

# **Midland Exploration Inc.**

Interim Financial Statements

For the nine-month period ended June 30, 2009

*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 June 30 2009 (Unaudited) \$	As at September 30 2008 (Audited) \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 2)	2,194,411	3,320,571
Investments (note 3)	902,793	-
Accounts receivable	83,703	303,131
Sales tax receivable	1,770	348
Taxes credits and mining rights receivable	36,395	44,026
Prepaid expenses	7,789	16,844
	<u>3,226,861</u>	<u>3,684,920</u>
<b>Exploration funds</b>	259,908	-
<b>Mining assets</b> (note 4)		
Mining properties	545,999	512,956
Deferred exploration expenses	907,819	723,983
	<u>1,453,818</u>	<u>1,236,939</u>
	<u>4,940,587</u>	<u>4,921,859</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	59,134	391,805
Advance for exploration work	86,463	4,772
	<u>145,597</u>	<u>396,577</u>
<b>Shareholders' equity</b>		
<b>Capital stock</b> (note 5)	7,775,234	7,150,234
<b>Contributed surplus</b> (note 5d)	749,156	638,499
<b>Deficit</b>	<u>(3,729,400)</u>	<u>(3,263,451)</u>
	<u>4,794,990</u>	<u>4,525,282</u>
	<u>4,940,587</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 June 30,		For the nine-month period ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>Revenues</b>				
Interest	11,200	25,437	44,477	95,525
Project management fees	7,402	45,676	26,992	117,696
Gain on disposal of mining assets	15,683	-	15,683	15,586
	<u>34,285</u>	<u>71,113</u>	<u>87,152</u>	<u>228,807</u>
<b>Expenses</b>				
Stock-based compensation	62,618	58,303	91,777	171,018
Administrative expenses and other	53,444	50,367	206,011	229,840
Investors relations	16,901	27,287	126,944	107,687
Professional fees	27,160	18,068	107,261	103,421
General exploration	520	17,459	19,505	27,031
Fair value variation for financial instruments held for trading	(1,497)	307	(18,422)	(1,329)
	<u>159,146</u>	<u>171,791</u>	<u>533,076</u>	<u>637,668</u>
<b>Loss before income taxes</b>	(124,861)	(100,678)	(445,924)	(408,861)
Recovery of future income taxes	-	-	112,000	34,000
<b>Loss and comprehensive loss</b>	<b>(124,861)</b>	<b>(100,678)</b>	<b>(333,924)</b>	<b>(374,861)</b>
<b>Deficit – Beginning of period</b>	(3,604,539)	(3,119,573)	(3,263,451)	(2,808,472)
Share and warrant issue expenses	-	-	(132,025)	(36,918)
<b>Deficit – End of period</b>	<b>(3,729,400)</b>	<b>(3,220,251)</b>	<b>(3,729,400)</b>	<b>(3,220,251)</b>
<b>Basic and diluted net loss per share</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.02)</b>	<b>(0.02)</b>
<b>Weighted average number of basic and diluted outstanding shares</b>	<b>21,636,546</b>	<b>20,386,546</b>	<b>21,170,539</b>	<b>20,316,818</b>

See accompanying notes.

# Midland Exploration Inc.

## Statement of Cash Flows

(Unaudited)

	For the three-month period ended June 30,		For the nine-month period ended June 30,	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Cash flows from Operating activities</b>				
Net loss	(124,861)	(100,678)	(333,924)	(374,861)
Adjustment for				
Stock-based compensation	62,618	58,303	91,777	171,018
Fair value variation for financial instruments held for trading	(3,906)	-	(3,906)	-
Gain on option payment on mining assets	(15,683)	-	(15,683)	-
Recovery of future income taxes	-	-	(112,000)	(34,000)
	<u>(81,832)</u>	<u>(42,375)</u>	<u>(373,736)</u>	<u>(237,843)</u>
Changes in non-cash working capital items				
Accounts receivable	(15,601)	25,520	(25,936)	(13,992)
Sales tax receivable	14,291	-	(1,422)	45,592
Taxes credits and mining rights receivable	-	-	(6,464)	-
Prepaid	8,997	8,239	9,055	18,622
Accounts payable and accrued liabilities	17,030	17,100	(56,443)	12,765
Advance for exploration work	(65,395)	(144,575)	(330,024)	(227,772)
	<u>(40,678)</u>	<u>(93,716)</u>	<u>(411,234)</u>	<u>(164,785)</u>
	<u>(122,510)</u>	<u>(136,091)</u>	<u>(784,970)</u>	<u>(402,628)</u>
<b>Financing activities</b>				
Capital stock issued	-	-	625,000	124,600
Share and warrant issue expenses	-	-	(20,025)	(2,918)
	<u>-</u>	<u>-</u>	<u>604,975</u>	<u>121,682</u>
<b>Investing activities</b>				
Additions to investments	(898,887)	-	(898,887)	-
Additions to mining properties	(36,754)	(7,884)	(200,883)	(226,257)
Disposal of mining properties	55,000	49,414	115,000	99,414
Additions to deferred exploration expenses	(166,495)	(166,079)	(484,670)	(763,243)
Taxes credits and mining rights received	39,016	-	39,016	-
Deposit on exploration expenses	-	(60,000)	-	(60,000)
Advance and payments received for exploration work	187,386	533,456	744,167	793,456
	<u>(820,734)</u>	<u>348,907</u>	<u>(686,257)</u>	<u>(156,630)</u>
<b>Net change in cash and cash equivalents during the period</b>	(943,244)	212,816	(866,252)	(437,576)
<b>Cash and cash equivalents – beginning</b>	<u>3,397,563</u>	<u>3,214,620</u>	<u>3,320,571</u>	<u>3,865,012</u>
<b>Cash and cash equivalents – end</b>	2,454,319	3,427,436	2,454,319	3,427,436
Less: Exploration funds	(259,908)	(72,631)	(259,908)	(72,631)
<b>Cash and cash equivalents presented on the Balance Sheets</b>	<u>2,194,411</u>	<u>3,354,805</u>	<u>2,194,411</u>	<u>3,354,805</u>
<b>Additional information</b>				
Stock-based compensation included in deferred exploration expenses	11,817	26,599	18,880	68,832
Additions of mining properties and deferred exploration expenses included in accounts payable and accrued liabilities	26,317	153,284	26,317	153,284
Accounts receivable applied against mining properties and deferred exploration expenses	41,967	34,347	41,967	34,347
Tax credits receivable applied against deferred exploration expenses	-	-	24,921	14,044
Future income taxes accounted for in share issue expenses	-	-	112,000	34,000
Interest cashed	787	21,116	36,480	82,019

See accompanying notes.

# Midland Exploration Inc.

## Notes to Financial Statements

June 30, 2009

(Unaudited)

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### 1. Statute of incorporation and nature of activities

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

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

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

### 2. Cash and cash equivalents

As of June 30, 2009, cash and cash equivalents include \$2,425,145 of guaranteed investment certificates bearing interest between 1.00% and 2.30%, maturing between September 2, 2009 and February 18, 2010 and these instruments are cashable any time without any penalties.

	<b>As at June 30 2009</b>
	<b>\$</b>
Cash	29,174
Guaranteed investment certificates	2,425,145
Less: Exploration funds	(259,908)
<b>Cash and cash equivalents</b>	<b>2,194,411</b>

### 3. Investments

	<b>As at June 30 2009</b>
	<b>\$</b>
Hydro-Québec coupons, 1.36% interest maturing on February 15, 2011, with a maturity value of \$370,000	363,102
Hydro-Québec coupons, 1.28% interest maturing on February 15, 2011, with a maturity value of \$550,000	539,691
<b>Investments</b>	<b>902,793</b>

# Midland Exploration Inc.

## Notes to Financial Statements

June 30, 2009

(Unaudited)

### 4. Mining assets

Mining properties	Undivided interest	As at	Additions	Option payments	As at
		September 30, 2008			June 30, 2009
	%	\$	\$	\$	\$
<b>Quebec</b>					
Maritime-Cadillac	50	285,303	30,008	(25 000)	290,311
Vermillon	50	7,251	915	-	8,166
Weedon	100	-	28,061	-	28,061
Gatineau	100	-	5,902	-	5,902
James Bay Au	100	67,999	-	(60 000)	7,999
James Bay Mo	100	15,126	2,719	-	17,845
James Bay U	100	29,600	760	-	30,360
Abitibi Au	100	300	2,759	-	3,059
Dunn	100	-	3,070	(3 070)	-
Laflamme	100	-	26,148	-	26,148
Project Generation	100	107,377	20,771	-	128,148
		<u>512,956</u>	<u>121,113</u>	<u>(88 070)</u>	<u>545,999</u>

Deferred exploration expenses	Undivided interest	As at	Additions	Option payments	Tax credits	As at
		September 30 2008				June 30, 2009
	%	\$	\$	\$	\$	\$
<b>Quebec</b>						
Maritime-Cadillac	50	156,269	4,140	-	(214)	160,195
Vermillon	50	306,008	(92)	-	-	305,916
Weedon	100	57,770	32,935	-	(5,922)	84,783
Gatineau	100	22,297	6,529	-	(770)	28,056
James Bay Au	100	65,652	9,566	-	(2,262)	72,956
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	65,872	-	(3,334)	63,613
Dunn	100	-	11,889	(11,247)	(642)	-
Laflamme	100	-	18,827	-	(856)	17,971
Project Generation	100	59,609	59,335	-	(8,279)	110,665
		<u>723,983</u>	<u>220,004</u>	<u>(11,247)</u>	<u>(24,921)</u>	<u>907,819</u>

#### a) Dunn

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:

# Midland Exploration Inc.

## Notes to Financial Statements

June 30, 2009

(Unaudited)

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

	<u>Payments in cash</u>	<u>Works</u>
	\$	\$
Upon signing (cashed as of August 20, 2009)	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>	<u>120,000</u>	<u>1,300,000</u>

- 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 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, 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 Typhon Exploration Inc. to acquire 100% of 12 claims 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.

Osisko has agreed to pay the \$20,000 payment and the \$40,000 of exploration work.

#### b) Laflamme

The Company staked the Laflamme property which is located west of the town of Lebel sur Quevillon, Québec.

#### c) Maritime-Cadillac

In June 2009, Agnico-Eagle Ltd ("Agnico-Eagle") acquired a 50% interest in the Maritime-Cadillac property. As required in the agreement signed on June 1st 2006, Agnico-Eagle paid 4 yearly payments for a total of \$100,000 and completed \$1,000,000 of exploration work on the property.

#### d) Baie-James U

Quest Uranium Corporation ("Quest") announced it was terminating the November 12, 2007 agreement on the James Bay U property. Nevertheless, the agreement signed on September 15, 2008 is continuing on the Bawolak property.

# Midland Exploration Inc.

## Notes to Financial Statements

June 30, 2009

(Unaudited)

### 5. Capital stock

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

	Nine-month period ended June 30, 2009	
	Number	Amount
		\$
Common shares (note 4a)	21,636,546	7,775,234
Warrants (note 4b)	-	-
		<u>7,775,234</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:

	Nine-month period ended June 30, 2009	
	Number	Amount
		\$
<b>Balance, beginning of period</b>	20,386,546	7,057,834
<b>Issued following</b>		
Flow-through private placement i)	830,000	415,000
Exercise of warrants ii)	420,000	210,000
<i>Plus: Value of warrants exercised</i>	-	92,400
<b>Balance, end of period</b>	<u>21,636,546</u>	<u>7,775,234</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.

ii) In February 2009, the Company issued 420,000 common shares upon the exercise of broker warrants for an amount of \$210,000 plus their value of \$92,400.

#### b) Warrants

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

	Nine-month period ended June 30, 2009	
	Number	Amount
		\$
<b>Balance, beginning of period</b>	420,000	92,400
Exercised	<u>(420,000)</u>	<u>(92,400)</u>
<b>Balance, end of period</b>	<u>-</u>	<u>-</u>

# Midland Exploration Inc.

## Notes to Financial Statements

June 30, 2009

(Unaudited)

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

#### 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.

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. 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.

As of June 30, 2009, \$18,880 was capitalized against deferred exploration expenses and \$91,777 expensed as stock-based compensation, based on the vesting period.

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

	<b>Nine-month period ended June 30, 2009</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>
<b>Balance, beginning of period</b>	1,450,000	\$ 0.52
Granted	420,000	0.70
<b>Balance, end of period</b>	<b>1,870,000</b>	<b>0.56</b>

# Midland Exploration Inc.

## Notes to Financial Statements

June 30, 2009

(Unaudited)

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

The following table summarizes information about common share purchase options outstanding and exercisable as at June 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	70,000	0.70	February 19, 2014
<u>1,870,000</u>	<u>1,520,000</u>		

#### d) Contributed surplus

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

	<u>Nine-month period ended June 30, 2009</u>
	\$
Balance, beginning of period	638,499
Stock-based compensation	110,657
Balance, end of period	<u>749,156</u>

#### e) Policies and processes for managing capital

The capital of the Company consists of the items included in shareholders' equity of \$4,794,400 as of June 30, 2009 (\$4,525,282 as of June 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.

# Midland Exploration Inc.

## Notes to Financial Statements

June 30, 2009

(Unaudited)

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### 6. Related party transactions

*In the normal course of operations for the nine-month period ended June 30, 2009:*

- a) A firm in which an officer and director is a partner charged professional fees amounting to \$44,083 of which \$10,500 was recorded as share issue expenses (\$38,494 for the period ended June 30, 2008 of which \$2,918 was recorded as share issue expenses);
- b) A company controlled by an officer charged professional fees of \$40,281 (\$34,125 for the period ended June 30, 2008);
- c) As at June 30, 2009, the balance due to the related parties amounted to \$8,498 (as at June 30, 2008, \$4,654). 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 a private placement of flow-through shares (note 5ai) 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.

### 7. Commitment

The Company is committed to annual rent of \$19,842 under an operating lease of three years expiring in February 2010.

### 8. 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 and the 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 \$26,550 as of June 30, 2009. 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

June 30, 2009

(Unaudited)

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### 8. 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 June 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:

	<b>June 30, 2009</b>		<b>September 30, 2008</b>	
	<b>Carrying amount</b>	<b>Fair Value</b>	<b>Carrying amount</b>	<b>Fair value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>				
<i>Held for trading</i>				
Cash and cash equivalents	2,194,411	2,194,411	3,320,571	3,320,571
Investments	902,793	902,793	-	-
<i>Loans and receivables</i>				
Accounts receivable	83,703	83,703	303,131	303,131
<b>Financial liabilities</b>				
<i>Other liabilities</i>				
Accounts payable and accrued liabilities	59,134	59,134	391,805	391,805
Advance for exploration work	86,463	86,463	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.