undivided interest upon exercising its option, Agnico-Eagle will have the option to increase its undivided interest in the Property from 50% to 65% during a period of 3 years by financing a bankable feasibility study in respect of the Maritime Cadillac property or by assuming all mining operations on the Maritime Cadillac Property and will earn 1% additional interest for every \$1,000,000 spent on the Maritime Cadillac property (up to 15% by spending \$15 millions).

During the quarter ended March 31, 2007, the Company paid the third annual payment for \$30,000 pursuant to the January 6, 2005 agreement. In June 2007, the second payment of \$25,000 was recorded as a partial disposal, pursuant to the Agnico-Eagle agreement dated June 1st, 2006.

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Notes to Financial Statements

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5. Mining assets (cont'd)

b) Vermillon

On June 30, 2006, the Company entered into an option agreement with Soquem Inc. ("Soquem") whereby the Company was offered the right to earn a 50% interest in the Vermillon Property subject to the following conditions:

- A commitment to carry out a maximum of \$210,000 of work:
 - \$100,000 before December 31, 2006; and
 - a maximum of \$110,000 to match Soquem's investments on or before December 31, 2007;
- A 1% NSR royalty on specific claims of the property was granted, which can be purchased back for 500 000 \$ per each 0.5%, to an individual from which Soquem bought the claims on June 26, 2006; and
- If the option is exercised, Soquem and the Company will form a joint venture.

On July 9, 2007, the Company fulfilled its commitments to Soquem, exercised its option and thus acquired 50% undivided interest in the Vermillon property. As specified in the agreement, Soquem and the Company formed a joint venture.

The Vermillon Property is located some 90 km southwest of the town of La Tuque, Quebec.

c) Weedon

On March 6, 2007, the Company acquired a 100% interest in the Weedon claim block in exchange for 3 payments totalling \$60,000, including \$15,000 upon signing the agreement. These claims are subject to a net smelter return (NSR) royalty of 1% to the vendors. The Company can buyback the royalty, in total or in two parts of 0.5% each, upon payment to the vendors of \$500,000 per 0.5%, for a total amount of \$1,000,000. Additional adjoining claims were staked for which, in certain cases, a 0.5% royalty is payable and the Company can buy back this royalty for \$500,000. This property is located in the Eastern Townships, about 120 kilometres south of Quebec City.

On August 24, 2007, the Company signed a letter of agreement with Breakwater Resources Ltd. ("Breakwater") whereby Breakwater can acquire 50% of the Weedon property subject to the following conditions:

	<u>Payments in cash</u>	<u>Works</u>
	<u>\$</u>	<u>\$</u>
Upon signing	40,000	-
August 24, 2008	50,000	500,000
August 24, 2009	50,000	1,000,000
August 24, 2010	60,000	1,500,000
Total	<u>200,000</u>	<u>3,000,000</u>

- Only the \$40,000 cash payment upon signing and the first year work commitment for \$500,000 are firm commitments.
- The Company is the operator and therefore charges project management fees and received from time to time advances for exploration work.
- Upon acquiring a 50% interest, a joint venture will be formed. In addition, Breakwater will have the option to acquire an additional 15% interest by delivering a bankable feasibility study under the following conditions:
 - Annual cash payment of \$40,000 and a minimum of \$200,000 worth of exploration work per year until the delivery of a bankable feasibility study within a 4-year period.

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Notes to Financial Statements

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5. Mining assets (cont'd)

d) Gatineau Zn

The Company acquired claims located in the Gatineau region located approximately 200 km northwest of Montreal city.

On August 24, 2007, the Company signed a letter of agreement with Breakwater Resources Ltd. ("Breakwater") whereby Breakwater can acquire 50% of the Gatineau Zn property subject to the following conditions:

	<u>Payments in cash</u>	<u>Works</u>
	<u>\$</u>	<u>\$</u>
Upon signing	40,000	-
August 24, 2008	50,000	500,000
August 24, 2009	50,000	1,000,000
August 24, 2010	50,000	1,500,000
August 24, 2011	60,000	1,500,000
Total	<u>250,000</u>	<u>4,500,000</u>

d) Gatineau Zn (cont'd)

- Only the \$40,000 cash payment upon signing and the first year work commitment for \$500,000 are firm commitments.
- The Company is the operator and therefore charges project management fees and received from time to time advances for exploration work.
- Upon acquiring a 50% interest, a joint venture will be formed. In addition, Breakwater will have the option to acquire an additional 15% interest by delivering a bankable feasibility study under the following conditions:
 - Annual cash payment of \$40,000 and a minimum of \$200,000 worth of exploration work per year until the delivery of a bankable feasibility study within a 4-year period.

e) James Bay Au (note 10a)

The Company acquired claims in the James Bay region in the sub-provinces of La Grande and Opinaca.

f) James Bay Mo

The Company acquired claims located 35 km west of LG-4 hydroelectric complex in the James Bay region.

g) James Bay U (note 10b)

The Company acquired claims in the James Bay region.

f) Project generation

The Company initiated some geological compilation programs and staking in Quebec for the acquisition of uranium properties.

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Notes to Financial Statements

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6. Capital stock

A summary of the Company's share capital is as follows:

	2007		2006	
	Number	Amount	Number	Amount
		\$		\$
Common shares (note 6a)	20,178,879	6,933,234	10,896,657	2,306,234
Warrants (note 6b)	420,000	92,400		-
		<u>7,025,634</u>		<u>2,306,234</u>

a) Common shares

Authorized

Unlimited number of common shares without par value, voting and participating.

Issued and to be issued

Changes in the Company's common shares were as follows:

	2007		2006	
	Number	Amount	Number	Amount
		\$		\$
Balance – Beginning of year	10,181,660	2 110 325	7,146,660	1,698,100
Issued following				
Initial public offering i)	9,000,000	4 500 000	-	-
Acquisition of mining properties iv)	-	-	2 400 000	240 000
Flow-through private placement ii) v)	282,222	127 000	360,000	90,000
Exercise of warrants iii)	714,997	178 749	-	-
Exercise of flow-through warrants vi)	-	-	275,000	68,750
<i>Plus: Value of warrants exercised</i>	-	17 160	-	13,475
	<u>20,178,879</u>	<u>6,933,234</u>	<u>10,181,660</u>	<u>2,110,325</u>
To be issued				
Exercise of warrants iii)	-	-	714,997	178,749
<i>Plus: Value of warrants exercised</i>	-	-	-	17,160
Balance – End of year	<u>20,178,879</u>	<u>6,933,234</u>	<u>10,896,657</u>	<u>2,306,234</u>

- i) On March 2, 2007, the Company closed its IPO and the trading of its common shares commenced on the TSX Venture Exchange under the symbol MD. The Company issued 9,000,000 common shares at a price of \$0.50 per share, for gross proceeds of \$4.5 million. Desjardins Securities Inc. acted as agent for the distribution and received a cash commission of \$262,500 and 420,000 broker warrants, each warrant entitling its owner to acquire one common share at a price of \$0.50 for a 24-month period.

The total broker warrants cost amount to \$92,400 and was recorded as share issue cost. This \$92,400 fair value was estimated using the Black-Scholes model with no expected dividend yield, an expected volatility of 76%, a risk free interest rate of 4.25% and an expected life of the broker warrants of 24 months.

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6. Capital stock (cont'd)

a) Common shares (cont'd)

- ii) On December 31, 2006, the Company completed a private placement of 282,222 flow-through common shares for a total cash consideration of \$127,000.
- iii) On September 30, 2006, the Company issued 714,997 common shares upon the exercise of warrants for an amount of \$178,749.
- iv) On October 4, 2005, the Company issued the 2,400,000 common shares, including the 500,000 common shares issued to an officer as described in note 5a to the financial statements.
- v) On December 30, 2005, the Company completed a private placement of 360,000 flow-through common shares for a total cash consideration of \$90,000, under which the Company issued 360,000 flow-through common shares priced at \$0.25 each. The entire proceeds were used to finance exploration work on Canadian properties.
- vi) During December 2005, the Company issued 275,000 flow-through common shares on the exercise of warrants for an amount of \$68,750. The entire proceeds were used to finance exploration work on Canadian properties.
- vii) There are 1,898,526 shares held in escrow as at September 30, 2007 (750,000 as at September 30, 2006).

b) Warrants

Changes in the Company's outstanding warrants were as follow:

	2007		2006	
	Number	Amount	Number	Amount
Balance – Beginning of year	-	\$ -	1,416,660	\$ 43,000
Issued (note 6ai)	420,000	92,400	-	-
Exercised (note 6a)	-	-	(989,997)	(30,635)
Expired	-	-	(426,663)	(12,365)
Balance – End of year	<u>420,000</u>	<u>92,400</u>	<u>-</u>	<u>-</u>

Warrants outstanding as at September 30, 2007 are as follows:

<u>Number</u> <u>of warrants</u>	<u>Exercise price</u>	<u>Expiry date</u>
420,000	\$ 0.50	March 2, 2009
<u>420,000</u>		

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6. Capital stock (cont'd)

c) Stock-based compensation and other stock-based payments

The Company has a stock option plan for its officers, directors, employees and consultants. The maximum number of common shares issuable under the plan will be limited to 2,000,000. The plan provides that no single person may hold options representing more than 5% of the outstanding common shares. The number of common shares granted to a beneficiary and the vesting period will be determined by the Board of Directors.

The exercise price of any option granted under the plan shall be fixed by the Board of Directors at the time of grant and shall not be lower than the closing price on the day preceding the grant. If there are no transactions on such day the closing price will be replaced by the average between the bid price and ask price. The term of the option will not exceed five years from the date of grant. Options are not transferable and can only be exercised while the beneficiary remains a director, an officer, an employee or a consultant of the Company. The options are vesting 1/6 per 3 months from the grant date, or otherwise as determined by the Board of Directors and the cost of the options will be recorded over the vesting period. When the stock-based compensation is granted to individual for whom the fees or the salary are capitalised against the deferred exploration expenses, the fair value of this compensation is also capitalized against the deferred exploration expenses.

On November 1, 2006, the Company nominated a new president with the following conditions:

- i) The Company has granted 250,000 options exercisable at its initial public offering price of \$0.50, valid for 5 years. Total stock-based compensation costs amount to \$82,500 for an estimated fair value of \$0.33 per option. The fair value of the options granted was estimated using the Black-Scholes model with no expected dividend yield, an expected volatility of 96%, a risk-free interest rate of 4.14% and an expected life of options of 5 years.
- ii) Two shareholders of the Company have granted 250,000 options with immediate vesting to the new president at \$0.25 which is 50% of the initial public offering price, valid for 2 years. Total stock-based compensation costs for these options amount to \$67,500 for an estimated fair value of \$0.27 per option. The fair value of the options granted was estimated using the Black-Scholes model with no expected dividend yield, an expected volatility of 76%, a risk-free interest rate of 4.16% and an expected life of options of 2 years. This transaction is a stock-based compensation since it's considered a capital contribution by a shareholder of the Company and the Company subsequently attributes it to the employee.
- iii) A principal shareholder of the Company has transferred to the new president 250,000 shares, of which 204,166 are held in escrow as of September 30, 2007. The fair value of these shares amount to \$73,125 for an estimated value of \$0.2925 \$ per share. The fair value of these shares is based on the value of the private placement that occurred on December 2006 minus a discount of 35% since the shares are held in escrow. This transaction is a stock-based compensation since it's considered a capital contribution by a shareholder of the Company and the Company subsequently attributes it to the employee.

Midland Exploration Inc.

(An exploration stage company)

Notes to Financial Statements

September 30, 2007 and 2006

6. Capital stock (cont'd)

c) Stock-based compensation and other stock-based payments (cont'd)

On January 11, 2007, the Company granted 1,000,000 options exercisable at its initial public offering price of \$0.50, valid for 5 years. Total stock-based compensation costs amount to \$320,000 for an estimated fair value of \$0.32 per option. The fair value of the options granted was estimated using the Black-Scholes model with no expected dividend yield, an expected volatility of 93%, a risk-free interest rate of 4.25% and an expected life of options of 5 years.

On May 1, 2007, the Company granted 100,000 options exercisable at \$0.64, valid for 5 years. Of these 100,000 options, 50,000 vest immediately and 50,000 vest on May 1, 2008. Total stock-based compensation costs amount to \$46,000 for an estimated fair value of \$0.46 per option. The fair value of the options granted was estimated using the Black-Scholes model with no expected dividend yield, an expected volatility of 90%, a risk-free interest rate of 4.51% and an expected life of options of 5 years.

A summary of changes of the Company's common share purchase options is presented below:

	<u>2007</u>	
	<u>Number of options</u>	<u>Weighted average exercise price</u>
		\$
Balance - Beginning of period	-	-
Granted	1,350,000	0.51
Balance - End of period	<u>1,350,000</u>	<u>0.51</u>

The following table summarizes information about common share purchase options outstanding and exercisable as at September 30, 2007:

<u>Number of options outstanding</u>	<u>Number of options exercisable</u>	<u>Exercise price</u>	<u>Expiry date</u>
		\$	
250,000	125,001	0.50	November 1, 2011
1,000,000	333,334	0.50	January 11, 2012
100,000	50,000	0.64	May 1, 2012
<u>1,350,000</u>	<u>508,335</u>		

d) Contributed surplus

A summary of changes of the Company's contributed surplus is presented below:

	<u>2007</u>	<u>2006</u>
	\$	\$
Balance - Beginning of the period	12,365	-
Stock-based compensation	383,627	-
Warrants expired	-	12,365
Balance - End of period	<u>395,992</u>	<u>12,365</u>

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Notes to Financial Statements

September 30, 2007 and 2006

7. Income taxes

- a) In December 2006, the Company issued flow-through shares for gross proceeds of \$127,000 (\$158,750 in December 2005). Under the flow-through share agreements, the Company renounced in February 2007 to \$127,000 of qualifying expenditures to the investors effective December 31, 2006 (\$158,750 in December 2005), although under the Canadian Income Tax Act, the expenditures may actually be incurred up to December 31, 2007.

The Company is required to record a tax liability at the time the renunciation is filed with the tax authorities by an increase in the share and warrant issue expenses relating to the flow-through shares for the future income taxes related to the tax deductions the Company had forgone. The Company has estimated that the future income taxes recorded at the time of renunciation would be approximately \$41,000 (\$49,000 in December 2005). Consequently, the Company has recognized share and warrant issue expenses and an increase in future income tax liability of \$41,000 respectively in February 2007 (\$49,000 in February 2006).

The Company has future income tax assets of loss carryforwards and deductible temporary differences that it had not recognized in previous years as a result of applying the "more likely than not" test. The taxable temporary differences, which arose through the issuance of the flow-through shares in December 2006, are expected to reverse, so that part of the unrecognized future income tax assets can be applied against the full taxable temporary differences. Accordingly, the Company has recognized that portion of its unrecognized future income tax assets by reversing a valuation allowance of \$41,000 (\$49,000 for the year ended September 30, 2006).

- b) The provision for income taxes presented in the financial statements is different from what would have resulted from applying the combined Canadian Statutory tax rate as a result of the following:

	<u>2007</u>	<u>2006</u>
	\$	\$
Loss before income taxes	<u>(481,986)</u>	<u>(122,726)</u>
Combined federal and provincial income tax at 32% (32% en 2006)	(154,300)	(39,297)
Stock-based compensation	82,800	-
Other non deductible elements	4 000	461
Other elements	(6,100)	-
Valuation allowance	<u>32 600</u>	<u>(10,164)</u>
Recovery of future income taxes	<u>(41,000)</u>	<u>(49,000)</u>

Midland Exploration Inc.

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Notes to Financial Statements

September 30, 2007 and 2006

7. Income taxes (cont'd)

c) The future income tax balances are summarized as follows:

	<u>2007</u>	<u>2006</u>
	\$	\$
Future income tax assets		
Mining assets	-	10,000
Non-capital losses	156,000	83,000
Prospectus costs	68,000	72,000
Share and warrant issue expenses	<u>128,000</u>	<u>2,000</u>
Total future income tax assets	352,000	167,000
Valuation allowance	<u>(318,000)</u>	<u>(157,000)</u>
Total net future income tax assets	34,000	10,000
Future income tax liabilities		
Mining assets	34,000	-
Flow-through shares	<u>-</u>	<u>10,000</u>
Total future income tax liabilities	<u>34,000</u>	<u>10,000</u>
Total net future income tax liabilities	<u>-</u>	<u>-</u>

d) The Company has accumulated non-capital losses of approximately \$513,000. These losses will expire from 2008 to 2027 as follows:

		\$
Years ending September 30	2008	4,000
	2009	4,000
	2010	1,000
	2014	20,000
	2015	96,000
	2026	85,000
	2027	303,000

e) As at September 30, 2007, the cost for income tax purposes of mining assets, prospectus costs and share and warrants issue expenses totalled approximately \$1,427,000. The difference between the fiscal cost and the amount capitalized in the financial statements arises from the write-off of certain capital assets for accounting purposes and the tax benefits related to some exploration expenses being renounced in favour of subscribers of flow-through shares.

f) These tax values of assets and liabilities have not been accepted by the relevant tax authorities nor have they been disputed.

Midland Exploration Inc.

(An exploration stage company)

Notes to Financial Statements

September 30, 2007 and 2006

8. Related party transactions

In the normal course of operations:

- a) During the year ended September 30, 2007 a firm in which an officer is a partner charged professional fees amounting to \$156,718 (\$22,769 for the year ended September 30, 2006);
- b) Since January 11, 2007 a company controlled by an officer charged professional fees of \$22,838;
- c) As at September 30, 2007, the balance due to the related parties amounted to \$8,215 (September 30, 2006 – \$14,530).

Not in the normal course of business:

- d) In December 2006, directors and officers of the Company participated in private placements of flow-through shares (note 6a) for a total consideration of \$47,000 (\$10,000 for the year ended September 30, 2006).

These related party transactions were recorded at the exchange value, which is the consideration determined and agreed to by the related parties.

9. Commitment

The Company is committed to annual rent of \$19,046 under an operating lease of three years expiring in February 2010.

10. Subsequent events

- a) On October 10, 2007, The Company signed a letter of agreement with Agnico-Eagle whereby Agnico-Eagle can acquire 50% of the James Bay AU property subject to the following conditions:

	<u>Payments in cash</u>	<u>Works</u>
	\$	\$
Upon signing	50,000	-
October 10, 2008	60,000	600,000
October 10, 2009	60,000	900,000
October 10, 2010	60,000	1,300,000
October 10, 2011	70,000	1,700,000
Total	<u>300,000</u>	<u>4,500,000</u>

- Only the \$50,000 cash payment upon signing and the first year work commitment for \$600,000 are firm commitments.
- The Company is the operator.
- Upon acquiring a 50% interest, Agnico-Eagle will have the option to increase its undivided interest in the project from 50% to 65% over a period of three years, by solely financing a bankable feasibility study on the James Bay Gold project or by solely assuming all mining operations on the project, earning 1% additional interest for every \$1,000,000 spent on the property (up to 15% by spending \$15 millions).

Midland Exploration Inc.

(An exploration stage company)

Notes to Financial Statements

September 30, 2007 and 2006

10. Subsequent events (cont'd)

- b) On November 12, 2007, The Company signed a letter of agreement with a partner whereby the partner can acquire 50% of the James Bay U property subject to the following conditions:

	<u>Payments in cash</u>	<u>Works</u>
	\$	\$
Upon signing	40,000	-
November 12, 2008	40,000	400,000
November 12, 2009	40,000	600,000
November 12, 2010	40,000	800,000
November 12, 2011	40,000	1,000,000
Total	<u>200,000</u>	<u>2,800,000</u>

- Only the \$40,000 cash payment upon signing and the first year work commitment for \$400,000 are firm commitments.

11. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.