

# **Midland Exploration Inc.**

Interim Financial Statements

For the three-month period ended December 31, 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 December 31, 2009 (Unaudited) \$	As at September 30, 2009 (Audited) \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 2)	2,322,821	2,299,981
Investments (note 3)	2,897,009	900,725
Accounts receivable	59,062	39,778
Sales tax receivable	51,640	-
Taxes credits and mining rights receivable	31,385	31,385
Prepaid expenses	7,712	24,557
	<u>5,369,629</u>	<u>3,296,426</u>
<b>Exploration funds</b>	130,683	144,464
<b>Mining assets (note 4)</b>		
Mining properties	672,807	613,303
Deferred exploration expenses	1,297,977	1,027,865
	<u>1,970,784</u>	<u>1,641,168</u>
	<u>7,471,096</u>	<u>5,082,058</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	229,567	89,516
Sales tax payable	-	22,701
Advance for exploration work	214,473	321,413
	<u>444,040</u>	<u>433,630</u>
<b>Shareholders' equity</b>		
<b>Capital stock (note 5)</b>	10,637,864	7,775,234
<b>Contributed surplus (note 5d)</b>	826,210	794,073
<b>Deficit</b>	<u>(4,437,018)</u>	<u>(3,920,879)</u>
	<u>7,027,056</u>	<u>4,648,428</u>
	<u>7,471,096</u>	<u>5,082,058</u>

See accompanying notes.

# Midland Exploration Inc.

## Statement of Operations, Comprehensive Income and Deficit (Unaudited)

	For the three-month period ended December 31,	
	2009	2008
	\$	\$
<b>Revenues</b>		
Interest	4,419	21,679
Project management fees	16,172	2,978
	<u>20,591</u>	<u>24,657</u>
<b>Expenses</b>		
Stock-based compensation (note 5c)	24,816	5,000
Administrative expenses and other	61,286	51,294
Investors relations	52,674	49,779
Professional fees	48,321	46,164
General exploration	4,349	14,902
Fair value variation for financial instruments held for trading	7,726	(7,656)
	<u>199,172</u>	<u>159,483</u>
<b>Loss and comprehensive loss</b>	<b>(178,581)</b>	<b>(134,826)</b>
<b>Deficit – Beginning of period</b>	<b>(3,920,879)</b>	<b>(3,263,451)</b>
Share and warrant issue expenses	<u>(337,558)</u>	<u>(20,025)</u>
<b>Deficit – End of period</b>	<b><u>(4,437,018)</u></b>	<b><u>(3,418,302)</u></b>
<b>Basic and diluted net loss per share</b>	<b><u>(0.01)</u></b>	<b><u>(0.01)</u></b>
<b>Weighted average number of basic and diluted outstanding shares</b>	<b><u>22 831 189</u></b>	<b><u>20,449,698</u></b>

See accompanying notes.

# Midland Exploration Inc.

## Statement of Cash Flows

(Unaudited)

	For the three-month period ended December 31,	
	2009	2008
	\$	\$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net loss	(178,581)	(134,826)
Adjustment for		
Stock-based compensation	24,816	5,000
Fair value variation for financial instruments held for trading		-
	<u>8,088</u>	
	(145,677)	(129,826)
Changes in non-cash working capital items		
Accounts receivable	(19,516)	(4,178)
Sales tax receivable and payable	(74,341)	(20,866)
Prepaid	16,845	9,189
Accounts payable and accrued liabilities	22,950	(36,044)
Advance for exploration work	(15,078)	(284,573)
	<u>(69,140)</u>	<u>(336,472)</u>
	<u>(214,817)</u>	<u>(466,298)</u>
<b>Financing activities</b>		
Capital stock issued	2,797,690	415,000
Share and warrant issue expenses	(272,618)	(20,025)
	<u>2,525,072</u>	<u>394,975</u>
<b>Investing activities</b>		
Additions to investments	(2,004,372)	-
Additions to mining properties	(85,272)	(16,866)
Additions to deferred exploration expenses	(316,974)	(141,331)
Advance and payments received for exploration work	105,422	326,781
	<u>(2,301,196)</u>	<u>168,584</u>
<b>Net change in cash and cash equivalents during the period</b>	9,059	97,261
<b>Cash and cash equivalents – beginning</b>	<u>2,444,445</u>	<u>3,320,571</u>
<b>Cash and cash equivalents – end</b>	<u>2,453,504</u>	<u>3,417,832</u>
Less: Exploration funds	(130,683)	(415,000)
<b>Cash and cash equivalents presented on the Balance Sheets</b>	<u>2,322,821</u>	<u>3,002,832</u>
<b>Additional information</b>		
Stock-based compensation included in deferred exploration expenses	7,321	1,689
Broker warrants granted for capital raising	64,940	-
Additions of mining properties and deferred exploration expenses included in accounts payable and accrued liabilities	146,271	28,437
Accounts receivable applied against mining properties and deferred exploration expenses	17,329	-
Tax credits receivable applied against deferred exploration expenses	-	13,120
Future income taxes accounted for in share issue expenses	-	46,839
Interest cashed	1,437	16,417

See accompanying notes.

# Midland Exploration Inc.

## Notes to Financial Statements

December 31, 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 December 31, 2009, cash and cash equivalents include \$2,439,808 of guaranteed investment certificates bearing interest between 0.15% and 0.40%, maturing between January 6, 2010 and November 30, 2010 and these instruments are cashable any time without any penalties.

	<b>As at December 31 2009</b>
	<b>\$</b>
Cash	13,696
Guaranteed investment certificates	2,439,808
Less: Exploration funds	(130,683)
	<u>2,322,821</u>

# Midland Exploration Inc.

## Notes to Financial Statements

December 31, 2009

(Unaudited)

### 3. Investments

	<b>As at December 31 2009</b>
	<u>\$</u>
Hydro-Québec coupons, 1.36% interest maturing on February 15, 2011, with a maturity value of \$370,000	363,421
Hydro-Québec coupons, 1.28% interest maturing on February 15, 2011, with a maturity value of \$550,000	540,057
Ontario Province coupons, 0.53% interest maturing on December 2, 2010, with a maturity value of \$1,010,000	1,000,807
Hydro-Québec coupons, 1.18% interest maturing on August 15, 2011, with a maturity value of \$1,020,000	992,724
	<u>2,897,009</u>

### 4. Mining assets

<u>Mining properties</u>	<u>Undivided interest %</u>	<u>As at September 30, 2009</u>	<u>Additions</u>	<u>Option payments</u>	<u>Write-off</u>	<u>As at December 31, 2009</u>
		<u>\$</u>	<u>\$</u>	<u>\$</u>		<u>\$</u>
<b>Quebec</b>						
Maritime-Cadillac	50	290,311	21	-	-	290,332
Vermillon	50	8,658	837	-	-	9,495
Weedon	100	28,061	1,421	-	-	29,482
Gatineau	100	5,902	1,130	-	-	7,032
James Bay Au	100	9,679	-	-	-	9,679
James Bay Mo	100	17,845	-	-	-	17,845
James Bay U	100	3,110	840	-	-	3,950
Abitibi Au	100	4,515	8,923	-	-	13,438
Dunn	100	-	-	-	-	-
Laflamme	100	-	-	-	-	-
Ytterby	100	115,722	43,905	-	-	159,627
Patris	100	1,352	-	-	-	1,352
Eleonore	100	59,917	2,427	-	-	62,344
Project Generation	100	68,231	-	-	-	68,231
		<u>613,303</u>	<u>59,504</u>	<u>-</u>	<u>-</u>	<u>672,807</u>

# Midland Exploration Inc.

## Notes to Financial Statements

December 31, 2009

(Unaudited)

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

Deferred exploration expenses	Undivided interest %	As at September 30, 2009	Additions	Option payments	Tax credits	As at December 31, 2009
		\$	\$		\$	\$
<b>Quebec</b>						
Maritime-Cadillac	50	160,195	861	-	-	161,056
Vermillon	50	305,916	-	-	-	305,916
Weedon	100	86,516	7,022	-	-	93,538
Gatineau	100	29,339	839	-	-	30,178
James Bay Au	100	82,163	1,447	-	-	83,610
James Bay Mo	100	50,319	-	-	-	50,319
James Bay U	100	13,345	-	-	-	13,345
Abitibi Au	100	83,802	18,485	-	-	102,287
Dunn	100	1,040	2,513	-	-	3,553
Laflamme	100	22,964	528	-	-	23,492
Ytterby	100	20,991	22,771	-	-	43,762
Patris	100	8,080	71,134	-	-	79,214
Eleonore	100	89,423	134,342	-	-	223,765
Project Generation	100	73,772	10,170	-	-	83,942
		1,027,865	270,112	-	-	1,297,977

#### a) Abitibi Au

The Casault property. The Company stated claims about 140 km north of La Sarre city.

### 5. Capital stock

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

	Three-month period ended December 31, 2009	
	Number	Amount
		\$
Common shares (note 5a)	23,926,279	10,288,862
Warrants (note 5b)	1,186,400	349,002
		10,637,864

#### a) Common shares

*Authorized*

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

# Midland Exploration Inc.

## Notes to Financial Statements

December 31, 2009

(Unaudited)

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

*Issued and to be issued*

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

	Three-month period ended December 31, 2009	
	Number	Amount
<b>Balance, beginning of period</b>	21,636,546	\$ 7,775,234
<b>Issued following:</b>		
Private placement i)	2,123,033	2,547,640
<i>Less: Value of warrants</i>	-	(284,062)
Flow-through private placement i)	166,700	250,050
<b>Balance, end of period</b>	<u>23,926,279</u>	<u>10,288,862</u>

- i) 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.

From the total compensation received from the units, \$284,062 has been allocated to warrants and \$2,263,577 to common shares, according to a pro rata allocation of the estimated fair value of each of the two components. The estimated fair value of the warrants was determined using the Black-Scholes pricing model based on the following assumptions: no expected dividend yield, an expected volatility of 79%, a risk free interest rate of 1.26% and an expected life of the broker warrants of 18 months.

The total broker warrants cost amount to \$64,940 and was recorded as share issue cost. This \$64,940 fair value was estimated using the Black-Scholes model with the same assumptions as the warrants.

### b) Warrants

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

	Three-month period ended December 31, 2009	
	Number	Amount
<b>Balance, beginning of period</b>	-	\$ -
<b>Issued following:</b>		
Private placement (note 5ai)	1,186,400	349,002
<b>Balance, end of period</b>	<u>1,186,400</u>	<u>349,002</u>

# Midland Exploration Inc.

## Notes to Financial Statements

December 31, 2009

(Unaudited)

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

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

On December 15, 2009, the Company granted to an officer 20,000 options exercisable at \$1.40, valid for 5 years. These options were granted at an exercise price equal to the closing market value of the shares the previous day of the grant. Total stock-based compensation costs amount to \$20,400 for an estimated fair value of \$1.02 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 94.3%, a risk-free interest rate of 2.57% and an expected life of options of 5 years.

As of December 31, 2009, \$7,321 was capitalized against deferred exploration expenses and \$24,816 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>Three-month period ended December 31, 2009</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>
<b>Balance, beginning of period</b>	1,870,000	\$ 0.56
Granted	20,000	1.40
<b>Balance, end of period</b>	<u>1,890,000</u>	<u>0.57</u>

The following table summarizes information about common share purchase options outstanding and exercisable as at December 31, 2009:

<b>Number of options outstanding</b>	<b>Number of options exercisable</b>	<b>Exercise price</b>	<b>Expiry date</b>
		\$	
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	210,000	0.70	February 19, 2014
20,000	-	1.40	December 15, 2014
<u>1,890,000</u>	<u>1,660,000</u>		

# Midland Exploration Inc.

## Notes to Financial Statements

December 31, 2009

(Unaudited)

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

#### d) Contributed surplus

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

	<b>Three-month period ended December 31, 2009</b>
	<u>\$</u>
Balance, beginning of period	794,073
Stock-based compensation	32,137
Balance, end of period	<u>826,210</u>

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

The capital of the Company consists of the items included in shareholders' equity of \$7,027,056 as of December 31, 2009 (\$4,648,428 as of December 31, 2009). 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.

### 6. Related party transactions

*In the normal course of operations for the three-month period ended December 31, 2009:*

- a) A firm in which an officer and director is a partner charged professional fees amounting to \$54,322 of which \$32,903 was recorded as share issue expenses (\$23,528 for the period ended December 31, 2008 of which \$10,500 was recorded as share issue expenses);
- b) A company controlled by an officer charged professional fees of \$21,380 (\$24,238 for the period ended December 31, 2008);
- c) As at December 31, 2009, the balance due to the related parties amounted to \$40,822 (as at December 31, 2008, \$30,858). 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 for a total consideration of \$105,000.

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 rent of \$20,154 under an operating lease of three years expiring in February 2010 that was renewed until February 2013.

# Midland Exploration Inc.

## Notes to Financial Statements

December 31, 2009

(Unaudited)

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### 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 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 \$46,345 as of December 31, 2009 (\$17,652 as of September 30, 2009). Since some of the interest rates are lower than 1%, a decrease of interest by 1% or down to 0% would increase the fair value of these by \$37,851 as of December 31, 2009 (\$14,178 as of September 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.

#### *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, 2009, the Company had enough funds available to meet its financial liabilities and future financial liabilities from its commitments for the current year.

# Midland Exploration Inc.

## Notes to Financial Statements

December 31, 2009

(Unaudited)

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

#### *Fair Value*

The fair value of financial instruments is summarized as follows:

	<u>31 décembre 2009</u>		<u>30 septembre 2009</u>	
	<u>Carrying amount</u>	<u>Fair Value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	\$	\$	\$	\$
<b>Financial assets</b>				
<i>Held for trading</i>				
Cash and cash equivalents	2,322,821	2,322,821	2,299,981	2,299,981
Investments	2,897,009	2,897,009	900,725	900,725
Exploration funds	130,683	130,683	144,464	144,464
<i>Loans and receivables</i>				
Accounts receivable	59,062	59,062	39,778	39,778
<b>Financial liabilities</b>				
<i>Other liabilities</i>				
Accounts payable and accrued liabilities	229,537	229,537	89,516	89,516
Advance for exploration work	214,473	214,473	321,413	321,413

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