

# **Midland Exploration Inc.**

Financial Statements

**September 30, 2009 and 2008**

December 1, 2009

**Auditor's report**

**To the Shareholders of Midland Exploration Inc.**

We have audited the balance sheets of Midland Exploration Inc as at September 30, 2009 and 2008 and the statements of operations, comprehensive income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP<sup>1</sup>*

<sup>1</sup> Chartered accountant auditor permit No. 20910

# Midland Exploration Inc.

## Balance Sheets

As at September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 4)	2,299,981	3,320,571
Investments (note 5)	900,725	-
Accounts receivable	39,778	303,131
Sales tax receivable	-	348
Taxes credits and mining rights receivable	31,385	44,026
Prepaid expenses	24,557	16,844
	<u>3,296,426</u>	<u>3,684,920</u>
<b>Exploration funds</b>	144,464	-
<b>Mining assets</b> (note 6)		
Mining properties	613,303	512,956
Deferred exploration expenses	1,027,865	723,983
	<u>1,641,168</u>	<u>1,236,939</u>
	<u>5,082,058</u>	<u>4,921,859</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	89,516	391,805
Sales tax payable	22,701	-
Advance for exploration work	321,413	4,772
	<u>433,630</u>	<u>396,577</u>
<b>Shareholders' equity</b>		
<b>Capital stock</b> (note 7)	7,775,234	7,150,234
<b>Contributed surplus</b> (note 7d)	794,073	638,499
<b>Deficit</b>	<u>(3,920,879)</u>	<u>(3,263,451)</u>
	<u>4,648,428</u>	<u>4,525,282</u>
	<u>5,082,058</u>	<u>4,921,859</u>

See accompanying notes.

### On behalf of the Board

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

(s) Gino Roger  
Gino Roger  
President, Director

# Midland Exploration Inc.

Statement of Operations, Comprehensive Income and Deficit  
For the years ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
	\$	\$
<b>Revenues</b>		
Interest	55,491	118,943
Project management fees (note 6e et i)	42,361	168,856
Residual gain on option payments on mining assets	15,683	15,586
	<u>113,535</u>	<u>303,385</u>
<b>Expenses</b>		
Stock-based compensation (note 7c)	129,743	171,018
Administrative expenses and others	267,274	280,999
Investors relations	153,527	117,534
Professional fees	160,254	150,753
General exploration	20,545	35,477
Fair value variation for financial instruments held for trading	(7,655)	(335)
Write-off of mining assets (note 6g)	27,250	-
	<u>750,938</u>	<u>755,446</u>
<b>Loss before income taxes</b>	(637,403)	(452,061)
Recovery of future income taxes (note 8)	112,000	34,000
	<u>112,000</u>	<u>34,000</u>
<b>Loss and comprehensive income</b>	(525,403)	(418,061)
<b>Deficit – Beginning of year</b>	(3,263,451)	(2,808,472)
Share issue expenses	(132,025)	(36,918)
	<u>(132,025)</u>	<u>(36,918)</u>
<b>Deficit – End of year</b>	<u>(3,920,879)</u>	<u>(3,263,451)</u>
<b>Basic and diluted loss per share</b>	<u>(0.02)</u>	<u>(0.02)</u>
<b>Weighted average number of basic and diluted outstanding shares</b>	<u>21,287,998</u>	<u>20,334,346</u>

See accompanying notes.

# Midland Exploration Inc.

## Statement of Cash Flows

For the years ended September 30, 2009 and 2008

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from</b>		
<b>Operating activities</b>		
Loss	(525,403)	(418,061)
Adjustment for		
Stock-based compensation expense	129,743	171,018
Fair value variation for financial instruments held for trading	(1,838)	-
Residual gain on option on mining assets	(15,683)	(15,586)
Write-off of mining assets	27,250	-
Future income taxes recovery	(112,000)	(34,000)
	<u>(497,931)</u>	<u>(296,629)</u>
Changes in non-cash working capital items		
Accounts receivable	(6,417)	(3,377)
Sales tax receivable and payable	23,049	45,244
Taxes credits and mining rights receivable	(6,464)	(1,128)
Prepaid	(7,713)	12,794
Accounts payable and accrued liabilities	(28,913)	57,386
Advance for exploration work	(446,406)	(396,104)
	<u>(472,864)</u>	<u>(285,185)</u>
	<u>(970,795)</u>	<u>(581,814)</u>
<b>Financing activities</b>		
Capital stock issued	625,000	124,600
Share issue expenses	(20,025)	(2,918)
	<u>604,975</u>	<u>121,682</u>
<b>Investing activities</b>		
Additions to investments	(898,887)	-
Additions to mining properties	(336,297)	(276,904)
Disposal of mining properties (note 6a, e, i, j)	145,000	215,000
Additions to deferred exploration expenses	(788,559)	(1,299,123)
Taxes credits and mining rights received	44,026	66,262
Advance received for exploration work	1,324,411	1,210,456
	<u>(510,306)</u>	<u>(84,309)</u>
<b>Net change in cash and cash equivalents during the year</b>	<b>(876,126)</b>	<b>(544,441)</b>
<b>Cash and cash equivalents – beginning of year</b>	<b>3,320,571</b>	<b>3,865,012</b>
<b>Cash and cash equivalents – end of year</b>	<b>2,444,445</b>	<b>3,320,571</b>
Less: Exploration funds	(144,464)	-
<b>Cash and cash equivalents – presented on the Balance Sheets</b>	<b>2,299,981</b>	<b>3,320,571</b>
<b>Additional information</b>		
Stock-based compensation included in deferred exploration expenses	25,831	71 489
Additions of mining properties and deferred exploration expenses included in accounts payable and accrued liabilities	29,170	302 546
Accounts receivable applied against deferred exploration expenses	17,561	287 331
Tax credits receivable applied against deferred exploration expenses	24,921	28 892
Future income taxes accounted for in share issue expenses	112,000	34 000
Interest cashed	53,062	116 796

See accompanying notes

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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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. To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

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

### 2. Change in accounting policies

*Taking effect during the fiscal year starting October 1, 2008, the Company adopted the following new accounting policies:*

- a) EIC 173: *Credit risk and the fair value of financial assets and financial liabilities*. Issued on In January 2009, the Canadian Institute of Chartered Accountants ("CICA") published EIC-173 which clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 1, 2009. The adoption of this standard did not have a significant impact on the Company's financial statements.
- b) EIC 174: *Mining exploration costs*. In March, 2009, the CICA published the EIC-174 which provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long-lived assets in general. The adoption of this standard did not have a significant impact on the Company's financial statements.

### 3. Accounting policies

#### Use of estimates

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

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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### 3. Accounting policies (cont'd)

#### **Cash and cash equivalents**

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

#### **Exploration funds**

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

#### **Mining assets**

Exploration properties include rights in mining properties and deferred exploration expenses. Expenditures incurred on non-producing properties identified as having development potential are deferred until the economic viability of the project has been established, at which time these costs are added to mining properties. Mining assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable, as identified by comparing their net book value to the estimated undiscounted future cash flows generated by their use and eventual disposal. Impairment is measured as the excess of the carrying value over the fair value, determined principally by discounting the estimated net future cash flows expected to be generated from the use and eventual disposal of the related asset. In the event that the Company has insufficient information about its mining assets to estimate future cash flows to test the recoverability of the capitalized costs, the Company will test for impairment by comparing the fair value to the carrying amount, without first performing a test for recoverability. Expenditures not related to specific properties are accounted for in the statements of operations.

Proceeds on the sale of exploration properties are applied by property in reduction of the mining properties, then in reduction of the deferred exploration expenses and any residual is recorded in the statement of operations unless there is contractual work required in which case the residual gain is deferred and will be reduced the contractual disbursements when done. Governmental assistance, mining duties credits and other credits related to exploration work are applied against the deferred exploration expenses.

Funds received from partners on certain properties where the Company is the operator in order to perform exploration work as per agreements, are accounted for in the balance sheet as advances for exploration work. These advances are reduced gradually when the exploration work are performed. The project management fees received when the Company is the operator are recorded in the statement of operations. When the partner is the operator, the management fees are recorded in the balance sheet as deferred exploration expenses.

#### **Flow-through shares**

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

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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### 3. Accounting policies (cont'd)

#### Income taxes

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

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

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

Any consideration paid on exercise of stock options or purchase of stock is credited to capital stock. If stock or stock options are repurchased, the excess of the consideration paid over the carrying amount of the stock or stock options cancelled is charged to deficit. The expense is recorded over the vesting period for employees and over the period covered by the contract for consultants.

#### Share and warrant issue expenses

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

#### Earning (loss) per share

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

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

#### Financial instruments – recognition and measurement

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

- Financial assets and liabilities classified as held-for-trading are required to be measured at fair value, with gains and losses recognized in net earnings.
- Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized cost using the effective interest method of amortization.
- Available-for-sale financial assets are required to be measured at fair value, with unrealized gains and losses recognized in Other Comprehensive Income (loss). Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market should be measured at cost.

The Corporation has implemented the following classification:

- Cash and cash equivalents and investments are classified as held-for-trading.
- Accounts receivable is classified as loans and receivables.
- Payable and accruals as well as advance for exploration work are classified as other liabilities.

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

### 4. Cash and cash equivalents

As of September 30, 2009, cash and cash equivalents include \$2,369,446 (\$3,202,580 as of September 30, 2008) of guaranteed investment certificates and bankers acceptance bearing interest between 0.15% and 0.60% (2.25% and 3.03% as of September 30, 2008), maturing between October 5, 2009 and February 3, 2010 (October 6, 2008 and September 21, 2009 as of September 30, 2008) and both instruments are cashable any time without any penalties.

	As at September 30, 2009	As at September 30, 2008
	\$	\$
Cash	74,999	117,991
Guaranteed investment certificates and bankers acceptance	2,369,446	3,202,580
Less: Exploration funds	(144,464)	-
	<u>2,299,981</u>	<u>3,320,571</u>

### 5. Investments

	As at September 30, 2009	As at September 30, 2008
	\$	\$
Hydro-Québec coupons, 1.36% interest maturing on February 15, 2011, with a maturity value of \$370,000	362,314	-
Hydro-Québec coupons, 1.28% interest maturing on February 15, 2011, with a maturity value of \$550,000	538,411	-
	<u>900,725</u>	<u>-</u>

### 6. Mining assets

Mining properties	Undivided interest %	As at September 30, 2008	Additions	Option payments	Write-off	As at September 30, 2009
		\$	\$	\$		\$
<b>Quebec</b>						
Maritime-Cadillac	50	285,303	30,008	(25,000)	-	290,311
Vermillon	50	7,251	1,407	-	-	8,658
Weedon	100	-	28,061	-	-	28,061
Gatineau	100	-	5,902	-	-	5,902
James Bay Au	100	67,999	1,680	(60,000)	-	9,679
James Bay Mo	100	15,126	2,719	-	-	17,845
James Bay U	100	29,600	760	-	(27,250)	3,110
Abitibi Au	100	300	4,215	-	-	4,515
Dunn	100	-	3,070	(3,070)	-	-
Laflamme	100	-	27,650	(27,650)	-	-
Ytterby	100	-	115,722	-	-	115,722
Patris	100	-	1,352	-	-	1,352
Eleonore	100	43,470	16,447	-	-	59,917
Project Generation	100	63,907	4,324	-	-	68,231
		<u>512,956</u>	<u>243,317</u>	<u>(115,720)</u>	<u>(27,250)</u>	<u>613,303</u>

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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

<u>Mining properties</u>	<u>Undivided interest %</u>	<u>As at September 30, 2007</u>	<u>Additions</u>	<u>Option payments</u>	<u>As at September 30, 2008</u>
		\$	\$	\$	\$
<b>Quebec</b>					
Maritime-Cadillac	100	280,091	30,212	(25,000)	285,303
Vermillon	50	2,880	4,371	-	7,251
Weedon	100	-	20,375	(20,375)	-
Gatineau	100	-	1,445	(1,445)	-
James Bay Au	100	93,439	24,560	(50,000)	67,999
James Bay Mo	100	8,970	6,156	-	15,126
James Bay U	100	15,223	27,990	(13,613)	29,600
Abitibi Au	100	-	300	-	300
Eleonore	100	-	43,470	-	43,470
Project Generation	100	450	63,457	-	63,907
		<u>401,053</u>	<u>222,336</u>	<u>(110,433)</u>	<u>512,956</u>

<u>Deferred exploration expenses</u>	<u>Undivided interest %</u>	<u>As at September 30, 2008</u>	<u>Additions</u>	<u>Option payments</u>	<u>Tax credits</u>	<u>As at September 30, 2009</u>
		\$	\$	\$	\$	\$
<b>Quebec</b>						
Maritime-Cadillac	50	156,269	4,140	-	(214)	160,195
Vermillon	50	306,008	(92)	-	-	305,916
Weedon	100	57,770	34,668	-	(5,922)	86,516
Gatineau	100	22,297	7,812	-	(770)	29,339
James Bay Au	100	65,652	18,773	-	(2,262)	82,163
James Bay Mo	100	47,839	2,480	-	-	50,319
James Bay U	100	7,464	8,523	-	(2,642)	13,345
Abitibi Au	100	1,075	86,061	-	(3,334)	83,802
Dunn	100	-	12,929	(11,247)	(642)	1,040
Laflamme	100	-	26,170	(2,350)	(856)	22,964
Ytterby	100	-	20,991	-	-	20,991
Patris	100	-	8,080	-	-	8,080
Eleonore	100	17,941	74,003	-	(2,521)	89,423
Project Generation	100	41,668	37,862	-	(5,758)	73,772
		<u>723,983</u>	<u>342,400</u>	<u>(13,597)</u>	<u>(24,921)</u>	<u>1,027,865</u>

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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

Deferred exploration expenses	Undivided interest %	As at September 30, 2007	Additions	Option payments	Tax credits	As at September 30, 2008
		\$	\$		\$	\$
<b>Quebec</b>						
Maritime-Cadillac	100	153,349	2,920	-	-	156,269
Vermillon	50	286,835	21,387	-	(2,214)	306,008
Weedon	100	48,922	38,871	(29,625)	(398)	57,770
Gatineau	100	42,363	29,174	(48,555)	(685)	22,297
James Bay Au	100	37,931	32,776	-	(5,055)	65,652
James Bay Mo	100	10,491	43,635	-	(6,287)	47,839
James Bay U	100	7,222	15,884	(10,801)	(4,841)	7,464
Abitibi Au	100	-	1,075	-	-	1,075
Eleonore	100	-	20,887	-	(2,946)	17,941
Project Generation	100	16,041	31,211	-	(6,466)	41,668
		603,154	238,702	(88,981)	(28,892)	723,983

#### a) Maritime-Cadillac

Following the payment of the last annual cash commitment of \$30,000 in January 2009, the Company has fulfilled all its obligations under the agreement signed on January 6, 2005 for the Maritime-Cadillac property located in Abitibi in Quebec. The vendors retain a 2% net smelter return ("NSR") royalty; the Company can buy back half of the royalty for a payment of \$1,000,000.

On June 1, 2009, Agnico-Eagle Mines Limited ("Agnico-Eagle") fulfilled all its obligations under the June 1, 2006 agreement and has acquired a 50% undivided interest in the Maritime-Cadillac property. Agnico-Eagle paid \$100,000 (\$25,000 in fiscal 2009) and completed \$1,000,000 of exploration work in fiscal 2006 to fiscal 2009.

As permitted in the agreement, Agnico-Eagle indicated that it wants to increase its undivided interest from 50% to possibly 65% during a three year period by financing a bankable feasibility study with respect to the Maritime-Cadillac property or by assuming all mining operations on the Maritime-Cadillac property. If conditions are met, it will earn 1% additional interest for every \$1,000,000 spent on the Maritime-Cadillac property (up to 15% by spending \$15 millions).

#### b) Vermillon

The Company owns a 50% undivided interest in the Vermillon property. The property is subject to a 1% NSR royalty on specific claims, which can be purchased back for 500 000 \$ per each 0.5%. The Vermillon Property is located some 90 km southwest of the town of La Tuque in Quebec.

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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

#### c) Weedon

On March 6, 2007, the Company acquired a 100% interest in the Weedon claim block in exchange for 3 payments totalling \$60,000, including \$15,000 upon signing the agreement. As of March 2009, the last payment for \$25,000 was completed and all the commitments met. These claims are subject to a NSR royalty of 1% to the vendors. The Company can buyback the royalty, in total or in two parts of 0.5% each, upon payment to the vendors of \$500,000 per 0.5%, for a total amount of \$1,000,000. Additional adjoining claims were staked for which, in certain cases, a 0.5% royalty is payable and the Company can buy back this royalty for \$500,000. This property is located in the Eastern Townships, about 120 kilometres south of Quebec City.

On August 24, 2007, the Company signed a letter of agreement with Breakwater Resources Ltd. ("Breakwater") whereby Breakwater could acquire 50% of the Weedon property. On September 19, 2008, Breakwater notified the Company that it was terminating this agreement without penalty as stipulated in the agreement.

#### d) Gatineau Zn

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

On August 24, 2007, the Company signed a letter of agreement with Breakwater whereby Breakwater could acquire 50% of the Gatineau Zn property. On September 19, 2008, Breakwater notified the Company that it was terminating that agreement without penalty as stipulated in the agreement.

#### e) James Bay Au

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

On February 1, 2008, the Company signed an option agreement with Agnico-Eagle whereby Agnico-Eagle can acquire 50% of the James Bay Au property subject to the following conditions:

	<b>Payments in cash</b>	<b>Works</b>
	<b>\$</b>	<b>\$</b>
Upon signing of a formal agreement (completed)	50,000	-
February 1, 2009 (completed)	60,000	600,000
February 1, 2010	60,000	900,000
February 1, 2011	60,000	1,300,000
February 1, 2012	70,000	1,700,000
<b>Total</b>	<b>300,000</b>	<b>4,500,000</b>

- 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 and therefore charges project management fees and receives from time to time advances for exploration work.

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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

- 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).

#### f) James Bay Mo

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

#### g) James Bay U

The Company owns claims in the James Bay region.

On November 12, 2007, the Company signed a letter of agreement with a partner eventually substituted by Quest Uranium Corporation ("Quest") whereby Quest could acquire 50% of the James Bay U property. In July 2009, Quest announced it was terminating this agreement.

On September 16, 2008, the Company announced to Quest its intention to acquire a 50% interest in the Bawolak property, subject to a payment of \$27,250 in cash on the date of the announcement and of \$27,250 in cash on the first anniversary. This agreement was terminated by the Company following the announcement of Quest and the first payment of \$27,250 was written off.

#### h) Abitibi Au

The Company owns claims in the Abitibi region in the Clericy, La Pause, Destor and Dufresnoy townships.

#### i) Dunn

In 2009, the Company staked the Dunn property which is located along the Porcupine-Destor fault about 35 km northeast of the town of Rouyn-Noranda, Québec.

On June 15, 2009, the Company signed an agreement with Osisko Mining Corporation ("Osisko") whereby Osisko can acquire 50% of the Dunn property subject to the following conditions:

	<b>Payments in cash</b>	<b>Works</b>
	<b>\$</b>	<b>\$</b>
Upon signing (completed)	30,000	-
June 15, 2010	30,000	320,000
June 15, 2011	30,000	430,000
June 15, 2012	30,000	550,000
<b>Total</b>	<b>120,000</b>	<b>1,300,000</b>

- Only the \$30,000 cash payment upon signing and the first year work commitment for \$320,000 are firm commitments.
- The Company is the operator until the pre-feasibility study is completed and therefore charges project management fees and receives advances for exploration work from time to time.

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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

- Upon the acquisition of a 50% interest, a joint venture will be formed.
- Upon the acquisition of a 50% interest, Osisko will have the option to acquire an additional 15% interest by:
  - delivering a bankable feasibility study under the following conditions:
    - Annual cash payments of \$40,000;
    - A minimum of \$200,000 of exploration work each year until the delivery of a bankable feasibility study within a three-year period;
  - or by solely assuming all exploration, development and mining operations on the Dunn Property, earning a 1% additional interest for every \$1,000,000 spent on the property (up to 15% by spending \$15 million).

On July 16, 2009, the Company signed an agreement with Typhoon Exploration Inc. to acquire 100% of 12 claims that will be added to those staked in 2009 on the Dunn property and will form one property subject to the Osisko option for the following consideration:

- A \$20,000 payment upon signature;
- \$40,000 of exploration work in the 12 months following the signature of the agreement;
- A 2% net smelter return royalty; the Company can buy back, in tranches, the entire royalty for \$2,000,000.

As mentioned in the agreement signed on June 15, 2009, Osisko paid the \$20,000 payment and will pay the \$40,000 of exploration work to be completed within the 12 months following the acquisition.

#### j) Laflamme

In 2009, the Company staked claims about 25 km west of Lebel-sur-Quévillon in the Abitibi region.

On August 17, 2009, the Company signed an agreement with Cadiscor Resources Inc. ("Cadiscor") a subsidiary of North American Palladium Ltd. whereby Cadiscor can acquire 50% of the Laflamme property subject to the following conditions:

	<u>Payments in cash</u>	<u>Works</u>
	\$	\$
Upon signing (completed)	30,000	-
August 17, 2010	15,000	300,000
August 17, 2011	15,000	250,000
August 17, 2012	20,000	200,000
August 17, 2013	20,000	250,000
<b>Total</b>	<u>100,000</u>	<u>1,000,000</u>

- Only the \$30,000 cash payment upon signing and the first year work commitment for \$300,000 are firm commitments.
- Cadiscor is the operator until the pre-feasibility and therefore charges project management fees and received from time to time advances for exploration work.
- Upon acquiring a 50% interest, a joint venture will be formed.
- Upon acquiring a 50% interest, Cadiscor will have the option to acquire an additional 15% interest by delivering a bankable feasibility study.

#### k) Ytterby

The Company staked claims about 175 km northeast of Schefferville.

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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

#### l) Patris

The Company staked claims about 30 km northeast of Rouyn-Noranda, in Abitibi.

#### m) Eleonore

The Company staked claims within 30 km of the Éléonore gold discovery of Goldcorp, in the James Bay region.

#### n) Project generation

The Company continued geological compilation programs and staking in Quebec for the acquisition of strategic uranium and gold properties.

### 7. Capital stock

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

	2009		2008	
	Number	Amount	Number	Amount
		\$		\$
Common shares (note 6a)	21,636,546	7,775,234	20,386,546	7,057,834
Warrants (note 6b)	-	-	420,000	92,400
		<u>7,775,234</u>		<u>7,150,234</u>

#### a) Common shares

##### *Authorized*

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

##### *Issued and to be issued*

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

	2009		2008	
	Number	Amount	Number	Amount
		\$		\$
<b>Balance – Beginning of year</b>	20,386,546	7,057,834	20,178,879	6,933,234
<b>Issued following</b>				
Flow-through private placement i) ii)	830,000	415,000	207,667	124,600
Exercise of warrants iv)	420,000	302,400	-	-
<b>Balance – End of year</b>	<u>21,636,546</u>	<u>7,775,234</u>	<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.

ii) On December 24, 2008, the Company completed a private placement of 830,000 flow-through common shares for a total cash consideration of \$415,000.

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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

- iii) In February 2009, the Company issued 420,000 commons shares upon the exercise of broker warrants for an amount of \$210,000 in addition to \$92,400 representing the fair value of the broker warrants when they were issued (note 7b).
- iv) There are 379,702 shares held in escrow as at September 30, 2009 (1,139,114 as at September 30, 2008).

### b) Warrants

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

	2009		2008	
	Number	Amount	Number	Amount
		\$		\$
Balance – Beginning of year	420,000	92,400	420,000	92,400
Exercised	(420,000)	(92,400)	-	-
Balance – End of year	-	-	420,000	92,400

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

The Company has a stock option plan for its officers, directors, employees and consultants. The maximum number of common shares issuable under the plan was increased from 2,000,000 to 3,000,000. The amendment was ratified by the shareholders of the Company at the annual and special meeting held on February 19, 2009 and was approved by the TSX Venture Exchange.

The plan provides that no single person may hold options representing more than 5% of the outstanding common shares. The number of common shares granted to a beneficiary and the vesting period will be determined by the Board of Directors. The exercise price of any option granted under the plan shall be fixed by the Board of Directors at the time of grant and shall not be lower than the closing price on the day preceding the grant. If there are no transactions on such day the closing price will be replaced by the average between the bid price and ask price. The term of the option will not exceed five years from the date of grant. Options are not transferable and can only be exercised while the beneficiary remains a director, an officer, an employee or a consultant of the Company. The options are vesting 1/6 per 3 months from the grant date, or otherwise as determined by the Board of Directors and the cost of the options will be recorded over the vesting period. When the stock-based compensation is granted to individual for whom the fees or the salary are capitalised against the deferred exploration expenses, the fair value of this compensation is also capitalized against the deferred exploration expenses.

On December 10, 2007, the Company granted 50,000 options to a geologist, 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.

On May 6, 2008, the Company granted 50,000 options to geologists, exercisable at \$0.65, valid for 5 years, vesting immediately. Total stock-based compensation costs amount to \$21,000 for an estimated fair value of \$0.42 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 78%, a risk-free interest rate of 3.83% and an expected life of options of 5 years.

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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

For fiscal year 2008, a total of 100,000 options were granted. These options were granted at an exercise price superior at the closing market value of the shares the previous day of the grant. Total fair value for these options was \$40,000. The hypotheses used include an average interest rate without risk of 4.05%, an average expected life of the options of 5 years, an expected dividend yield of nil, an estimated average volatility of 80% and a weighted average fair value per option of \$0.40.

On October 2, 2008, the president's contract was modified to extend by one year the period where the president will be able to exercise de 250,000 options granted by two shareholders at \$0.25, which is 50% of the initial public offering price. Total stock-based compensation costs for the extension of these options amount to \$5,000 for an estimated fair value of \$0.02 per option. The fair value of the options extended was estimated, considering the fair value of the original option left at the date of the modification, using the Black-Scholes model with no expected dividend yield, an expected volatility of 67%, a risk-free interest rate of 3.06% and an expected life of options of 1 year. This transaction is a stock-based compensation since it's considered a capital contribution by a shareholder of the Company and the Company subsequently attributes it to the employee.

On February 19, 2009, the Company granted to its directors, officers, employees and consultants 420,000 options exercisable at \$0.70, valid for 5 years. These options were granted at an exercise price superior at the closing market value of the shares the previous day of the grant. Total stock-based compensation costs amount to \$210,000 for an estimated fair value of \$0.50 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 91%, a risk-free interest rate of 3.21% and an expected life of options of 5 years.

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

	<u>2009</u>		<u>2008</u>	
	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Number of options</u>	<u>Weighted average exercise price</u>
		\$		\$
<b>Balance – Beginning of period</b>	1,450,000	0.52	1,350,000	0.51
Granted	420,000	0.70	100,000	0.63
<b>Balance – End of period</b>	<u>1,870,000</u>	<u>0.56</u>	<u>1,450,000</u>	<u>0.52</u>

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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

The following table summarizes information about common share purchase options outstanding and exercisable as at September 30, 2009:

<u>Number of options outstanding</u>	<u>Number of options exercisable</u>	<u>Exercise price</u>	<u>Expiry date</u>
		\$	
250,000	250,000	0.50	November 1, 2011
1,000,000	1,000,000	0.50	January 11, 2012
100,000	100,000	0.64	May 1, 2012
50,000	50,000	0.60	December 10, 2012
50,000	50,000	0.65	May 6, 2013
420,000	140,000	0.70	February 19, 2014
<u>1,870,000</u>	<u>1,590,000</u>		

### d) Contributed surplus

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

	<u>2009</u>	<u>2008</u>
	\$	\$
<b>Balance - Beginning of the period</b>	638,499	395,992
Stock-based compensation	155,574	242,507
<b>Balance - End of period</b>	<u>794,073</u>	<u>638,499</u>

### e) Policies and processes for managing capital

The capital of the Company consists of the items included in shareholders' equity of \$4,648,428 as of September 30, 2009 (\$4,525,282 as of September 30, 2008). The Company's objectives when managing capital are to safeguard its ability to continue its operations as well as its acquisition and exploration programs. As needed, the Company raises funds through private placements. The Company doesn't use long term debts since it doesn't generate operating revenues. There is no dividend policy. The Company doesn't have any externally imposed capital requirements neither regulatory nor contractual requirements to which it is subject, unless the Company closes a flow-through private placement in which case the funds are restricted in use for exploration expenses.

### 8. Income taxes

- a) In December 2008, the Company issued flow-through shares for gross proceeds of \$415,000 (\$124,600 in December 2007). Under the flow-through share agreements, the Company renounced in February 2009 to \$415,000 of qualifying expenditures to the investors effective December 31, 2008 (\$124,600 in December 2007), although under the Canadian Income Tax Act, the expenditures may actually be incurred up to December 31, 2009.

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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### 8. Income taxes (Cont'd)

The Company is required to record a tax liability at the time the renunciation is filed with the tax authorities by an increase in the share and warrant issue expenses relating to the flow-through shares for the future income taxes related to the tax deductions the Company had forgone. The Company has estimated that the future income taxes recorded at the time of renunciation would be approximately \$112,000 (\$34,000 in December 2007). Consequently, the Company has recognized share and warrant issue expenses and an increase in future income tax liability of \$112,000 respectively in February 2009 (\$34,000 in February 2008).

The Company has future income tax assets of loss carryforwards and deductible temporary differences that it had not recognized in previous years as a result of applying the "more likely than not" test. The taxable temporary differences, which arose through the issuance of the flow-through shares in December 2008, are expected to reverse, so that part of the unrecognized future income tax assets can be applied against the full taxable temporary differences. Accordingly, the Company has recognized that portion of its unrecognized future income tax assets by reversing a valuation allowance of \$112,000 (\$34,000 for the year ended September 30, 2008).

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

	<u>2009</u>	<u>2008</u>
	\$	\$
Loss before income taxes	<u>(637 403)</u>	<u>(452,061)</u>
Combined federal and provincial income tax at 30.90% (31.18% in 2008)	(197,000)	(141,000)
Stock-based compensation	48,100	53,300
Change in enacted rates	4,200	39,400
Other non deductible elements	1,200	2,400
Other elements	100	(14,000)
Valuation allowance	31,400	25,900
Recovery of future income taxes	<u>(112,000)</u>	<u>(34,000)</u>

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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### 8. Income taxes (Cont'd)

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

	<u>2009</u>	<u>2008</u>
	\$	\$
Future income tax assets		
Non-capital losses	449,000	278,000
Share and warrant issue expenses	75,000	116,000
Total future income tax assets	<u>524,000</u>	<u>394,000</u>
Valuation allowance	<u>(330,000)</u>	<u>(304,000)</u>
Total net future income tax assets	194,000	90,000
Future income tax liabilities		
Mining assets	193,000	90,000
Non-realized capital gain	1,000	-
Total future income tax liabilities	<u>194,000</u>	<u>90,000</u>
Total net future income tax liabilities	<u>-</u>	<u>-</u>

d) The Company has accumulated non-capital losses of approximately \$1,692,000. These losses will expire from 2010 to 2029 as follows:

		<u>\$</u>
Years ending September 30	2010	1,000
	2014	20,000
	2015	96,000
	2026	84,000
	2027	126,000
	2027	177,000
	2028	540,000
	2029	648,000

e) As at September 30, 2009, the cost for income tax purposes of mining assets and share and warrants issue expenses totalled approximately \$1,263,000. The difference between the fiscal cost and the amount capitalized in the financial statements arises from the write-off of certain capital assets for accounting purposes and the tax benefits related to some exploration expenses being renounced in favour of subscribers of flow-through shares.

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

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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### 9. Related party transactions

*In the normal course of operations (other than those already disclosed):*

- a) During fiscal 2009 a firm in which an officer is a partner charged professional fees amounting to \$52,555 (\$48,163 for fiscal 2008);
- b) During fiscal 2009, a company controlled by an officer charged professional fees of \$71,684 (\$55,600 for fiscal 2008);
- c) As at September 30, 2009, the balance due to the related parties amounted to \$4,314 (September 30, 2008 – \$13,488). This amount is subject to the same conditions as those of non related parties.

*Not in the normal course of business:*

- d) In December 2008, directors and officers of the Company participated in private placements of flow-through shares (note 7aii) for a total consideration of \$105,000 (\$104,600 for fiscal 2008 (note 7ai)).

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

### 10. Commitment

In 2007, the Company is committed to annual rent of \$19,529 under an operating lease of three years expiring in February 2010. The lease was renewed for a three year period until February 2013 and the annual rent is \$20,154 for the first year, \$20,467 for the second year and \$20,779 for the third year.

### 11. Financial instruments

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management manages financial risks. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes. The Company's main financial risk exposure and its financial risk management policies are as follows:

#### *Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The investments included in cash and cash equivalents and also investments bear interest at a fixed rate and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations. Interest rates 1% higher would have decreased the fair value of these by \$17,652 as of September 30, 2009 (\$11,237 as of September 30, 2008). The Company's other financial assets and liabilities do not comprise any interest rate risk since they do not bear interest.

#### *Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is subject to concentrations of credit risk through cash and cash equivalents, investments and accounts receivable. The Company reduces its credit risk by maintaining part of its cash and cash equivalents in financial instruments guaranteed by and held with a Canadian chartered bank and the other part in financial instruments guaranteed by Canadian chartered banks held with an independent wealth management firm member of the Canadian Investor Protection Fund. The investments are composed of governmental corporation's instruments guaranteed by a provincial government. The Company aims at signing partnership agreements with established companies and follows closely their cash position to reduce its credit risk on accounts receivable.

# Midland Exploration Inc.

## Notes to Financial Statements

September 30, 2009 and 2008

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### 11. Financial instruments (Cont'd)

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. As of September 30, 2009, the Company had enough funds available to meet its financial liabilities and future financial liabilities from its commitments for the current year.

#### *Fair Value*

The fair value of financial instruments is summarized as follows:

	2009		2008	
	Carrying amount	Fair Value	Carrying amount	Fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
<i>Held for trading</i>				
Cash and cash equivalents	2,299,981	2,299,981	3,320,571	3,320,571
Investments	900,725	900,725	-	-
Exploration funds	144,464	144,464	-	-
<i>Loans and receivables</i>				
Accounts receivable	39,778	39,778	303,131	303,131
<b>Financial liabilities</b>				
<i>Other liabilities</i>				
Accounts payable and accrued liabilities	89,516	89,516	391,805	391,805
Advance for exploration work	321,413	321,413	4,772	4,772

Fair value estimates are made at the balance sheet date, based on relevant market information and other information about financial instruments.

### 12. Subsequent event

On November 13, 2009, the Company completed a brokered private placement by issuing 2,123,033 units at \$1.20 per unit and 166,700 flow-through shares at \$1.50 per share, for total gross proceeds of \$2,797,689. Each unit is comprised of one common share and one-half of a warrant. Each whole warrant will entitle the holder to purchase one additional common share at \$1.75 until May 13, 2011. The Company paid the broker a cash fee of \$174,383 and issued 124,884 broker warrants entitling them to acquire 124,884 shares at \$1.20 per share until May 13, 2011.

### 13. Comparative figures

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