

# **Midland Exploration Inc.**

(An exploration stage company)

Interim Financial Statements

For the nine month period ended June 30, 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.

(An exploration stage company)

## Balance Sheets

	<b>As at June 30 2008 (Unaudited)</b>	<b>As at September 30 2007 (Audited)</b>
	<u>\$</u>	<u>\$</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 3)	3,354,805	3,865,012
Accounts receivable	60,762	18,528
Sales tax receivable	-	45,592
Taxes credits and mining rights receivable	94,312	80,268
Prepaid expenses	11,016	29,638
	<u>3,520,895</u>	<u>4,039,038</u>
<b>Exploration funds</b>	72,631	-
<b>Deposit on exploration expenses</b>	60,000	-
<b>Mining assets (note 4)</b>		
Mining properties	501,987	401,053
Deferred exploration expenses	716,578	603,154
	<u>1,218,565</u>	<u>1,004,207</u>
	<u>4,872,091</u>	<u>5,043,245</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	197,922	62,131
Advance for exploration work	108,344	367,960
	<u>306,266</u>	<u>430,091</u>
<b>Shareholders' equity</b>		
<b>Capital stock (note 5)</b>	7,150,234	7,025,634
<b>Contributed surplus (note 5d)</b>	635,842	395,992
<b>Deficit</b>	<u>(3,220,251)</u>	<u>(2,808,472)</u>
	<u>4,565,825</u>	<u>4,613,154</u>
	<u>4,872,091</u>	<u>5,043,245</u>

See accompanying notes.

# Midland Exploration Inc.

(An exploration stage company)

## Statement of Operations, Comprehensive Income and Deficit

(Unaudited)

	For the three-month period ended June 30,		For the nine-month period ended June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Revenues</b>				
Interest	25,437	36,768	95,525	48,593
Project management fees	45,676	-	117,696	-
Gain on disposal of mining assets	-	-	15,586	-
	<u>71,113</u>	<u>36,768</u>	<u>228,807</u>	<u>48,593</u>
<b>Expenses</b>				
Stock-based compensation	58,303	134,703	171,018	182,203
Administrative expenses and other	50,367	36,826	229,840	122,455
Investors relations	27,287	21,893	107,687	46,113
Professional fees	18,068	14,219	103,421	62,385
General exploration	17,459	16,443	27,031	16,443
Fair value variation for financial instruments held for trading	307	-	(1,329)	-
	<u>171,791</u>	<u>224,084</u>	<u>637,668</u>	<u>429,599</u>
<b>Loss before income taxes</b>	(100,678)	(187,316)	(408,861)	(381,006)
Recovery of future income taxes	-	-	34,000	41,000
<b>Loss and comprehensive loss</b>	<b>(100,678)</b>	<b>(187,316)</b>	<b>(374,861)</b>	<b>(340,006)</b>
<b>Deficit – Beginning of period</b>	(3,119,573)	(2,507,789)	(2,808,472)	(1,710,223)
Share and warrant issue expenses	-	(12,387)	(36,918)	(657,263)
<b>Deficit – End of period</b>	<u>(3,220,251)</u>	<u>(2,707,492)</u>	<u>(3,220,251)</u>	<u>(2,707,492)</u>
<b>Basic and diluted net loss per share</b>	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.02)</u>	<u>(0.02)</u>
<b>Weighted average number of basic and diluted outstanding shares</b>	<u>20,386,546</u>	<u>20,178,879</u>	<u>20,316,818</u>	<u>15,039,815</u>

See accompanying notes.

# Midland Exploration Inc.

(An exploration stage company)

## Statement of Cash Flows

(Unaudited)

	For the three-month period ended June 30,		For the nine-month period ended June 30,	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Cash flows from</b>				
<b>Operating activities</b>				
Net loss	(100,678)	(187,316)	(374,861)	(340,006)
Adjustment for				
Stock-based compensation	58,303	134,703	171,018	182,203
Recovery of future income taxes	-	-	(34,000)	(41,000)
	(42,375)	(52,613)	(237,843)	(198,803)
Changes in non-cash working capital items				
Accounts receivable	25,520	5,080	(13,992)	(40,777)
Sales tax receivable	-	-	45,592	-
Prepaid	8,239	(4,918)	18,622	(18,652)
Accounts payable and accrued liabilities	17,100	(25,132)	12,765	(51,348)
Advance for exploration work	(144,575)	-	(227,772)	-
	(93,716)	(24,970)	(164,785)	(110,777)
	(136,091)	(77,583)	(402,628)	(309,580)
<b>Financing activities</b>				
Capital stock issued	-	-	124,600	4,627,000
Share and warrant issue expenses	-	213	(2,918)	(523,863)
Deferred share issue expenses	-	-	-	-
	-	213	121,682	4,103,137
<b>Investing activities</b>				
Additions to mining properties	(7,884)	(61,904)	(226,257)	(203,042)
Disposal of mining properties	49,414	-	99,414	-
Additions to deferred exploration expenses	(166,079)	(70,723)	(763,243)	(290,796)
Deposit on exploration expenses	(60,000)	(36,946)	(60,000)	(36,946)
Advance and payments received for exploration work	533,456	-	793,456	-
	348,907	(169,573)	(156,630)	(530,784)
<b>Net change in cash and cash equivalents during the period</b>				
	212,816	(246,943)	(437,576)	3,262,773
<b>Cash and cash equivalents – beginning</b>	<b>3,214,620</b>	<b>3,828,867</b>	<b>3,865,012</b>	<b>319,151</b>
<b>Cash and cash equivalents – end</b>	<b>3,427,436</b>	<b>3,581,924</b>	<b>3,427,436</b>	<b>3,581,924</b>
Less: Exploration funds	(72,631)	-	(72,631)	-
<b>Cash and cash equivalents presented on the Balance Sheets</b>	<b>3,354,805</b>	<b>3,581,924</b>	<b>3,354,805</b>	<b>3,581,924</b>
<b>Additional information</b>				
Stock-based compensation included in deferred exploration expenses	26,599	-	68,832	-
Additions of mining properties and deferred exploration expenses included in accounts payable and accrued liabilities	153,284	4,265	153,284	(179,397)
Accounts receivable applied against mining properties and deferred exploration expenses	34,347	25,000	34,347	25,000
Tax credits receivable applied against deferred exploration expenses	-	-	14,044	-
Broker warrants granted for capital raising	-	12,600	-	92,400
Future income taxes accounted for in share issue expenses	-	-	34,000	41,000
Interest cashed	21,116	-	82,019	-

See accompanying notes.

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

June 30, 2008

(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. Change in accounting policies

On October 1, 2007, the Company adopted the following new accounting policies published by the Canadian Institute of Chartered Accountants:

- a) Section 3862, "Financial Instruments – Disclosures", describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which entity is exposed and how the entity manages those risks. The new requirements only address disclosures and will have no impact on the Company's financial results.
- b) Section 1535, "Capital disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and processes for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and, if it has not complied, the consequences of such non-compliance. The new requirements only address disclosures and will have no impact on the Company's financial results.

#### *Future change in accounting standards*

Adoption of International Financial Reporting Standard in Canada

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed January 1, 2011 as the changeover date to move financial reporting for Canadian publicly accountable enterprises to the International Financial Reporting Standards ("IFRSs"). The Company will get the training on the IFRS and will elaborate a plan to be ready for the 2011 conversion.

### 3. Cash and cash equivalents

As of June 30, 2008, cash and cash equivalents include \$2,917,031 (\$3,211,686 as of September 30, 2007) of guaranteed investment certificates and bankers acceptances bearing interest between 2.45% and 4.05% (4.05% and 4.44% as of September 30, 2007), maturing between July 7, 2008 and September 2, 2008 (October 29, 2007 and September 2, 2008 as of September 30, 2007) and both instruments are cashable any time without any penalties.

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

June 30, 2008

(Unaudited)

### 4. Mining assets

Mining properties	As at September 30, 2007	Additions	Disposals	As at June 30, 2008
	\$	\$	\$	\$
<b>Quebec</b>				
Maritime-Cadillac	280,091	30,159	(25,000)	285,250
Vermillon	2,880	4,372	-	7,252
Weedon	-	20,375	-	20,375
Gatineau	-	1,445	-	1,445
James Bay Au	93,439	63,545	(50,000)	106,984
James Bay Mo	8,970	5,454	-	14,424
James Bay U	15,223	740	(13,613)	2,350
Project Generation	450	63,457	-	63,907
	401,053	189,547	(88,613)	501,987

Deferred exploration expenses	As at September 30 2007	Additions	Disposals	Tax credits	As at June 30, 2008
	\$	\$		\$	\$
<b>Quebec</b>					
Maritime-Cadillac	153,349	1,420	-	-	154,769
Vermillon	286,835	21,387	-	(2,214)	306,008
Weedon	48,922	26,370	-	-	75,292
Gatineau	42,363	20,501	-	(685)	62,179
James Bay Au	37,931	22,792	-	(1,502)	59,221
James Bay Mo	10,491	7,441	-	(398)	17,534
James Bay U	7,222	12,284	(10,801)	(2,779)	5,926
Project Generation	16,041	26,074	-	(6,466)	35,649
	603,154	138,269	(10,801)	(14,044)	716,578

#### a) Maritime Cadillac

In January 2008, the Company paid the fourth annual payment for \$30,000 pursuant to the January 6, 2005 agreement. In June 2008, the third payment of \$25,000 was recorded as a partial disposal, pursuant to the Agnico-Eagle Mines Limited ("Agnico-Eagle") agreement dated June 1<sup>st</sup>, 2006.

#### b) James Bay Au

The Company acquired 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:

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

June 30, 2008

(Unaudited)

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

	<u>Payments in cash</u>	<u>Works</u>
	\$	\$
Upon signing of a formal agreement	50,000	-
February 1, 2009	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>	<u>300,000</u>	<u>4,500,000</u>

- 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.
- 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).

#### c) James Bay U

On November 12, 2007, the Company signed a letter of agreement with a partner whereby the partner can acquire 50% of the James Bay U property. On April 1, 2008, an amendment to the letter of agreement and an assignment of rights was signed whereby Quest Uranium Corporation ("Quest") substituted the original partner and can acquire 50% of the James Bay U property subject to the following conditions:

	<u>Payments in cash</u>	<u>Works</u>
	\$	\$
Upon signing	40,000	-
April 1, 2009	40,000	300,000
April 1, 2010	40,000	400,000
April 1, 2011	40,000	700,000
April 1, 2012	40,000	1,000,000
<b>Total</b>	<u>200,000</u>	<u>2,400,000</u>

- Only the \$40,000 cash payment upon signing and the first year work commitment for \$300,000 are firm commitments.
- Quest is the operator.

#### d) Project generation

The Company initiated some geological compilation programs and staking in Quebec for the acquisition of strategic properties.

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

June 30, 2008

(Unaudited)

### 5. Capital stock

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

	Nine-month period ended June 30, 2008	
	Number	Amount
Common shares (note 5a)	20,386,546	\$ 7,057,834
Warrants	420,000	92,400
		<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:

	Nine-month period ended June 30, 2008	
	Number	Amount
<b>Balance, beginning of period</b>	20,178,879	\$ 6,933,234
<b>Issued</b>		
Flow-through private placement i)	207,667	124,600
<b>Balance, end of period</b>	<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.

#### b) Warrants

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

	Nine month period ended June 30, 2008	
	Number	Amount
<b>Balance, beginning and end of period</b>	<u>420,000</u>	<u>\$ 92,400</u>

Warrants outstanding as at June 30, 2008 are as follows:

<u>Number of warrants</u>	<u>Exercise price</u>	<u>Expiry date</u>
420,000	\$ 0.50	March 2, 2009
<u>420,000</u>		

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

June 30, 2008

(Unaudited)

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

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

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. 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.

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

	<b>Nine-month period ended June 30, 2008</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>
		\$
Balance, beginning of period	1,350,000	0.51
Granted	100,000	0.63
Balance, end of period	<u>1,450,000</u>	0.52

The following table summarizes information about common share purchase options outstanding and exercisable as at June 30, 2008:

<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	833,335	0.50	January 11, 2012
100,000	100,000	0.64	May 1, 2012
50,000	16,666	0.60	December 10, 2012
50,000	50,000	0.65	May 6, 2013
<u>1,450,000</u>	<u>1,250,001</u>		

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

June 30, 2008

(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>Nine-month period ended June 30, 2008</b>
	\$
Balance, beginning of period	395,992
Stock-based compensation	239,850
Balance, end of period	<u>635,842</u>

### 6. Related party transactions

*In the normal course of operations:*

- a) During the period ended June 30, 2008, a firm in which an officer is a partner charged professional fees amounting to \$38,494 of which \$2,918 was recorded as share issue expenses (\$152,765 of which \$140,285 was recorded as share issue expenses for the period ended June 30, 2007);
- b) During the period ended June 30, 2008, a company controlled by an officer charged professional fees of \$34,125 (\$16,775 for the period ended June 30, 2007);
- c) As at June 30, 2008, the balance due to the related parties amounted to \$4,654 (June 30, 2007 – \$4,057).

*Not in the normal course of business:*

- d) In December 2007, directors and officers of the Company participated in private placements of flow-through shares (note 5ai) for a total consideration of \$104,600 (\$47,000 for the period ended December 31, 2006).

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 \$19,046 under an operating lease of three years expiring in February 2010.

### 8. Financial instruments

*Financial risk management*

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.

# Midland Exploration Inc.

(An exploration stage company)

## Notes to Financial Statements

June 30, 2008

(Unaudited)

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### 8. Financial instruments (suite)

The Company's main financial risk exposure and its financial risk management policies are as follows:

#### *Interest rate risk*

The short-term liquid 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. The Company's other financial assets and liabilities do not comprise any interest rate risk since they do not bear interest.

#### *Credit Risk*

The Company is subject to concentrations of credit risk through cash and cash equivalents and term deposits. The Company maintains substantially all of its cash and cash equivalents, term deposits and exploration funds in financial instruments guaranteed by major financial institutions in Canada.

#### *Liquidity risk*

Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents and to ensure that the Company has at his disposal sufficient sources of financing such as private placement. The Company establishes cash estimates to ensure it has the necessary funds to fulfill its obligations.

#### *Fair Value*

The carrying amounts of short term assets and liabilities approximate fair value because of the limited term of these instruments.

### 9. Policies and processes for managing capital

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 regulatory or contractual requirements concerning its capital.