

# **Midland Exploration Inc.**

(An exploration stage company)

Interim Financial Statements

For the three month period ended December 31, 2006

*The attached financial statements have been prepared by Management of  
Midland Exploration Inc. and have not been reviewed by an auditor*

## **Midland Exploration Inc.**

(An exploration stage company)

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

December 31, 2006

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The following discussion and analysis (the "MD&A") of the financial condition and results of the operations of Midland Exploration Inc. ("Midland" or "the Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the three month period ended December 31, 2006. This MD&A should be read in conjunction with the Company's financial statements and related notes as at December 31, 2006. All figures are in Canadian dollars unless otherwise noted. The Company's financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles.

Further information regarding the Company and its operations are filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) in Canada and can be obtained from [www.sedar.com](http://www.sedar.com).

#### **Nature of activities**

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.

In June 2000, the Company decided to abandon its mining properties and cease its operations, and stayed inactive until November 2004. During the year ended September 30, 2005, new directors restarted operations by obtaining additional capital and by investing in new mining properties located in Canada. On May 3, 2005, the Company changed its corporate name from Oxford Resources Inc. to Midland Exploration Inc. On November 1, 2006, a new President, Gino Roger, was nominated.

#### **Overall performance**

The Company reported a loss of \$131,206 for the three month period ended December 31, 2006 ("Q1-2007") compared to a loss of \$3,049 for the three month period ended December 31, 2005 ("Q1 2006").

In December 2006, the company issued \$127,000 flow-through shares following a private placement.

The Company expensed \$28,454 in exploration in Q1-2007 on its Maritime-Cadillac and Vermillon (option) properties.

An unfavourable net change in cash and cash equivalents of \$89,443 was generated in Q1-2007. The Company expects to complete its initial public offering during the year that will end in September 30, 2007 ("Fiscal 2007").

#### **Results of operations**

Total expenses went from \$3,049 in Q1-2006 to \$131,206 in Q1-2007 now that the Company has resumed its exploration, professional and administrative activities and hired a full time president to whom it granted options.

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#### Investing activities

The Company spent \$28,454 in Q1-2007 (\$156,922 in Fiscal 2006) in deferred exploration expenses. The mining assets of the Company are Maritime-Cadillac and Vermillon (option).

##### *Maritime-Cadillac*

The Company spent \$3,259 (\$57,788 in Fiscal 2006) on the Maritime-Cadillac property in Q1-2007.

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;
- A commitment to carry out exploration work in the amount of \$400,000 before December 31, 2008, unless the market value of the Common Shares reaches \$1.00 per share at the close of business of any day on which the shares will be listed.

On March 7, 2006, an amendment to the agreement acknowledges 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 Midland in a joint operation to further explore and develop the Property. The consideration is:

- Four annual payments of \$25,000 each 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;
- Agnico-Eagle is the operator of the project; and
- Subject to approval by the relevant regulatory authorities, Agnico-Eagle will contribute 9.9% up to a maximum of \$200,000 of Midland's initial public offering if it's completed before December 31, 2007.

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 solely financing a bankable feasibility study in respect of the Maritime Cadillac Property or by solely 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 million).

In Fiscal 2006, exploration work consisting of line cutting, detailed geophysical surveys and surface prospecting was carried out.

In Fiscal 2005, two phases of exploration work were carried out from January to April on the Property, under the supervision of Jacques Marchand, consulting geological engineer. The first phase consisted of a compilation of previous drilling and geophysical surveys, and integration of the results into a database. During the second phase, detailed ground geophysical surveys were conducted to define new gold exploration targets.

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#### Investing activities (Cont'd)

At the start of Fiscal 2007, a drilling campaign was carried out by Agnico-Eagle on the Maritime-Cadillac property. Based on the results of a compilation of previous work conducted in the fall 2006, two phases of drilling were planned. The first phase took place between October 25 and November 6, 2006. The campaign consisted of 2 drillholes totalling 729 metres (370 m in 141-06-01 and 359 m in 141-06-02). The two holes were drilled to delineate the stratigraphic contacts between the Pontiac, Piché and Cadillac groups, and to determine the location of talc-chlorite-carbonate schist zones associated with the Cadillac-Larder Lake Fault Zone (CLFZ), which represents a major regional gold indicator and which also hosts the Lapa deposit. Results obtained in drillholes 141-06-01 and -02 were very encouraging in that the entire lithological package was intersected. Despite the lack of significant economic assay results in drillhole 141-06-01, drillhole 141-06-02 intersected two zones of interest, one of which should be followed up in a subsequent phase. Preliminary results for the two zones are: 0.37 g/t Au over 6.00 m from 112 to 118 metres (associated with a chlorite-talc-carbonate schist horizon), and 3.45 g/t Au over 4.90 m, from 265 to 269.9 metres. Note that the latter intersection included a 1.50-m interval grading 8.38 g/t Au. This intersection is particularly interesting since it is associated with the southwest contact of the main chlorite-talc-carbonate schist zone of the CLFZ. Following this campaign, Agnico-Eagle Ltd. intends to pursue exploration work on the Maritime-Cadillac property, in order to meet its \$300,000 commitment for the first year of the agreement entered into in June 2006. A second phase of drilling is planned in the winter 2007, to follow up on the new gold zones intersected in drillhole 141-06-02. Midland does not expect to spend any money on the field on the Maritime-Cadillac Property in Fiscal 2007.

#### *Vermillon (option)*

The Company spent \$25,195 (\$99,134 in Fiscal 2006) on the Vermillon property in Q1 -2007.

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

- A commitment to carry out work a maximum of \$210,000 of work:
  - \$100,000 on or 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;
- Soquem is the operator of the project; and

If the option is exercised, Soquem and Midland will form a joint venture.

In Fiscal 2006, an exploration campaign was carried out in June on the Vermillon property, consisting of Beep-Mat prospecting and regional mapping. The Vermillon property is located about 100 km west of the town of La Tuque. The property initially consisted of 249 contiguous cells totalling 14,554 hectares. These claims are characterized by the presence, in the northern part of the property, of decimetre-scale rusty boulders with Cu-Au mineralization, discovered in 2005 by a local prospector, Claude Bronsard. The gold-copper-bearing float yielded assays up to 2.1 g/t Au, 1.13% Cu, and 12.6 g/t Ag. During the winter 2005-2006, prior to the agreement with Midland, a heliborne electromagnetic (EM-Mag) survey was carried out on the claim block by Soquem. The heliborne EM survey defined a multitude of electromagnetic anomalies. Only a small proportion of the latter were explained during the summer 2006 by the presence of paragneiss layers with disseminated sulphides and/or graphite.

In Fiscal 2007, Midland and Soquem recommend an exploration program totalling \$460,000, to locate the source of Au-Cu-bearing float, and to discover new showings associated or not with geophysical anomalies. Exploration in this part of the Grenville is in the preliminary stages, and the exploration model remains poorly defined. The project has potential for gold-bearing and copper-gold-bearing skarns, as well as for gold-rich massive sulphide deposits.

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#### Investing activities (Cont'd)

The recommended work program includes the following:

- Line cutting in target areas where mineralized float were found, including sampling of sulphide-bearing gneiss units and float;
- Ground geophysics, namely magnetometer and Maxmin surveys;
- Stripping to expose the bedrock in float-bearing areas and on geophysical anomalies;
- Detailed geological mapping of each zone;
- A 1200-metre drilling campaign to test areas with significant mineralization or geophysical anomalies where the bedrock does not outcrop.

In November 2006, Les Consultants Inlandsis conducted a ground survey (horizon B) and an ice flow survey in the mineralized blocks sector. In December 2006, GL Geoservices commenced line cutting work and a MaxMin survey.

#### Other activities

For Fiscal 2007, following its public offering, Midland intends to be pro-active in the acquisition of new mineral exploration properties in Québec. Potential acquisition opportunities outside of Québec will also be considered. Midland prefers to work in partnership and fully intends to quickly secure new partnerships for its new properties to be acquired in Fiscal 2007.

Deferred exploration expenses Q1-2007	Maritime Cadillac	Vermillon (option)	Total
	\$	\$	\$
<b>Balance – Beginning of period</b>	149,370	99,134	248,504
Geophysics	-	22,802	22,802
Geology	3,259	4,056	7,315
Geochemistry	-	(18)	(18)
Management fees	-	(1,645)	(1,645)
	<u>3,259</u>	<u>25,195</u>	<u>28,454</u>
<b>Balance – End of period</b>	<u>152,629</u>	<u>124,329</u>	<u>276,958</u>

Deferred exploration expenses Q1-2006	Maritime Cadillac	Vermillon (option)	Total
	\$	\$	\$
<b>Balance – Beginning of period</b>	91,582	-	91,582
Geophysics	12,511	-	12,511
Geology	4,026	-	4,026
Prospecting	2,876	-	2,876
Line cutting	23,143	-	23,143
Compilation analysis	14,082	-	14,082
Travelling	1,150	-	1,150
	<u>57,788</u>	<u>-</u>	<u>57,788</u>
<b>Balance – End of period</b>	<u>149,370</u>	<u>-</u>	<u>149,370</u>

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#### Financing activities

The Company finance itself mainly through share issuance.

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.

#### Working capital

The Company has a negative working capital of \$78,087 as at December 31, 2006 (including an amount of \$127,000 reserved for new exploration activities) as compared to a deficit of \$53,234 as of September 30, 2006. Management is of the opinion that, combined with an initial public offering in the process of being completed for Fiscal 2007, it will be able to maintain the status of its current exploration obligations and to keep its properties in good standing. A portion of the IPO, a minimum of \$350,000, will be allocated to the annual operating budget of the Company. The remaining portion of the IPO will be mainly allocated to finance the new exploration programs on the Vermillon property and to acquire and explore new mining properties in Quebec and outside Quebec. Advanced exploration of some of the mineral properties would require substantially more financial resources. In the past, the Company has been able to rely on its ability to raise financing in privately negotiated equity offerings. There is no assurance that such financing will be available when required, or under terms that are favourable to the Company. The Company may also elect to advance the exploration and development of mineral properties through joint-venture participation.

#### Summary of results per semesters

For the five most recent quarters:

	<b>December 31 2006</b>	<b>September 30 2006</b>	<b>June 30 2006</b>	<b>March 31 2006</b>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net earnings (loss)	(131,206)	(63,136)	(13,969)	6,428
Net earnings (loss) per share basic and diluted	(0.01)	(0.01)	-	-
Total assets	858,210	850,810	619,569	633,986
	<b>December 31 2005</b>			
	<u>\$</u>			
Net earnings (loss)	(3,049)			
Net earnings (loss) per share basic and diluted	-			
Total assets	635,360			

The recovery of future income taxes are generally recorded in February which would explain the variation between the semesters (see note 6 of the Financial Statements).

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### Management's Discussion and Analysis

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#### Related party transactions

*In the normal course of operations:*

- a) During the three month period ended December 31, 2006, a firm in which an officer is a partner charged professional fees amounting to \$22,206.
- b) As at December 31, 2006, the balance due to the related parties amounted to \$23,507.

*Not in the normal course of business:*

- c) In December 2006, directors and officers of the Company participated in private placements of flow-through shares (note 4ai) for a total consideration of \$47,000.

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

#### Subsequent events

- a) On January 11, 2007, the Company granted a total of 1,000,000 options to its directors and officers exercisable at a price of \$0.50 per share for a five year period.
- b) Initial Public Offering of Common Shares

Pursuant to an agency agreement dated February 22, 2007, the Company agreed to issue a minimum of 4,000,000 and a maximum of 9,000,000 of Common Shares at a price of \$0.50 for total gross proceeds between \$2,000,000 and \$4,500,000. The Company's share of issue expenses and agents' fees are estimated between \$225,000 to \$462,000 plus the reimbursement of the legal and out of pocket expenses of the Agents. In addition, the Company granted the agents a non-transferable option to purchase a number of common shares which shall be equal to 6% of the aggregate number of Common Shares sold at a price of \$0.50, exercisable for 24 months following the date of the closing of this offering. In calculating the number of Common Shares for the Agent's Option the number of Common Shares subscribed by certain institutional investors totalling 2,000,000 must be excluded.

#### Outstanding share data

	<b>As of February 27, 2007</b>
	<u>Number</u>
Common shares	11,178,879
Options	1,250,000
Warrants	-
	<u>12,428,879</u>

#### Off-balance sheet arrangements

During Q1-2007, the Company did not set up any off-balance sheet arrangements.

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

December 31, 2006

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#### **Critical accounting 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 asset valuations and future income taxes. Actual results could differ from those estimates and such differences could be material.

##### *Mining assets*

Exploration properties include rights in mining properties and deferred exploration expenses. Expenditure 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 not warranting further investment. Expenditure not related to specific properties are accounted for in the statements of operations. Proceeds on the sale of exploration properties are applied in reduction of related carrying costs and any excess is recorded as a gain in the statement of operations. In the case of a partial sale, if carrying costs exceed the proceeds, only the losses are recorded.

#### **Changes in accounting policies including initial adoption**

##### *Taking effect subsequent to Fiscal 2006*

The CICA issued three new sections for 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 3865, "Hedges", provides guidance on the application of hedge accounting and related disclosures.
3. 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, which come into effect for annual and interim periods relating to fiscal years beginning on or after October 1, 2006, have no significant impact on the Financial Statements.

#### **Financial instruments and other 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.

The fair value of cash and cash equivalents, sales tax receivable and accounts payable and accrued liabilities are comparable to their carrying value due to the relatively short period to maturity of the instruments.

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

December 31, 2006

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#### **Financial instruments and other instruments (Cont'd)**

##### *Interest rate risk*

The Company's cash and cash equivalents, sales tax receivable and accounts payable and accrued liabilities are non-interest bearing.

#### **Internal control over financial reporting**

The Company has established and maintains internal control over financial reporting ("ICFR"). The ICFR is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and preparation of financial statements in accordance with generally accepted accounting principles ("GAAP"). The certifying officers have evaluated whether there were changes to its ICFR during Q1-2007 that have materially affected, or that are reasonably likely to materially affect its ICFR. No such changes were identified through their evaluation.

#### **Management's responsibility for financial information**

Midland's financial statements are the responsibility of the Corporation's management. The financial statements were prepared by the Company's management in accordance with Canadian generally accepted accounting principles. The financial statements include certain amounts based on the use of estimates and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

#### **Forward looking information**

This management's discussion and analysis contains forward looking statements reflecting Midland's objectives, estimates and expectations. These statements are identified by the use of verbs such as "believe", "anticipate", "estimate", and "expect". As well as the use of the future or conditional tense. By their very nature, these types of statements involve risk and uncertainty. Consequently, results could differ materially from the Company's projections or expectations.

February 27, 2007

(S) Gino Roger \_\_\_\_\_

Gino Roger  
President

(S) Ingrid Martin \_\_\_\_\_

Ingrid Martin  
Chief Financial Officer

# Midland Exploration Inc.

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## Balance Sheets

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	<b>As at December 31 2006 (Unaudited)</b>	<b>As at September 31 2006 (Audited)</b>
	<u>\$</u>	<u>\$</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 2)	229,708	319,151
Sales tax receivable	18,074	7,298
Prepays	12,255	-
	<u>260,037</u>	<u>326,449</u>
Deferred share issue expenses	45,453	-
<b>Mining assets</b> (note 3)		
Mining properties	275,762	275,857
Deferred exploration expenses	276,958	248,504
	<u>552,720</u>	<u>524,361</u>
	<u>858,210</u>	<u>850,810</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	211,124	242,434
<b>Shareholders' equity</b>		
<b>Capital stock</b> (note 4)	2,433,234	2,306,234
<b>Contributed surplus</b> (note 4c)	55,281	12,365
<b>Deficit</b>	(1,841,429)	(1,710,223)
	<u>647,086</u>	<u>608,376</u>
	<u>858,210</u>	<u>850,810</u>

Going concern assumption (note 1)

See accompanying notes.

# Midland Exploration Inc.

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## Statement of Operations and Deficit (Unaudited)

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	For the three month period ended December 31,	
	2006	2005
	\$	\$
<b>Expenses</b>		
Stock-based compensation	42,916	-
Administrative expenses and other	35,816	-
Investors relations	4,922	2,244
Professional fees	33,960	230
General exploration	13,592	575
	<hr/>	<hr/>
<b>Loss</b>	(131,206)	(3,049)
<b>Deficit – Beginning of year</b>	(1,710,223)	(1,586,872)
Share and warrant issue expenses	-	(213)
	<hr/>	<hr/>
<b>Deficit – End of year</b>	(1,841,429)	(1,590,134)
	<hr/>	<hr/>
<b>Basic and diluted net loss per share</b>	(0.01)	-
	<hr/>	<hr/>
<b>Weighted average number of basic and diluted outstanding shares</b>	10,896,657	9,547,638
	<hr/>	<hr/>

Going concern assumption (note 1)

See accompanying notes.

# Midland Exploration Inc.

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## Statement of Cash Flows

(Unaudited)

	For the three month period ended	
	December 31,	
	2006	2005
	\$	\$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Loss	(131,206)	(3,049)
Adjustment for		
Stock-based compensation	42,916	-
	<u>(88,290)</u>	<u>(3,049)</u>
Changes in non-cash working capital items		
Sales tax receivable	(10,776)	-
Prepays	(12,255)	-
Accounts payable and accrued liabilities	(156,310)	(21,095)
	<u>(179,341)</u>	<u>(21,095)</u>
	<u>(267,631)</u>	<u>(24,144)</u>
<b>Financing activities</b>		
Capital stock issued	127,000	158,750
Share and warrant issue expenses	-	(213)
Deferred share issue expenses	(45,453)	-
	<u>81,547</u>	<u>158,537</u>
<b>Investing activities</b>		
Additions to mining properties	95	-
Additions to deferred exploration expenses	96,546	(4,026)
	<u>96,641</u>	<u>(4,026)</u>
<b>Net change in cash and cash equivalents during the year</b>	<b>(89,443)</b>	<b>130,367</b>
<b>Cash and cash equivalents – beginning</b>	<b>319,151</b>	<b>85,623</b>
<b>Cash and cash equivalents – end</b>	<b><u>229,708</u></b>	<b><u>215,990</u></b>
<b>Additional information</b>		
Additions of mining properties and deferred exploration expenses included in accounts payable and accrued liabilities	125,000	53,762

Going concern assumption (note 1)

See accompanying notes.

# Midland Exploration Inc.

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## Notes to Financial Statements

December 31, 2006

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### 1. Statute of incorporation, nature of activities and going concern assumption

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.

In June 2000, the Company decided to abandon its mining properties and cease its operations, and stayed inactive until November 2004.

During the year ended September 30, 2005, new directors restarted operations by obtaining additional capital and by investing in new mining properties located in Canada. On May 3, 2005, the Company changed its corporate name from Oxford Resources Inc. to Midland Exploration Inc.

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.

For the three month period ended December 31, 2006, the Company incurred a loss of \$131,206 (\$73,726 for the year ended September 30, 2006). Cash and cash equivalents at that date amount to \$229,708 (\$319,151 on September 30, 2006) and the needs are \$307,796 for working capital purposes (\$288,370 in September 30, 2006). In addition to ongoing working capital requirements, the Company must secure sufficient funding for its existing commitments for exploration and development programs and general and administration costs. While there is some doubt as to the Company's ability to meet its commitments, management has made some progress addressing these concerns during 2006. During the period ended December 31, 2006, the Company closed private placements of flow-through units in the amount of \$127,000.

The above undertakings are not sufficient in and of themselves to enable the Company to fund all aspects of its operations and, accordingly, with the above activities now completed, management is pursuing other financing alternatives to fund its operations and to continue the Company's activities as a going concern. Although there is no assurance that the Company will be successful in these actions, management is confident that it will be able to secure the necessary financing through the issuance of new equity instruments. The Company is currently in the process of an initial public offering ("IPO"). Management is confident to close this IPO in the next month.

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, and do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

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## Notes to Financial Statements

December 31, 2006

### 2. Cash and cash equivalents

As at December 31, 2006, cash and cash equivalents includes an amount of \$127,000 reserved for new exploration activities to be carried out in Canada before December 31, 2006 (September 30, 2006 - \$30,781).

### 3. Mining assets

<u>Mining properties</u>	<u>As at September 30, 2006</u>	<u>Additions</u>	<u>Disposals and write-offs</u>	<u>As at December 31, 2006</u>
	\$	\$	\$	\$
<b>Quebec</b>				
Maritime-Cadillac	275,091	-	-	275,091
Vermillon (option)	766	(95)	-	671
	275,857	(95)	-	275,762

<u>Deferred exploration expenses</u>	<u>As at September 30, 2006</u>	<u>Additions</u>	<u>Disposals and write-offs</u>	<u>As at December 31, 2006</u>
	\$	\$	\$	\$
<b>Quebec</b>				
Maritime-Cadillac	149,370	3,259	-	152,629
Vermillon (option)	99,134	25,195	-	124,329
	248,504	28,454	-	276,958

### 4. Capital stock

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

	<b>Three month ended December 31, 2006</b>	
	<b>Number</b>	<b>Amount</b>
		\$
Common shares (note 4a)	11,178,879	2,433,234
Warrants	-	-
		2,433,234

#### a) Common shares

*Authorized*

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

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## Notes to Financial Statements

December 31, 2006

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### 4. Capital stock (Cont'd)

#### a) Common shares (Cont'd)

*Issued and to be issued*

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

	<b>Three month ended December 31, 2006</b>	
	<b>Number</b>	<b>Amount</b>
<b>Balance – Beginning of year</b>	10,181,660	\$ 2,110,325
<b>Issued following</b>		
Exercise of warrants ii)	714,997	178,749
<i>Plus: Value of warrants exercised</i>	-	17,160
	<u>10,896,657</u>	<u>2,306,234</u>
<b>To be issued</b>		
Flow-through private placement i)	282,222	127,000
<b>Balance – End of year</b>	<u>11,178,879</u>	<u>2,433,234</u>

- i) 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.
- ii) On September 30, 2006, the Company issued 714,997 commons shares on the exercise of warrants attached to A units for an amount of \$178,749.

#### b) Stock-based compensation and other stock-based payments

The Company has adopted 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 1,400,000. 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.

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

December 31, 2006

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### 4. Capital stock (Cont'd)

#### b) Stock-based compensation and other stock-based payments (Cont'd)

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. In the three month period ended December 31, 2006, \$9,166 was recorded and the remaining cost will be recorded over the vesting period. 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 4.25% and an expected life of options of 5 years.
- ii) Two shareholders of the Company have granted 250,000 options to the new president at \$0.25 which is 50% of the initial public offering price, valid for 2 years. One of these shareholders who granted 125,000 options is considered to be a principal shareholder of the Company. Total stock-based compensation costs for these 125,000 options amount to \$33,750 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 4.25% and an expected life of options of 2 years.
- iii) A shareholder of the Company has transferred to the new president 250,000 shares, which are currently held in escrow.

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

	<b>Three-month period ended December 31, 2006</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>
Balance at beginning of period	-	\$ -
Granted	250,000	0.50
Balance at end of period	<u>250,000</u>	<u>0.50</u>

The following table summarizes information about common share purchase options outstanding and exercisable as at December 31, 2006:

<b>Number of options outstanding</b>	<b>Number of options exercisable</b>	<b>Exercise price</b>	<b>Expiry date</b>
250,000	-	\$ 0.50	November 30, 2011
<u>250,000</u>	<u>-</u>		

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

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### 4. Capital stock (Cont'd)

#### c) Contributed surplus

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

	<b>Three-month period ended December 31, 2006</b>
	<u>\$</u>
Balance at beginning of the period	12,365
Stock-based compensation	42,916
Balance at end of period	<u>55,281</u>

### 5. Related party transactions

*In the normal course of operations:*

- a) During the three month period ended December 31, 2006, a firm in which an officer is a partner charged professional fees amounting to \$22,206.
- b) As at December 31, 2006, the balance due to the related parties amounted to \$23,507.

*Not in the normal course of business:*

- c) In December 2006, directors and officers of the Company participated in private placements of flow-through shares (note 4ai) for a total consideration of \$47,000.

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

### 6. Subsequent events

- a) On January 11, 2007, the Company granted a total of 1,000,000 options to its directors and officers exercisable at a price of \$0.50 per share for a five year period.
- b) Initial Public Offering of Common Shares

Pursuant to an agency agreement dated February 22, 2007, the Company agreed to issue a minimum of 4,000,000 and a maximum of 9,000,000 of Common Shares at a price of \$0.50 for total gross proceeds between \$2,000,000 and \$4,500,000. The Company's share of issue expenses and agents' fees are estimated between \$225,000 to \$462,000 plus the reimbursement of the legal and out of pocket expenses of the Agents. In addition, the Company granted the agents a non-transferable option to purchase a number of common shares which shall be equal to 6% of the aggregate number of Common Shares sold at a price of \$0.50, exercisable for 24 months following the date of the closing of this offering. In calculating the number of Common Shares for the Agent's Option the number of Common Shares subscribed by certain institutional investors totalling 2,000,000 must be excluded.