

# **Midland Exploration Inc.**

(An exploration stage company)

Interim Financial Statements

For the three month period ended December 31, 2007

*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)

## Balance Sheets

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	<b>As at December 31 2007 (Unaudited) \$</b>	<b>As at September 31 2007 (Audited) \$</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 2)	3,340,151	3,865,012
Accounts receivable	95,676	18,528
Sales tax receivable	19,672	45,592
Taxes credits and mining rights receivable	94,312	80,268
Prepaid expenses	20,314	29,638
	<u>3,570,125</u>	<u>4,039,038</u>
<b>Exploration funds</b>	124,600	-
<b>Mining assets</b> (note 3)		
Mining properties	456,375	401,053
Deferred exploration expenses	629,395	603,154
	<u>1,085,770</u>	<u>1,004,207</u>
	<u>4,780,495</u>	<u>5,043,245</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	39,082	62,131
Advance for exploration work	30,883	367,960
	<u>69,965</u>	<u>430,091</u>
<b>Shareholders' equity</b>		
<b>Capital stock</b> (note 4)	7,150,234	7,025,634
<b>Contributed surplus</b> (note 4d)	471,406	395,992
<b>Deficit</b>	(2,911,110)	(2,808,472)
	<u>4,710,530</u>	<u>4,613,154</u>
	<u>4,780,495</u>	<u>5,043,245</u>

See accompanying notes.

# Midland Exploration Inc.

(An exploration stage company)

## Statement of Operations, Comprehensive Income and Deficit

(Unaudited)

	For the three month period ended December 31,	
	2007	2006
	\$	\$
<b>Revenues</b>		
Interest	37,748	-
Project management fees	39,843	-
Gain on disposal of mining assets	15,586	-
	<u>93,177</u>	<u>-</u>
<b>Expenses</b>		
Stock-based compensation	56,357	42,916
Administrative expenses and other	52,019	35,816
Investors relations	41,662	4,922
Professional fees	41,939	33,960
General exploration	2,085	13,592
Fair value variation for financial instruments held for trading	(1,165)	-
	<u>192,897</u>	<u>131,206</u>
<b>Loss and comprehensive income</b>	(99,720)	(131,206)
<b>Deficit – Beginning of year</b>	(2,808,472)	(1,710,223)
Share and warrant issue expenses	(2,918)	-
	<u>(2,911,110)</u>	<u>(1,841,429)</u>
<b>Deficit – End of year</b>	<u>(2,911,110)</u>	<u>(1,841,429)</u>
<b>Basic and diluted net loss per share</b>	<u>(0.01)</u>	<u>(0.01)</u>
<b>Weighted average number of basic and diluted outstanding shares</b>	<u>20,178,879</u>	<u>10,896,657</u>

See accompanying notes.

# Midland Exploration Inc.

(An exploration stage company)

## Statement of Cash Flows

(Unaudited)

	For the three month period ended December 31,	
	2007	2006
	\$	\$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Loss	(99,720)	(131,206)
Adjustment for		
Stock-based compensation	56,357	42,916
	<u>(43,363)</u>	<u>(88,290)</u>
Changes in non-cash working capital items		
Accounts receivable	(24,931)	-
Sales tax receivable	25,920	(10,776)
Prepaid	9,324	(12,255)
Accounts payable and accrued liabilities	974	(156,310)
Advance for exploration work	<u>(95,502)</u>	<u>-</u>
	<u>(84,215)</u>	<u>(179,341)</u>
	<u>(127,578)</u>	<u>(267,631)</u>
<b>Financing activities</b>		
Capital stock issued	124,600	127,000
Share and warrant issue expenses	(2,918)	-
Deferred share issue expenses	-	(45,453)
	<u>121,682</u>	<u>81,547</u>
<b>Investing activities</b>		
Additions to mining properties	(103,778)	95
Additions to deferred exploration expenses	(290,587)	96,546
	<u>(394,365)</u>	<u>96,641</u>
<b>Net change in cash and cash equivalents during the year</b>	<b>(400,261)</b>	<b>(89,443)</b>
<b>Cash and cash equivalents – beginning</b>	<b>3,865,012</b>	<b>319,151</b>
<b>Cash and cash equivalents – end</b>	<b>3,464,751</b>	<b>229,708</b>
Less: Exploration funds	(124,600)	(127,000)
<b>Cash and cash equivalents presented on the Balance Sheets</b>	<b>3,340,151</b>	<b>102,708</b>
<b>Additional information</b>		
Stock-based compensation included in deferred exploration expenses	19,057	-
Additions of mining properties and deferred exploration expenses included in accounts payable and accrued liabilities	6,235	125,000
Additions of mining properties and deferred exploration expenses applied against the advance received for exploration work	241,575	-
Accounts receivable applied against mining properties and deferred exploration expenses	58,322	-
Tax credits receivable applied against deferred exploration expenses	14,044	-
Interest cashed	32,075	-

See accompanying notes.

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

(Unaudited)

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### 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. Cash and cash equivalents

As of December 31, 2007, cash and cash equivalents include \$3,128,356 (\$3,211,686 as of September 30, 2007) of guaranteed investment certificates and bankers acceptance bearing interest between 3.80% and 4.55% (4.05% and 4.44% as of September 30, 2007), maturing between January 17, 2008 and September 2, 2008 (October 29, 2007 and September 2, 2008 as of September 30, 2007) and both instruments are cashable any time without any penalties.

### 3. Mining assets

<b>Mining properties</b>	<b>As at September 30, 2007</b>	<b>Additions</b>	<b>Disposals</b>	<b>As at December 31, 2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Quebec</b>				
Maritime-Cadillac	280,091	106	-	280,197
Vermillon	2,880	4,430	-	7,310
Weedon	-	-	-	-
Gatineau	-	1,445	-	1,445
James Bay Au	93,439	18,862	-	112,301
James Bay Mo	8,970	2,218	-	11,188
James Bay U	15,223	(1,610)	(13,613)	-
Project Generation	450	43,484	-	43,934
	<u>401,053</u>	<u>68,935</u>	<u>(13,613)</u>	<u>456,375</u>

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

(Unaudited)

### 3. Mining assets (Cont'd)

Deferred exploration expenses	As at September 30, 2007 \$	Additions \$	Disposal	Tax credits \$	As at December 31, 2007 \$
<b>Quebec</b>					
Maritime-Cadillac	153,349	164	-	-	153,513
Vermillon	286,835	11,434	-	(2,214)	296,055
Weedon	48,922	6,493	-	-	55,415
Gatineau	42,363	4,774	-	(685)	46,452
James Bay Au	37,931	4,905	-	(1,502)	41,334
James Bay Mo	10,491	1,357	-	(398)	11,450
James Bay U	7,222	6,358	(10,801)	(2,779)	-
Project Generation	16,041	15,601	-	(6,466)	25,176
	603,154	51,086	(10,801)	(14,044)	629,395

#### a) James Bay Au

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

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

	Payments in cash \$	Works \$
Upon signing of a formal agreement (signed on February 1, 2008)	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
<b>Total</b>	300,000	4,500,000

- 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).

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(An exploration stage company)

## Notes to Financial Statements

(Unaudited)

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### 3. Mining assets (cont'd)

#### b) James Bay U

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 (still to be received as of February 21, 2008)	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
<b>Total</b>	<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.
- The partner is the operator.

#### c) Project generation

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

### 4. Capital stock

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

	<b>Three month ended December 31, 2007</b>	
	<u>Number</u>	<u>Amount</u>
		\$
Common shares (note 4a)	20,386,546	7,057,834
Warrants	420,000	92,400
		<u>7,150,234</u>

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

(Unaudited)

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

#### 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:

	Three month ended December 31, 2007	
	Number	Amount
<b>Balance, beginning of period</b>	20,178,879	\$ 6,933,234
<b>To be issued</b>		
Flow-through private placement i)	207,667	124,600
<b>Balance, end of period</b>	<u>20,386,546</u>	<u>7,057,834</u>

i) On December 31, 2007, the Company completed a private placement of 207,667 flow-through common shares for a total cash consideration of \$124,600.

#### b) Warrants

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

	Three month ended December 31, 2007	
	Number	Amount
<b>Balance, beginning and end of period</b>	<u>420,000</u>	<u>\$ 92,400</u>

Warrants outstanding as at December 31, 2007 are as follows:

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

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## Notes to Financial Statements

(Unaudited)

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

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

On December 10, 2007, the Company granted 50,000 options exercisable at \$0.60, valid for 5 years. Total stock-based compensation costs amount to \$19,000 for an estimated fair value of \$0.38 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 82%, a risk-free interest rate of 4.26% and an expected life of options of 5 years.

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

	<b>Three-month period ended December 31, 2007</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>
Balance, beginning of period	1,350,000	\$ 0.51
Granted	50,000	0.60
Balance, end of period	<u>1,400,000</u>	<u>0.51</u>

The following table summarizes information about common share purchase options outstanding and exercisable as at December 31, 2007:

<b>Number of options outstanding</b>	<b>Number of options exercisable</b>	<b>Exercise price</b>	<b>Expiry date</b>
		\$	
250,000	166,668	0.50	November 1, 2011
1,000,000	500,001	0.50	January 11, 2012
100,000	50,000	0.64	May 1, 2012
50,000	-	0.60	December 10, 2012
<u>1,400,000</u>	<u>716,669</u>		

#### d) Contributed surplus

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

	<b>Three-month period ended December 31, 2007</b>
	\$
Balance, beginning of period	395,992
Stock-based compensation	75,414
Balance, end of period	<u>471,406</u>

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## Notes to Financial Statements

(Unaudited)

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### 5. Related party transactions

*In the normal course of operations:*

- a) During the period ended December 31, 2007, a firm in which an officer is a partner charged professional fees amounting to \$8,400 (\$22,206 for the period ended December 31, 2006);
- b) During the period ended December 31, 2007, a company controlled by an officer charged professional fees of \$16,000;
- c) As at December 31, 2007, the balance due to the related parties amounted to \$5,996 (December 31, 2006 – \$23,507).

*Not in the normal course of business:*

- d) In December 2007, directors and officers of the Company participated in private placements of flow-through shares (note 4ai) for a total consideration of \$104,600 (\$47,000 for the period ended December 31, 2006).

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