

# **Midland Exploration Inc.**

(An exploration stage company)

Interim Financial Statements

For the nine-month period ended June 30, 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)

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

June 30, 2007

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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 nine-month period ended June 30, 2007. This MD&A should be read in conjunction with the Company's financial statements and related notes as at June 30, 2007. 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 appointed.

#### **Overall performance**

The Company reported a net loss of \$340,006 for the nine-month period ended June 30, 2007 ("Q3-07") compared to a net loss of \$10,591 for the nine-month period ended June 30, 2006 ("Q3-06").

On March 2, 2007, Midland closed its initial public offering (IPO) and the trading of its common shares commenced on the TSX Venture Exchange under the symbol MD. Midland issued 9,000,000 common shares at a price of \$0.50 per share, for gross proceeds of \$4.5 million. Shares issue expense of \$657,263 was recorded of which \$262,500 was paid cash to the broker and \$92,400 represents the fair value of the 420,000 broker warrants granted.

In December 2006, the Company issued flow-through shares for an amount of \$127,000 following a private placement and included in the share issue expenses is the \$41,000 impact of the future income taxes of this private placement.

The Company expensed \$141,399 in exploration in Q3-07 on its properties and a total of \$173,042 was invested in mining properties acquisition in Q3-07.

## **Midland Exploration Inc.**

(An exploration stage company)

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

June 30, 2007

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#### **Results of operations**

Total expenses went from \$59,591 in Q3-06 to \$429,599 in Q3-07 now that the Company has resumed its exploration, professional and administrative activities and hired a full time president to whom it granted options.

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. On May 1, 2007, the Company granted 100,000 options exercisable at \$0.64, valid for 5 years. The stock-based compensation recorded for those granted amounted to \$182,203.

Due to enhanced financial position, Midland earned interest income of \$48,593 in Q3-07, consisting of interest on guaranteed investment certificates and bankers acceptances.

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

#### **Investing activities**

The Company spent \$141,399 in Q3-07 (\$57,788 in Q3-06) in deferred exploration expenses.

##### *Maritime-Cadillac*

The Company spent \$3,259 (\$57,788 in Q3-06) on the Maritime-Cadillac property in Q3-07.

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, undertaking from Agnico-Eagle to contribute 9.9% up to a maximum of \$200,000 of Midland's initial public offering if it's completed before December 31, 2007. Agnico-Eagle did effectively contribute \$200,000 at the March 2, 2007 IPO.

## Midland Exploration Inc.

(An exploration stage company)

### Management's Discussion and Analysis

June 30, 2007

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#### Investing activities (Cont'd)

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).

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 pursuant to the Agnico-Eagle Mines Limited agreement dated June 1<sup>st</sup>, 2006.

Two new drillholes, totalling 952 metres, were completed on the Maritime-Cadillac property in May 2007. Drillhole 141-07-08 intersected a grade of 3.83 g/t Au over 1.00 metre, which corresponds to the South Zone. This interval consists of schistose basalts in which quartz vein fragments host minor sulphide mineralization. Moreover, another gold zone was intersected between 271 and 274.4 metres, with an average grade of 0.72 g/t Au over 2.72 metres, in a chlorite-talc-carbonate schist. Targets established for the May program were not reached in the designated locations; ground problems (fault zones, talc-chlorite schists, and the speed of drilling which was too high) are partly responsible for azimuth deviations observed in drillholes 141-07-08 and 141-07-09. Agnico-Eagle is currently completing a comprehensive compilation of previous work on the property, prior to the next exploration program.

Geological compilation works are presently in progress by Agnico-Eagle in order to prepare the next drill program.

#### *Vermillon*

The Company spent \$62,107 (\$nil in Q3-06) on the Vermillon property in Q3-07.

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.

## **Midland Exploration Inc.**

(An exploration stage company)

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

June 30, 2007

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#### **Investing activities (Cont'd)**

Midland has fulfilled its commitments to Soquem and thus acquired, on July 9<sup>th</sup>, 2007, 50% undivided interest in the Vermillon property and formed a joint venture with Soquem.

The Vermillon property is located some 90 km southwest of the town of La Tuque, Quebec and consists of 259 contiguous claims covering a total surface area of 151 km<sup>2</sup>.

Midland and Soquem are currently completing phase II of their exploration program aimed at discovering the source of massive to semi-massive sulphide float discovered by Soquem in 2005. Samples from the copper-gold-bearing float yielded grades reaching 2.1 g/t Au, 1.13% Cu and 12.6 g/t Ag.

During the 2005-2006 winter season, a heliborne magnetic and electromagnetic survey was conducted across the entire property, resulting in the definition of numerous electromagnetic conductors which could be associated with the source of the mineralized float. To date, only a small proportion of the anomalies have been explained during the summer 2006 by the presence of paragneiss layers with disseminated sulphides and/or graphite. Exploration on the property is still in the early stages and the project offers great potential for the discovery of gold or copper-gold skarns and copper-gold massive sulphides (VMS).

Line cutting is currently underway in order to perform ground magnetic and electromagnetic surveys to test the best heliborne electromagnetic anomalies and to cover the area where the mineralized float were discovered. Outcrop stripping is scheduled for August, to uncover the bedrock on defined geophysical anomalies. Pending positive results from this work, then a drilling program will be planned in the fall.

#### *Weedon*

The Company spent \$17,155 in exploration expenses on the new Weedon property in Q3-07.

Midland acquired a 100% interest in the Weedon property, formerly held by a privately owned company Les Ressources Tectonic Inc. ("Ressources Tectonic") as well as the acquisition of 188 claims, whereby Midland now covers and controls more than 30 kilometres in the volcano-sedimentary belt of Ascot-Weedon.

On March 6 2007, the Company acquired a 100% interest in the claim block held by Ressources Tectonic, in exchange for 3 payments totalling \$60,000, including \$15,000 upon signing the agreement. Midland has also agreed to pay a net smelter return (NSR) royalty of 1% to Ressources Tectonic in the event the property reaches commercial production. Midland can buyback the royalty interest, in total or in two parts of 0.5% each, upon payment to Ressources Tectonic of \$500,000 per 0.5%, for a total amount of \$1,000,000. 84 adjoining claims were staked for which, a 0.5% royalty is payable and Midland can buy back this royalty for \$500,000.

Geological compilation and targets generation are in progress on the Weedon project.

#### *James Bay Gold*

The Company spent \$27,397 in exploration expenses on the new gold James-Bay properties in Q3-07.

Midland acquired a 100% interest on 846 claims in the James Bay Area, an area that has the potential to become soon a significant new gold producer in Quebec after the Abitibi Belt. These new claims totalling 481 km<sup>2</sup> are solely own by Midland.

## **Midland Exploration Inc.**

(An exploration stage company)

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

June 30, 2007

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#### **Investing activities (Cont'd)**

The gold target selection was made following a comprehensive geological and geochemical compilation. The properties selection, named MD-1 to MD-6, were oriented towards similar geological and geochemical features observed in the vicinity of the Eleonore Virginia major gold discovery made in 2004-05. They are located close to the contact between the volcanogenic-plutonic units of the La Grande Sub-province and the meta-sedimentary units of the Opinaca Sub-province. This contact is recognized to be a favourable criterion for gold mineralization in the northeast Superior Province. The Eleonore gold deposit, recently acquired by Goldcorp, is located as well along this favourable contact.

The Midland properties are associated with first order, isolated or combined, gold, arsenic and antimony lake-bottom sediment anomalies. Historically, followed up by prospecting these types of geochemical anomalies lead to the discovery of several new attractive gold showings in the James Bay Area.

#### *James Bay Molybdenum*

The Company spent \$2,000 in exploration expenses on the new molybdenum James Bay properties in Q3-07.

Midland acquired a 100% interest on 265 claims located 35 km west of LG-4 hydroelectric complex in the James Bay region. These new claim blocks cover a total surface area of 134.1 km<sup>2</sup> and owned 100% by Midland .

The claim blocks cover significant molybdenum and copper anomalies in lake bottom sediments. They lie immediately to the west and peripheral to an important polymetallic (Mo-Cu-Au) hydrothermal breccia system discovered in 1997 by another exploration company following up on the same type of anomaly. In 1998, channel samples collected by this exploration company in these altered tonalitic breccias yielded grades reaching 0.14% Mo over 89 metres, with grab samples ranging from 0.8 to 4.0% Mo and another grab sample grading 0.13% Cu, 1.97 g/t Au, 0.053% Mo and 12.3 g/t Ag.

The selected properties are within a broad km-scale halo with anomalous molybdenum and copper values in lake bottom sediments. Properties acquired by Midland cover strong anomalies ranging up to 426 ppm Mo and 90 ppm Cu, which remain unexplained. These strong yet unexplained anomalies are among the most significant in northern Quebec. Midland is planning some prospecting and geological reconnaissance work this summer, in order to locate the source of the anomalies and better define the geological setting.

#### *Gatineau Zinc*

The Company spent \$29,481 in exploration expenses on the zinc property in the Gatineau region in Q3-07.

Midland acquired a 100% interest of a large land position for zinc including 19 new properties covering 347.6 km<sup>2</sup> distributed in the Gatineau Area, approximately 200 kilometres northwest of the city of Montreal. The property selection was made following a comprehensive geological and geochemical compilation. The area is known to host many significant zinc occurrences and prospects in metamorphosed Middle-Proterozoic marbles of the Grenville Supergroup. The interest for this area is that those zinc occurrences share many similarities with significant zinc deposits, also hosted in Grenville metamorphosed limestones. The most prolific zinc deposits of this type are those of the Balmat-Edwards district in the United States located only 60 kilometres south of the Gatineau properties area. The district in production since 1915 is presently operated by HudBay Minerals Inc. and is known to host a combined 43 million tonnes at near 10% zinc including other commodities.

## Midland Exploration Inc.

(An exploration stage company)

### Management's Discussion and Analysis

June 30, 2007

#### Investing activities (Cont'd)

The new Midland properties are either associated with first order, discrete or combined, zinc, lead and silver stream sediment anomalies, zinc soil geochemical anomalies or known zinc mineralized occurrences or prospects. Known occurrences associated with strong zinc soil geochemical anomalies on properties acquired by Midland include the following: Aumond with 18% Zn in grab samples and 4.4% Zn over 2.1 m in channel samples; Route 107 with 20% Zn in grab samples and 5.1% Zn over 2.45 m in channel samples; Blue Sea, Zone A, Parker, Lafontaine, Davis and Kilmar with 7%, 3%, 31%, 14%, 1.48% and 11.3% Zn respectively from grab samples.

Midland is confident that the Gatineau Area has an excellent potential to host new high grade, large tonnage Zn-Pb Sedex deposits as in the Balmat-Edwards District and looks forward to the start of its next exploration program. Depending on how advanced the properties are, the program will include either detailed stream sediment and soil geochemical surveys, geological mapping and prospecting and/or detailed mapping, trenching and drilling.

#### Project Generation

The Company spent \$16,443 in exploration expenses in Q3-07 on project generation. Midland initiated some geological compilation programs in Quebec for the acquisition of new strategic gold and base metal properties.

#### 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. 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 Q3-07	Maritime Cadillac	Vermillon	Weedon	Baie-James Au	Baie-James Mo	Gatineau Zn	Total
	\$	\$	\$			\$	\$
<b>Balance – Beginning of period</b>	149,370	99,134	-	-	-	-	248,504
Geophysics	-	45,945	-	385	-	385	46,715
Geology	3,259	5,371	16,864	15,139	2,000	28,776	71,409
Geochemistry	-	7,549	-	11,841	-	-	19,390
Assay	-	-	45	28	-	-	73
Travelling	-	-	206	-	-	276	482
Management fees	-	3,242	40	4	-	44	3,330
	<u>3,259</u>	<u>62,107</u>	<u>17,155</u>	<u>27,397</u>	<u>2,000</u>	<u>29,481</u>	<u>141,399</u>
<b>Balance – End of period</b>	152,629	161,241	17,155	27,397	2,000	29,481	389,903

## Midland Exploration Inc.

(An exploration stage company)

### Management's Discussion and Analysis

June 30, 2007

#### Investing activities (Cont'd)

Deferred exploration expenses Q3-06	Maritime Cadillac	Vermillon	Weedon	Baie-James Au	Baie-James Mo	Gatineau Zn	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>57,788</u>
<b>Balance – End of period</b>	<u>149,370</u>	-	-	-	-	-	<u>149,370</u>

#### Financing activities

The Company finances itself mainly through share issuance.

On March 2, 2007, Midland closed its initial public offering (IPO) and the trading of its common shares commenced on the TSX Venture Exchange under the symbol MD. Midland issued 9,000,000 common shares at a price of \$0.50 per share, for gross proceeds of \$4.5 million.

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 working capital of \$3,661,962 as at June 30, 2007 (including an amount of \$11,204 reserved for new exploration activities) as compared to a deficit of \$53,234 as of September 30, 2006. Management is of the opinion that 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.

**Midland Exploration Inc.**  
 (An exploration stage company)  
**Management's Discussion and Analysis**  
 June 30, 2007

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**Summary of results per quarters**

For the seven most recent quarters:

	<u>June 30 2007</u>	<u>March 31 2007</u>	<u>December 31 2006</u>	<u>September 30 2006</u>
	\$	\$	\$	\$
Net loss	(187,316)	(21,484)	(131,206)	(63,136)
Net loss per share basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)
Total assets	4,524,399	4,601,931	858,210	850,810

	<u>June 30 2006</u>	<u>March 31 2006</u>	<u>December 31 2005</u>
	\$	\$	\$
Net earnings (loss)	(13,970)	6,428	(3,049)
Net earnings (loss) per share basic and diluted	-	-	-
Total assets	619,569	633,986	635,360

The recovery of future income taxes are generally recorded in February which would explain the variation between the semesters.

**Related party transactions**

*In the normal course of operations:*

- a) During the six month period ended June 30, 2007:
  - i) a firm in which an officer is a partner charged professional fees amounting to \$152,765 of which \$140,285 was recorded as share issue expenses;
  - ii) a company controlled by an officer charged professional fees of \$16,775.
- b) As at June 30, 2007, the balance due to the related parties amounted to \$4,057.

*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 4a) 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**

Pursuant to the June 30, 2006 agreement with Soquem Inc., the Company exercised on July 9, 2007, the option to acquire a 50% interest in the Vermillon property and form a joint venture with Soquem Inc.

## Midland Exploration Inc.

(An exploration stage company)

### Management's Discussion and Analysis

June 30, 2007

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#### Outstanding share data

	<u>As of August 17, 2007</u>
	<u>Number</u>
Common shares	20,178,879
Options	1,350,000
Warrants	420,000
	<u>21,948,879</u>

#### Off-balance sheet arrangements

During Q3-07, the Company did not set up any off-balance sheet arrangements.

#### 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 in to Fiscal 2007*

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 have no significant impact on the Financial Statements. 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, and accounts payable and accrued liabilities will be classified as other liabilities.

## **Midland Exploration Inc.**

(An exploration stage company)

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

June 30, 2007

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#### **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 Q3-07 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 Company'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.

August 17, 2007

(S) Gino Roger

Gino Roger  
President and Chief Executive Officer

(S) Ingrid Martin

Ingrid Martin  
Chief Financial Officer

# Midland Exploration Inc.

(An exploration stage company)

## Balance Sheets

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	<b>As at June 30 2007 (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 3)	3,581,924	319,151
Accounts receivable	73,075	7,298
Prepays	18,652	-
	<u>3,673,651</u>	<u>326,449</u>
<b>Deposit on exploration expenses</b>	36,946	-
<b>Mining assets</b> (note 4)		
Mining properties	423,899	275,857
Deferred exploration expenses	389,903	248,504
	<u>813,802</u>	<u>524,361</u>
	<u>4,524,399</u>	<u>850,810</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	11,689	242,434
<b>Shareholders' equity</b>		
<b>Capital stock</b> (note 5)	7,025,634	2,306,234
<b>Contributed surplus</b> (note 5d)	194,568	12,365
<b>Deficit</b>	(2,707,492)	(1,710,223)
	<u>4,512,710</u>	<u>608,376</u>
	<u>4,524,399</u>	<u>850,810</u>

Going concern assumption (note 1)

See accompanying notes.

# Midland Exploration Inc.

(An exploration stage company)

## Statement of Operations and Deficit (Unaudited)

	For the three-month period ended June 30,		For the nine-month period ended June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Revenue</b>				
Interest income	36,768	-	48,593	-
<b>Expenses</b>				
Stock-based compensation	134,703	-	182,203	-
Administrative expenses and other	36,826	374	122,455	5,658
Investors relations	21,893	2,958	46,113	13,174
Professional fees	14,219	2,100	62,385	22,501
General exploration	16,443	8,538	16,443	18,258
	<u>224,084</u>	<u>13,970</u>	<u>429,599</u>	<u>59,591</u>
<b>Loss before income taxes</b>	(187,316)	(13,970)	(381,006)	(59,591)
Recovery of future income taxes	-	-	41,000	49,000
<b>Net loss</b>	(187,316)	(13,970)	(340,006)	(10,591)
<b>Deficit – Beginning of the period</b>	(2,507,789)	(1,633,118)	(1,710,223)	(1,586,872)
Share and warrant issue expenses	(12,387)	-	(657,263)	(49,625)
	<u>(2,707,492)</u>	<u>(1,647,088)</u>	<u>(2,707,492)</u>	<u>(1,647,088)</u>
<b>Deficit – End of the period</b>	<u>(2,707,492)</u>	<u>(1,647,088)</u>	<u>(2,707,492)</u>	<u>(1,647,088)</u>
<b>Basic and diluted net loss per share</b>	<u>(0.01)</u>	<u>-</u>	<u>(0.02)</u>	<u>-</u>
<b>Weighted average number of basic and diluted outstanding shares</b>	<u>20,178,879</u>	<u>10,181,660</u>	<u>15,039,815</u>	<u>9,968,986</u>

Going concern assumption (note 1)

See accompanying notes.

# Midland Exploration Inc.

(An exploration stage company)

## Statement of Cash Flows

(Unaudited)

	For the three-month period ended June 30,		For the nine-month period ended June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Cash flows from</b>				
<b>Operating activities</b>				
Net earnings (loss)	(187,316)	(13,970)	(340,006)	(10,591)
Adjustment for				
Stock-based compensation	134,703	-	182,203	-
Recovery of future income taxes	-	-	(41,000)	(49,000)
	<u>(52,613)</u>	<u>(13,970)</u>	<u>(198,803)</u>	<u>(59,591)</u>
Changes in non-cash working capital items				
Accounts receivable	5,080	(1,975)	(40,777)	(2,623)
Prepays	(4,918)	-	(18,652)	-
Accounts payable and accrued liabilities	(25,132)	(447)	(51,348)	(9,933)
	<u>(24,970)</u>	<u>(2,422)</u>	<u>(110,777)</u>	<u>(12,556)</u>
	<u>(77,583)</u>	<u>(16,392)</u>	<u>(309,580)</u>	<u>(72,147)</u>
<b>Financing activities</b>				
Capital stock issued	-	-	4,627,000	158,750
Share and warrant issue expenses	213	-	(523,863)	(625)
Deferred share issue expenses	-	-	-	-
	<u>213</u>	<u>-</u>	<u>4,103,137</u>	<u>158,125</u>
<b>Investing activities</b>				
Additions to mining properties	(61,904)	-	(203,042)	(91)
Deposit on exploration expenses	(36,946)	-	(36,946)	-
Additions to deferred exploration expenses	(70,723)	-	(290,796)	(4,025)
	<u>(169,573)</u>	<u>-</u>	<u>(530,784)</u>	<u>(4,116)</u>
<b>Net change in cash and cash equivalents during the period</b>				
	(246,943)	(16,392)	3,262,773	81,862
<b>Cash and cash equivalents – beginning</b>	<u>3,828,867</u>	<u>183,877</u>	<u>319,151</u>	<u>85,623</u>
<b>Cash and cash equivalents – end</b>	<u>3,581,924</u>	<u>167,485</u>	<u>3,581,924</u>	<u>167,485</u>
<b>Additional information</b>				
Additions of mining properties and deferred exploration expenses included in accounts payable and accrued liabilities	4,265	-	(179,397)	83,762
Disposal of mining properties included in accounts receivable	25,000	-	25,000	-
Value of expired warrants transferred to contributed surplus	-	-	-	3,825
Broker warrants granted for capital raising	12,600	-	92,400	-
Future income taxes accounted for in share issue expenses	-	-	41,000	49,000

Going concern assumption (note 1)

See accompanying notes.

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

(Unaudited)

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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.

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.

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.

Although the Company has taken steps to verify title to the mining assets 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

#### *Taking effect in to Fiscal 2007*

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 have no significant impact on the Financial Statements. 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, and accounts payable and accrued liabilities will be classified as other liabilities.

### 3. Cash and cash equivalents

As at June 30, 2007, cash and cash equivalents includes an amount of \$11,204 reserved for new exploration activities to be carried out in Canada before December 31, 2007 (September 30, 2006 - \$30,781). As of June 30, 2007, cash and cash equivalents include \$3,513,200 of guaranteed investment certificates and bankers acceptance bearing interest between 4.05% and 4.44%, maturing between August 2, 2007 and March 3, 2008.

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

(Unaudited)

### 4. Mining assets

<b>Mining properties</b>	<b>As at September 30, 2006</b>	<b>Additions</b>	<b>Disposals and write-offs</b>	<b>As at June 30, 2007</b>
	\$	\$	\$	\$
<b>Quebec</b>				
Maritime-Cadillac	275,091	30,000	(25,000)	280,091
Vermillon	766	(95)	-	671
Weedon	-	25,974	-	25,974
Baie-James Au	-	83,549	-	83,549
Baie-James Mo	-	2,760	-	2,760
Gatineau Zn	-	30,854	-	30,854
	275,857	173,042	(25,000)	423,899

<b>Deferred exploration expenses</b>	<b>As at September 30, 2006</b>	<b>Additions</b>	<b>Disposals and write-offs</b>	<b>As at June 30, 2007</b>
	\$	\$	\$	\$
<b>Quebec</b>				
Maritime-Cadillac	149,370	3,259	-	152,629
Vermillon	99,134	62,107	-	161,241
Weedon	-	17,155	-	17,155
Baie-James Au	-	27,397	-	27,397
Baie-James Mo	-	2,000	-	2,000
Gatineau Zn	-	29,481	-	29,481
	248,504	141,399	-	389,903

#### a) Maritime-Cadillac

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 Mines Limited agreement dated June 1<sup>st</sup>, 2006.

#### b) 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. Midland 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 Midland can buy back this royalty for \$500,000. This property is located in the Eastern Townships, about 120 kilometres south of Quebec City.

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

(Unaudited)

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

#### c) Baie-James Au

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

#### d) Baie-James Mo

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

#### e) Gatineau Zn

Midland acquired claims located in the Gatineau region located approximately 200 km north-west of Montreal city.

### 5. Capital stock

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

	Nine-month period ended June 30, 2007	
	Number	Amount
Common shares	20,178,879	6,933,234
Warrants	420,000	92,400
		<u>7,025,634</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:

	Nine-month ended period June 30, 2007	
	Number	Amount
		\$
<b>Balance – Beginning of period</b>	10,181,660	2,110,325
<b>Issued following</b>		
Initial public offering i)	9,000,000	4,500,000
Flow-through private placement ii)	282,222	127,000
Exercise of warrants iii)	714,997	178,749
<i>Plus: Value of warrants exercised</i>	-	17,160
<b>Balance – End of period</b>	<u>20,178,879</u>	<u>6,933,234</u>

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

(Unaudited)

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

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

- i) On March 2, 2007, Midland closed its initial public offering (IPO) and the trading of its common shares commenced on the TSX Venture Exchange under the symbol MD. Midland 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.

- 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 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 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.

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 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.

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

(Unaudited)

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

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

- 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 was 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.

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 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 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. Total stock-based compensation costs amount to \$46,000 for an estimated fair value of \$0.46 per option. The 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 90%, a risk-free interest rate of 4.25% 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>Nine-month period ended June 30, 2007</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>
		<b>\$</b>
<b>Balance - Beginning of period</b>	-	-
Granted	1,350,000	0.51
<b>Balance - End of period</b>	<u>1,350,000</u>	<u>0.51</u>

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

(Unaudited)

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

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

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

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
		\$	
250,000	83,334	0.50	November 1, 2011
1,000,000	166,667	0.50	January 11, 2012
100,000	50,000	0.64	May 1, 2012
<u>1,350,000</u>	<u>300,001</u>		

#### c) Warrants

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

	Nine-month period ended June 30, 2007	
	Number of warrants	Amount
		\$
<b>Balance - Beginning of period</b>	-	-
Issued	420,000	92,400
<b>Balance - End of period</b>	<u>420,000</u>	<u>92,400</u>

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

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

#### d) Contributed surplus

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

	Nine-month period ended June 30, 2007
	\$
<b>Balance - Beginning of the period</b>	12,365
Stock-based compensation	182,203
<b>Balance - End of period</b>	<u>194,568</u>

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

(Unaudited)

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### 6. Related party transactions

*In the normal course of operations:*

- a) During the nine month period ended June 30, 2007:
  - i) a firm in which an officer is a partner charged professional fees amounting to \$152,765 of which \$140,285 was recorded as share issue expenses;
  - ii) a company controlled by an officer charged professional fees of \$16,775.
- b) As at June 30, 2007, the balance due to the related parties amounted to \$4,057.

*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 5a) 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.

### 7. Commitment

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

### 8. Subsequent event

Pursuant to the June 30, 2006 agreement with Soquem Inc., the Company exercised on July 9, 2007, the option to acquire a 50% interest in the Vermillion property and form a joint venture with Soquem Inc.