

Midland Exploration Inc.

Interim Financial Statements

For the three-month period ended December 31, 2008

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

Midland Exploration Inc.

Balance Sheets

	As at December 31 2008 (Unaudited) \$	As at September 30 2008 (Audited) \$
Assets		
Current assets		
Cash and cash equivalents (note 2)	3,002,832	3,320,571
Accounts receivable	33,098	303,131
Sales tax receivable	21,214	348
Taxes credits and mining rights receivable	90,865	44,026
Prepaid expenses	7,655	16,844
	<u>3,155,664</u>	<u>3,684,920</u>
Exploration funds	415,000	-
		-
Mining assets (note 3)		
Mining properties	530,982	512,956
Deferred exploration expenses	772,126	723,983
	<u>1,303,108</u>	<u>1,236,939</u>
	<u>4,873,772</u>	<u>4,921,859</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	81,652	391,805
Advance for exploration work	-	4,772
	<u>81,652</u>	<u>396,577</u>
Shareholders' equity		
Capital stock (note 4)	7,565,234	7,150,234
Contributed surplus (note 4d)	645,188	638,499
Deficit	<u>(3,418,302)</u>	<u>(3,263,451)</u>
	<u>4,792,120</u>	<u>4,525,282</u>
	<u>4,873,772</u>	<u>4,921,859</u>

See accompanying notes.

Midland Exploration Inc.

Statement of Operations, Comprehensive Income and Deficit (Unaudited)

	For the three-month period ended December 31,	
	2008	2007
	\$	\$
Revenues		
Interest	21,679	37,748
Project management fees	2,978	39,843
Gain on disposal of mining assets	-	15,586
	<u>24,657</u>	<u>93,177</u>
Expenses		
Stock-based compensation	5,000	56,357
Administrative expenses and other	51,294	52,019
Investors relations	49,779	41,662
Professional fees	46,164	41,939
General exploration	14,902	2,085
Fair value variation for financial instruments held for trading	<u>(7,656)</u>	<u>(1,165)</u>
	159,483	192,897
Loss and comprehensive loss	(134,826)	(99,720)
Deficit – Beginning of period	(3,263,451)	(2,808,472)
Share and warrant issue expenses	<u>(20,025)</u>	<u>(2,918)</u>
Deficit – End of period	<u>(3,418,302)</u>	<u>(2,911,110)</u>
Basic and diluted net loss per share	<u>(0.01)</u>	<u>(0.01)</u>
Weighted average number of basic and diluted outstanding shares	<u>20,449,698</u>	<u>20,178,879</u>

See accompanying notes.

Midland Exploration Inc.

Statement of Cash Flows

(Unaudited)

	For the three-month period ended December 31,	
	2008	2007
	\$	\$
Cash flows from		
Operating activities		
Net loss	(134,826)	(99,720)
Adjustment for:		
Stock-based compensation	5,000	-
Recovery of future income taxes	-	56,357
	<u>(129,826)</u>	<u>(43,363)</u>
Changes in non-cash working capital items		
Accounts receivable	(4,178)	(24,931)
Sales tax receivable	(20,866)	25,920
Prepaid	9,189	9,324
Accounts payable and accrued liabilities	(36,044)	974
Advance for exploration work	<u>(284,573)</u>	<u>(95,502)</u>
	<u>(336,472)</u>	<u>(84,215)</u>
	<u>(466,298)</u>	<u>(127,578)</u>
Financing activities		
Capital stock issued	415,000	124,600
Share and warrant issue expenses	<u>(20,025)</u>	<u>(2,918)</u>
	<u>394,975</u>	<u>121,682</u>
Investing activities		
Additions to mining properties	(16,866)	(103,778)
Additions to deferred exploration expenses	(141,331)	(290,587)
Advance and payments received for exploration work	326,781	-
	<u>168,584</u>	<u>(394,365)</u>
Net change in cash and cash equivalents during the period	97,261	(400,261)
Cash and cash equivalents – beginning	<u>3,320,571</u>	<u>3,865,012</u>
Cash and cash equivalents – end	<u>3,417,832</u>	<u>3,464,751</u>
Less: Exploration funds	<u>(415,000)</u>	<u>(124,600)</u>
Cash and cash equivalents presented on the balance sheets	<u>3,002,832</u>	<u>3,340,151</u>
Additional information		
Stock-based compensation included in deferred exploration expenses	1,689	19,057
Additions of mining properties and deferred exploration expenses included in accounts payable and accrued liabilities	28,437	6,235
Additions of mining properties and deferred exploration expenses applied against the advance received for exploration work	-	241,575
Accounts receivable applied against mining properties and deferred exploration expenses	13,120	58,322
Tax credits receivable applied against deferred exploration expenses	46,839	14,044
Interest cashed	16,417	32,075

See accompanying notes.

Midland Exploration Inc.

Notes to Financial Statements

December 31, 2008

(Unaudited)

1. Statute of incorporation and nature of activities

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

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

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

2. Cash and cash equivalents

As of December 31, 2008, cash and cash equivalents include \$2,980,487 (\$3,202,580 as of September 30, 2008) of guaranteed investment certificates and bankers acceptances bearing interest between 1.80% and 3.41% (2.25% and 3.03% as of September 30, 2008), maturing between January 2, 2009 and November 5, 2009 (October 6, 2008 and September 21, 2009 as of September 30, 2008) and both instruments are cashable any time without any penalties.

	As at December 31 2008
	\$
Cash	437,345
Bankers acceptance	2,144,685
Guaranteed investment certificates	835,802
Less: Exploration funds	(415,000)
Cash and cash equivalents	3,002,832

Midland Exploration Inc.

Notes to Financial Statements

December 31, 2008

(Unaudited)

3. Mining assets

Mining properties	Undivided interest	As at	Additions	Option	As at
		September 30, 2008		payments	December 31, 2008
	%	\$	\$	\$	\$
Quebec					
Maritime-Cadillac	100	285,303	-	-	285,303
Vermillon	50	7,251	-	-	7,251
Weedon	100	-	6,806	-	6,806
Gatineau	100	-	-	-	-
James Bay Au	100	67,999	-	-	67,999
James Bay Mo	100	15,126	-	-	15,126
James Bay U	100	29,600	-	-	29,600
Abitibi Au	100	300	8,880	-	9,180
Project Generation	100	107,377	2,340	-	109,717
		<u>512,956</u>	<u>18,026</u>	<u>-</u>	<u>530,982</u>

Deferred exploration expenses	Undivided interest	As at	Additions	Option	Tax credits	As at
		September 30, 2008		payments		December 31, 2008
	%	\$	\$	\$	\$	\$
Quebec						
Maritime-Cadillac	100	156,269	500	-	(394)	156,375
Vermillon	50	306,008	116	-	-	306,124
Weedon	100	57,770	16,982	-	(7,883)	66,869
Gatineau	100	22,297	36,538	-	(18,525)	40,310
James Bay Au	100	65,652	4,904	-	(2,261)	68,295
James Bay Mo	100	47,839	-	-	-	47,839
James Bay U	100	7,464	5,731	-	(2,642)	10,553
Abitibi Au	100	1,075	11,289	-	(5,912)	6,452
Project Generation	100	59,609	18,922	-	(9,222)	69,309
		<u>723,983</u>	<u>94,982</u>	<u>-</u>	<u>(46,839)</u>	<u>772,126</u>

Midland Exploration Inc.

Notes to Financial Statements

December 31, 2008

(Unaudited)

4. Capital stock

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

	Three-month period ended December 31, 2008	
	Number	Amount
		\$
Common shares (note 4a)	21,216,546	7,472,834
Warrants (note 4b)	420,000	92,400
		<u>7,565,234</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:

	Three-month period ended December 31, 2008	
	Number	Amount
		\$
Balance, beginning of period	20,386,546	7,057,834
Issued		
Flow-through private placement i)	830,000	415,000
Balance, end of period	<u>21,216,546</u>	<u>7,472,834</u>

i) 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.

b) Warrants

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

	Three-month period ended December 31, 2008	
	Number	Amount
		\$
Balance, beginning and end of period	<u>420,000</u>	<u>92,400</u>

Warrants outstanding as at December 31, 2008 are as follows:

Number of warrants	Exercise price	Expiry date
	\$	
420,000	0.50	March 2, 2009 (exercised as of February 13, 2009)
<u>420,000</u>		

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Notes to Financial Statements

December 31, 2008

(Unaudited)

4. Capital stock (Cont'd)

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

On October 2, 2008, the president's contract (note 6c) 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.

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

	Three-month period ended December 31, 2008	
	Number of options	Weighted average exercise price
		\$
Balance, beginning and end of period	<u>1,450,000</u>	<u>0.51</u>

The following table summarizes information about common share purchase options outstanding and exercisable as at December 31, 2008:

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
		\$	
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	33,332	0.60	December 10, 2012
50,000	50,000	0.65	May 6, 2013
<u>1,450,000</u>	<u>1,433,332</u>		

d) Contributed surplus

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

	Three-month period ended December 31, 2008
	\$
Balance, beginning of period	638,499
Stock-based compensation	6,689
Balance, end of period	<u>645,188</u>

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(Unaudited)

4. Capital stock (Cont'd)

e) Policies and processes for managing capital

The capital of the Company consists of the items included in shareholders' equity of \$4,792,120 as of December 31, 2008 (\$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.

5. Related party transactions

In the normal course of operations for the three-month period ended December 31, 2008:

- a) A firm in which an officer is a partner charged professional fees amounting to \$23,528 (\$8,400 for the period ended December 31, 2007);
- b) A company controlled by an officer charged professional fees of \$19,500 (\$16,000 for the period ended December 31, 2007);
- c) As at December 31, 2008, the balance due to the related parties amounted to \$30,858 (as at December 31, 2007, \$5,996).

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 4ai) for a total consideration of \$105,000 (\$104,600 in December 2007).

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

6. Commitment

The Company is committed to annual rent of \$19,529 under an operating lease of three years expiring in February 2010.

7. 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 short-term liquid investments included in cash and cash equivalents 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% lower would have increased the fair value of these by \$6,062 as of December 31, 2008. The Company's other financial assets and liabilities do not comprise any interest rate risk since they do not bear interest.

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7. Financial instruments (cont'd)

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 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 Company aims at signing partnership agreements with established companies and follows closely their cash position to reduce its credit risk on accounts receivable.

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 December 31, 2008, 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:

	December 31, 2008		September 30, 2008	
	Carrying amount	Fair Value	Carrying amount	Fair value
	\$	\$	\$	\$
Financial assets				
<i>Held for trading</i>				
Cash and cash equivalents	3,002,832	3,002,832	3,320,571	3,320,571
<i>Loans and receivables</i>				
Accounts receivable	33,098	33,098	303,131	303,131
Financial liabilities				
<i>Other liabilities</i>				
Accounts payable and accrued liabilities	81,652	81,652	391,805	391,805
Advance for exploration work	-	-	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.