

Midland Exploration Inc.

Interim Financial Statements

For the six-month period ended March 31, 2011

*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 March 31, 2011 (Unaudited) \$	As at September 30, 2010 (Audited) \$
Assets		
Current assets		
Cash and cash equivalents (note 3)	1,769,912	1,895,315
Investments (note 4)	2,934,068	2,904,885
Accounts receivable	99,739	317,926
Sales tax receivable	8,255	-
Taxes credits and mining rights receivable	111,575	26,397
Prepaid expenses	31,529	23,875
	<u>4,955,078</u>	<u>5,168,398</u>
Mining assets (note 5)		
Mining properties	662,530	571,355
Deferred exploration expenses	1,207,714	1,090,116
	<u>1,870,244</u>	<u>1,661,471</u>
	<u>6,825,322</u>	<u>6,829,869</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	170,321	225,209
Sales tax payable	-	16,195
Advance for exploration work	343,943	81,110
	<u>514,264</u>	<u>322,514</u>
Shareholders' equity		
Capital stock (note 6)	10,908,224	10,782,614
Contributed surplus (note 6d)	1,104,555	996,874
Deficit	(5,701,721)	(5,272,133)
	<u>6,311,058</u>	<u>6,507,355</u>
	<u>6,825,322</u>	<u>6,829,869</u>

See accompanying notes.

Midland Exploration Inc.

Statement of Operations, Comprehensive Loss and Deficit

(Unaudited)

	For the three-month period ended March 31,		For the six-month period ended March 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Revenues				
Interest	14,253	15,079	32,952	19,498
Project management fees	41,635	34,826	55,074	50,998
	<u>55,888</u>	<u>49,905</u>	<u>88,026</u>	<u>70,496</u>
Expenses				
Stock-based compensation (note 6c)	49,678	40,537	75,110	65,353
Administrative expenses and other	123,056	117,375	207,865	178,661
Investors relations	80,665	62,564	126,598	115,238
Professional fees	61,606	33,553	107,703	81,874
General exploration	505	1,396	2,278	5,745
Fair value variation for financial instruments held for trading	(7,530)	9,068	(2,673)	16,794
Write-off of mining assets	733	-	733	-
	<u>308,713</u>	<u>264,493</u>	<u>517,614</u>	<u>463,665</u>
Loss and comprehensive loss	(252,825)	(147,588)	(429,588)	(326,169)
Deficit – Beginning of period	(5,448,896)	(4,437,018)	(5,272,133)	(3,920,879)
Share and warrant issue expenses	-	(65,765)	-	(403,323)
Deficit – End of period	(5,701,721)	(4,650,371)	(5,701,721)	(4,650,371)
Basic and diluted net loss per share	(0.01)	(0.01)	(0.02)	(0.01)
Weighted average number of basic and diluted outstanding shares	24,156,163	23,926,279	24,250,347	23,372,717

Midland Exploration Inc.

Statement of Cash Flows

(Unaudited)

	For the three-month period ended March 31,		For the six-month period ended March 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cash flows from Operating activities				
Net loss	(252,825)	(147,588)	(429,588)	(326,169)
Adjustment for				
Stock-based compensation	49,678	40,537	75,110	65,353
Fair value variation for financial instruments held for trading	(6,427)	(232)	(2,717)	7,856
Write-off of mining assets	733	-	733	-
Future income taxes recovery	-	(67,000)	-	(67,000)
	<u>(208,841)</u>	<u>(174,283)</u>	<u>(356,462)</u>	<u>(319,960)</u>
Changes in non-cash working capital items				
Accounts receivable	121,879	(164,425)	218,187	(183,709)
Sales tax receivable and payable	(22,973)	46,339	(24,450)	(28,002)
Prepaid	(16,018)	(2,053)	(7,654)	14,792
Accounts payable and accrued liabilities	111,739	8,551	(30,354)	31,501
Advance for exploration work	(21,094)	35,731	262,833	(71,209)
	<u>173,533</u>	<u>(75,857)</u>	<u>418,562</u>	<u>(236,627)</u>
	<u>(35,308)</u>	<u>(250,140)</u>	<u>62,100</u>	<u>(556,587)</u>
Financing activities				
Capital stock issued	72,100	-	125,610	2,797,690
Share and warrant issue expenses	-	1,235	-	(271,383)
	<u>72,100</u>	<u>1,235</u>	<u>125,610</u>	<u>2,526,307</u>
Investing activities				
Additions to investments	(920,000)	-	(1,930,000)	(2,004,372)
Disposal of investments	898,887	-	1,903,534	-
Additions to mining properties	(98,640)	(71,533)	(117,517)	(139,951)
Disposal of mining properties	-	260,000	40,000	260,000
Additions to deferred exploration expenses	(146,539)	(1,542)	(252,453)	(138,318)
Taxes credits and mining rights received	43,323	-	43,323	-
	<u>(222,969)</u>	<u>186,925</u>	<u>(313,113)</u>	<u>(2,022,641)</u>
Net change in cash and cash equivalents during the period	<u>(186,177)</u>	<u>(61,980)</u>	<u>(125,403)</u>	<u>(52,921)</u>
Cash and cash equivalents – beginning	<u>1,956,089</u>	<u>2,453,504</u>	<u>1,895,315</u>	<u>2,444,445</u>
Cash and cash equivalents – end	<u>1,769,912</u>	<u>2,391,524</u>	<u>1,769,912</u>	<u>2,391,524</u>
Less: Exploration funds	-	(60,224)	-	(60,224)
Cash and cash equivalents presented on the Balance Sheets	<u>1,769,912</u>	<u>2,331,300</u>	<u>1,769,912</u>	<u>2,331,300</u>
Additional information				
Stock-based compensation included in deferred exploration expenses	22,526	18,095	32,571	25,416
Broker warrants granted for capital raising	-	-	-	64,940
Additions of mining properties and deferred exploration expenses included in accounts payable and accrued liabilities	11,620	221,922	11,620	221,922
Accounts receivable applied against mining properties and deferred exploration expenses	-	205,070	-	205,070
Tax credits receivable applied against deferred exploration expenses	76,011	-	125,618	-
Future income taxes accounted for in share issue expenses	-	67,000	-	67,000
Interest cashed	24,352	17,715	30,328	19,152

See accompanying notes.

Midland Exploration Inc.

Notes to Financial Statements

March 31, 2011

(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. Change in accounting policies

In 2010, the Company changed retroactively its accounting policy for the cash flow presentation to report the cash receipts and payments on behalf of partners on a net basis in the operating activities when the Company is the operator of the project given that the cash flows reflect the activities of the partners rather than those of the Company. The effect of the change in accounting policy on the statement of cash flows is summarized below:

	<u>As previously reported</u>	<u>Adjusted</u>	<u>Balance adjusted</u>
	\$	\$	\$
Three-month period ended March 31, 2010			
Cash flow from operating activities	(229,925)	(20,215)	(250,140)
Cash flow from investing activities	166,710	20,215	186,925
Six-month period ended March 31, 2010			
Cash flow from operating activities	(444,742)	(111,845)	(556,587)
Cash flow from investing activities	(2,134,486)	111,845	(2,022,641)

3. Cash and cash equivalents

As of December 31, 2010, cash and cash equivalents include \$940,456 of guaranteed investment certificates bearing interest between 1.05% and 1.25%, maturing between September 27 and 30, 2011 and these instruments are cashable any time without any penalties.

	<u>As at March 31, 2011</u>
	\$
Cash	859,456
Guaranteed investment certificates	910,456
	<u>1,769,912</u>

Midland Exploration Inc.

Notes to Financial Statements

March 31, 2011

(Unaudited)

4. Investments

	As at March 31, 2011
	\$
Hydro-Québec coupons, 1.18% interest maturing on August 15, 2011, with a maturity value of \$1,020,000	999,805
Guaranteed investment certificates, 1.70% interest maturing on September 15, 2011 with a maturity value of \$1,027,170	1,014,263
Guaranteed investment certificates, 1.60% interest maturing on February 16, 2012 with a maturity value of \$934,720	920,000
	<u>2,934,068</u>

5. Mining assets

Mining properties	Undivided interest %	As at Sept. 30, 2010	Additions	Option payments	Write-off	As at March 31, 2011
		\$	\$	\$		\$
Abitibi						
Maritime-Cadillac	50	290,351	18	-	-	290,369
Abitibi Au	100	7,603	3,426	-	-	11,029
Dunn	100	-				
Laflamme	100	-				
Patris	100	13,085	12,892	(24,664)	-	1,313
Casault	100	9,811	13,494	-	-	23,305
Bassignac	100	2,276	6,179	-	-	8,455
Grenville-Appalaches						
Weedon	100	32,422	12,590	-	-	45,012
Gatineau	100	-	-	-	-	-
Vermillon	50	-	733	-	(733)	-
James Bay						
James Bay Au	100	-	48,825	-	-	48,825
James Bay Mo	100	19,843	47	-	-	19,890
James Bay U	100	4,803	366	-	-	5,169
Eleonore	100	119,417	16,384	-	-	135,801
Quebec Labrador						
Ytterby	100	-	-	-	-	-
Project Generation	100	71,744	1,618	-	-	73,362
		<u>571,355</u>	<u>116,572</u>	<u>(24,664)</u>	<u>(733)</u>	<u>662,530</u>

Midland Exploration Inc.

Notes to Financial Statements

March 31, 2011

(Unaudited)

5. Mining assets (Cont'd)

Deferred exploration expenses	Undivided interest %	As at Sept. 30, 2010 \$	Additions \$	Option payments	Tax credits \$	As at March 31, 2011 \$
Abitibi						
Maritime-Cadillac	50	177,284	10,327	-	(1,924)	185,687
Abitibi Au	100	151,551	11,986	-	(3,865)	159,672
Dunn	100	3,998	4,031	-	-	8,029
Laflamme	100	16,606	3,184	-	-	19,790
Patris	100	85,633	5,283	(15,336)	(1,151)	74,429
Casault	100	16,104	89,517	-	(35,495)	70,126
Bassignac	100	10,479	-	-	-	10,479
Grenville-Appalaches						
Weedon	100	99,656	105,334	-	(41,794)	163,196
Gatineau	100	411	2,425	-	(103)	2,733
Vermillon	50	-	-	-	-	-
James Bay						
James Bay Au	100	49,247	1,212	-	-	50,459
James Bay Mo	100	50,319	-	-	-	50,319
James Bay U	100	14,496	-	-	-	14,496
Eleonore	100	275,844	13,274	-	(4,497)	284,621
Quebec Labrador						
Ytterby	100	58,713	8,178	-	(35,240)	31,651
Project Generation	100	79,775	3,801	-	(1,549)	82,027
		<u>1,090,116</u>	<u>258,552</u>	<u>(15,336)</u>	<u>(125,618)</u>	<u>1,207,714</u>

a) Patris

On December 3, 2010, the Company signed an option agreement with Aurizon Mines Ltd ("Aurizon") whereby Aurizon can acquire 50% of the Patris property subject to the following conditions:

	Payments in cash \$	Works \$
Promptly after signing the letter agreement (completed)	40,000	-
December 3, 2011	40,000	600,000
December 3, 2012	40,000	700,000
December 3, 2013	50,000	800,000
December 3, 2014	60,000	900,000
Total	<u>230,000</u>	<u>3,000,000</u>

- Only the \$40,000 cash payment 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.
- Upon acquiring a 50% interest, Aurizon will have the option to increase its undivided interest in the project from 50% to 60% over a period of four years, by:
 - Solely financing a positive pre-feasibility study;
 - Make cash payments of \$80,000 per year;
 - Incur work expenditures, including 40,000 metres of drilling.

Midland Exploration Inc.

Notes to Financial Statements

March 31, 2011

(Unaudited)

6. Capital stock

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

	As at March 31, 2011	
	<u>Number</u>	<u>Amount</u>
		\$
Common shares (note 6a)	24,156,163	10,625,500
Warrants (note 6b)	1,056,516	282,724
		<u>10,908,224</u>

a) Common shares

Authorized

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

Issued

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

	Six-month period ended March 31, 2011	
	<u>Number</u>	<u>Amount</u>
		\$
Balance, beginning of period	24,053,779	10,447,912
Issued following:		
Exercise of warrants i)	102,384	177,588
Balance, end of period	<u>24,156,163</u>	<u>10,625,500</u>

- i) The Company issued 102,384 common shares upon the exercise of broker warrants for an amount of \$125,610 in addition to \$51,978 representing the fair value of the broker warrants when they were issued.

b) Warrants

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

	Six-month period ended March 31, 2011	
	<u>Number</u>	<u>Amount</u>
		\$
Balance, beginning of period	1,158,900	334,702
Issued following:		
Exercised (note 6ai)	(102,384)	(51,978)
Balance, end of period	<u>1,056,516</u>	<u>282,724</u>

Warrants outstanding as at March 31, 2011 are as follows:

<u>Number of warrants</u>	<u>Exercise price</u>	<u>Expiry date</u>
	\$	
1,056,516	1.75	May 13, 2011 (note 7)
<u>1,056,516</u>		

Midland Exploration Inc.

Notes to Financial Statements

March 31, 2011

(Unaudited)

6. Capital stock (Cont'd)

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

The Board of Directors has approved certain changes to the stock option plan (the "Plan"), subject to the TSX Venture and shareholders approval. The reason for this change is to maintain the incentive for a longer period considering the stability of the participants and the business model of the Company and also to incorporate the numerous amendments brought recently to the TSX Venture Exchange's policy relating to stock options. The following are the major changes to the Plan:

- ◆ The options can be exercised for a period of up to 10 years. The expiry date of options granted prior to February 17, 2011 were not extended;
- ◆ In the event of termination with cause, the options of an eligible person shall expire on the date of the notice of termination.

On February 17, 2011, the Company granted to its directors, officers, employees and consultants 275,000 options exercisable at \$1.76, valid for 10 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 \$365,750 for an estimated fair value of \$1.33 per option. The fair value of the options granted was estimated using the Black-Scholes model with no expected dividend yield, 91% expected volatility, 2.79% risk-free interest rate and 6 years options expected life.

In fiscal 2011, \$32,571 was capitalized in deferred exploration expenses and \$75,110 expensed as stock-based compensation, over the vesting period or the period covered by the contract for consultants.

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

	Six-month period ended March 31, 2011	
	Number of options	Weighted average exercise price
		\$
Balance, beginning of period	2,015,000	0.56
Granted	275,000	1.76
Balance, end of period	<u>2,290,000</u>	0.80
Balance, end of period options exercisable	<u>1,936,666</u>	0.63

Midland Exploration Inc.

Notes to Financial Statements

March 31, 2011

(Unaudited)

6. Capital stock (Cont'd)

The following table summarizes information about common share purchase options outstanding and exercisable as at March 31, 2011:

<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
50,000	50,000	0.64	May 1, 2012
50,000	50,000	0.60	December 10, 2012
25,000	25,000	0.65	May 6, 2013
395,000	395,000	0.70	February 19, 2014
20,000	16,666	1.40	December 15, 2014
225,000	150,000	1.48	March 8, 2015
275,000	-	1.76	February 17, 2021
<u>2,290,000</u>	<u>1,936,666</u>		

d) Contributed surplus

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

	<u>Six-month period ended March 31, 2011</u>
	\$
Balance, beginning of period	996,874
Stock-based compensation	107,681
Balance, end of period	<u>1,104,555</u>

7. Subsequent event

On the 1,056,516 warrants outstanding as at March 31, 2011 and expiring on May 13, 2011, 654,916 were exercised for proceeds of \$1,146,103 and 401,600 expired.