

Midland Exploration Inc.

Financial Statements

September 30, 2008 and 2007

December 2, 2008

Auditor's report

To the Shareholders of Midland Exploration Inc.

We have audited the balance sheets of Midland Exploration Inc as at September 30, 2008 and 2007 and the statements of operations, comprehensive income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Midland Exploration Inc.

Balance Sheets

As at September 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|------------------|------------------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents (note 4) | 3,320,571 | 3,865,012 |
| Accounts receivable | 303,131 | 18,528 |
| Sales tax receivable | 348 | 45,592 |
| Taxes credits and mining rights receivable | 44,026 | 80,268 |
| Prepaid expenses | 16,844 | 29,638 |
| | <u>3,684,920</u> | <u>4,039,038</u> |
| Mining assets (note 5) | | |
| Mining properties | 512,956 | 401,053 |
| Deferred exploration expenses | 723,983 | 603,154 |
| | <u>1,236,939</u> | <u>1,004,207</u> |
| | <u>4,921,859</u> | <u>5,043,245</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 391,805 | 62,131 |
| Advance for exploration work (note 5c and d) | 4,772 | 367,960 |
| | <u>396,577</u> | <u>430,091</u> |
| Shareholders' equity | | |
| Capital stock (note 6) | 7,150,234 | 7,025,634 |
| Contributed surplus (note 6d) | 638,499 | 395,992 |
| Deficit | (3,263,451) | (2,808,472) |
| | <u>4,525,282</u> | <u>4,613,154</u> |
| | <u>4,921,859</u> | <u>5,043,245</u> |

See accompanying notes.

On behalf of the Board

(s) Jean-Pierre Janson

Jean-Pierre Janson
Director

(s) Gino Roger

Gino Roger
President, Director

Midland Exploration Inc.

Statement of Operations, Comprehensive Income and Deficit
For the years ended September 30, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|--------------------|--------------------|
| | \$ | \$ |
| Revenues | | |
| Interest | 118,943 | 86,318 |
| Project management fees (note 5c, d and e) | 168,856 | 19,179 |
| Gain on option payments on mining assets | 15,586 | - |
| | <u>303,385</u> | <u>105,497</u> |
| Expenses | | |
| Stock-based compensation (note 6c) | 171,018 | 258,627 |
| Administrative expenses and other | 280,999 | 164,966 |
| Investors relations | 117,534 | 52,186 |
| Professional fees | 150,753 | 96,734 |
| General exploration | 35,477 | 13,264 |
| Fair value variation for financial instruments held for trading | (335) | 1,706 |
| | <u>755,446</u> | <u>587,483</u> |
| Loss before income taxes | (452,061) | (481,986) |
| Recovery of future income taxes (note 7) | 34,000 | 41,000 |
| | <u>34,000</u> | <u>41,000</u> |
| Loss and comprehensive income | (418,061) | (440,986) |
| Deficit – Beginning of year | (2,808,472) | (1,710,223) |
| Share and warrant issue expenses | (36,918) | (657,263) |
| | <u>(36,918)</u> | <u>(657,263)</u> |
| Deficit – End of year | <u>(3,263,451)</u> | <u>(2,808,472)</u> |
| Basic and diluted loss per share | <u>(0.02)</u> | <u>(0.03)</u> |
| Weighted average number of basic and diluted outstanding shares | <u>20,334,346</u> | <u>16,335,141</u> |

See accompanying notes.

Midland Exploration Inc.

Statement of Cash Flows

For the years ended September 30, 2008 and 2007

| | 2008 | 2007 |
|--|-------------------------|-------------------------|
| | \$ | \$ |
| Cash flows from | | |
| Operating activities | | |
| Loss | (418,061) | (440,986) |
| Adjustment for | | |
| Stock-based compensation expense | 171,018 | 258,627 |
| Gain on option payment on mining assets | (15,586) | - |
| Future income taxes recovery | (34,000) | (41,000) |
| | <u>(296,629)</u> | <u>(223,359)</u> |
| Changes in non-cash working capital items | | |
| Accounts receivable | (3,377) | (12,423) |
| Sales tax receivable | 45,244 | (38,294) |
| Taxes credits and mining rights receivable | 65,134 | (3 179) |
| Prepaid | 12,794 | (29,638) |
| Accounts payable and accrued liabilities | 57,386 | (26,899) |
| Advance for exploration work | (396,104) | (19,179) |
| | <u>(218,923)</u> | <u>(129,612)</u> |
| | <u>(515,552)</u> | <u>(352,971)</u> |
| Financing activities | | |
| Capital stock issued | 124,600 | 4,627,000 |
| Share and warrant issue expenses | (2,918) | (523,863) |
| | <u>121,682</u> | <u>4,103,137</u> |
| Investing activities | | |
| Additions to mining properties | (276,904) | (248,794) |
| Disposal of mining properties (note 5a, c, d) | 215,000 | 105,000 |
| Additions to deferred exploration expenses | (1,299,123) | (575,511) |
| Advance received for exploration work | 1,210,456 | 515,000 |
| | <u>(150,571)</u> | <u>(204,305)</u> |
| Net change in cash and cash equivalents during the year | (544,441) | 3,545,861 |
| Cash and cash equivalents – beginning of year | 3,865,012 | 319,151 |
| Cash and cash equivalents – end of year | <u>3,320,571</u> | <u>3,865,012</u> |
| Additional information | | |
| Broker warrants granted for capital raising | - | 92,400 |
| Stock-based compensation included in deferred exploration expenses | 71 489 | 125,000 |
| Additions of mining properties and deferred exploration expenses included in accounts payable and accrued liabilities | 302 546 | 30,258 |
| Additions of mining properties and deferred exploration expenses applied against the advance received for exploration work | - | 127,861 |
| Accounts receivable applied against deferred exploration expenses | 287 331 | 6,105 |
| Tax credits receivable applied against deferred exploration expenses | 28 892 | 77,089 |
| Future income taxes accounted for in share issue expenses | 34 000 | 41,000 |
| Interest cashed | 116 796 | 73,895 |

See accompanying notes

Midland Exploration Inc.

(An exploration stage company)

Notes to Financial Statements

September 30, 2008 and 2007

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. To date, the Company has not earned significant revenues and is considered to be in the development stage.

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 ("CICA"):

- Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" replacing Section 3861 "Financial Instruments – Disclosures and Presentations" 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. Disclosure and presentation requirements pertaining to these sections are contained in note 10.
- 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. Disclosure and presentation requirements pertaining to these sections are contained in note 6.
- Section 1400 "General Standards of Financial Statement Presentation". The CICA modified this section in order to require that management make an assessment of the Company's ability to continue as a going concern over a period which is at least, but is not limited to, twelve months from the balance sheet date. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. As of September 30, 2008, the Company has early adopted this section.

Midland Exploration Inc.

Notes to Financial Statements

September 30, 2008 and 2007

3. Accounting policies

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas where management judgement is applied are mining assets valuations, stock-based compensation and future income taxes. Actual results could differ from those estimates and such differences could be material.

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, bank balances and short-term liquid investments with original maturities of three months or less or cashable at any time without penalties.

Exploration funds

These funds are restricted in use for exploration expenses pursuant to flow-through financing agreements.

Mining assets

Exploration properties include rights in mining properties and deferred exploration expenses. Expenditures incurred on non-producing properties identified as having development potential are deferred until the economic viability of the project has been established, at which time these costs are added to mining properties. Costs are written off when properties are abandoned or when cost recovery is uncertain. Management has defined uncertainty as either there being no financial resources available for development over a three-year period or results from exploration work do not justify further investment. Expenditures not related to specific properties are accounted for in the statements of operations.

Proceeds on the sale of exploration properties are applied by property in reduction of the mining properties, then in reduction of the deferred exploration expenses and any residual is recorded in the statement of operations unless there is contractual work required in which case the residual gain is deferred and will be reduced the contractual disbursements when done. Governmental assistance, mining duties credits and other credits related to exploration work are applied against the deferred exploration expenses.

Funds received from partners on certain properties where the Company is the operator in order to perform exploration work as per agreements, are accounted for in the balance sheet as advances for exploration work. These advances are reduced gradually when the exploration work are performed. The project management fees received when the Company is the operator are recorded in the statement of operations.

Flow-through shares

When the Company commits the proceeds from the issuance of flow-through shares to exploration expenses recognized as mining assets, the future income tax cost related to the resulting temporary difference is recorded as a share issue expense in favour of investors when the renunciation forms are filed with the tax authorities.

Midland Exploration Inc.

Notes to Financial Statements

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3. Accounting policies (cont'd)

Income taxes

The Company follows the liability method of accounting for income taxes whereby future income tax assets and liabilities are determined based on the differences between the accounting reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates that are expected to be in effect in the periods in which assets or liabilities will be realized or settled. A valuation allowance is provided to the extent that it is not more likely than not that future income tax assets will be realized.

Stock-based compensation and other stock-based payments

The Company applies the fair value method to account for options granted to its employees, officers, directors and consultants.

Any consideration paid on exercise of stock options or purchase of stock is credited to capital stock. If stock or stock options are repurchased, the excess of the consideration paid over the carrying amount of the stock or stock options cancelled is charged to deficit.

Share and warrant issue expenses

Share and warrant issue expenses are accounted for in the year in which they are incurred and are recorded as an increase in deficit in the year in which the shares are issued.

Earning (loss) per share

Earning (loss) per share is calculated using the weighted average number of shares outstanding during the year. Diluted net earning (loss) per share is calculated using the weighted average number of shares outstanding during the year based on the application of the treasury stock method for the calculation of the dilutive effect of warrants and stock options.

The diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of warrants and stock options.

Financial instruments – recognition and measurement

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

- Financial assets and liabilities classified as held-for-trading are required to be measured at fair value, with gains and losses recognized in net earnings.
- Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized cost using the effective interest method of amortization.
- Available-for-sale financial assets are required to be measured at fair value, with unrealized gains and losses recognized in Other Comprehensive Income (loss). Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market should be measured at cost.

The Corporation has implemented the following classification:

- Cash and cash equivalents are classified as held-for-trading.
- Accounts receivable is classified as loans and receivables.
- Payable and accruals as well as advance for exploration work are classified as other liabilities.

Midland Exploration Inc.

Notes to Financial Statements

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4. Cash and cash equivalents

As of September 30, 2008, cash and cash equivalents include \$3,202,580 (\$3,211,686 as of September 30, 2007) of guaranteed investment certificates and bankers acceptance bearing interest between 2.25% and 3.03% (4.05% and 4.44% as of September 30, 2007), maturing between October 6, 2008 and September 21, 2009 (October 29, 2007 and September 2, 2008 as of September 30, 2007) and both instruments are cashable any time without any penalties.

5. Mining assets

| <u>Mining properties</u> | <u>Undivided interest %</u> | <u>As at September 30, 2007</u> | <u>Additions</u> | <u>Option payments</u> | <u>As at September 30, 2008</u> |
|--------------------------|-----------------------------|---------------------------------|------------------|------------------------|---------------------------------|
| | | \$ | \$ | \$ | \$ |
| Quebec | | | | | |
| Maritime-Cadillac | 100 | 280,091 | 30,212 | (25,000) | 285,303 |
| Vermillon | 50 | 2,880 | 4,371 | - | 7,251 |
| Weedon | 100 | - | 20,375 | (20,375) | - |
| Gatineau | 100 | - | 1,445 | (1,445) | - |
| James Bay Au | 100 | 93,439 | 24,560 | (50,000) | 67,999 |
| James Bay Mo | 100 | 8,970 | 6,156 | - | 15,126 |
| James Bay U | 100 | 15,223 | 27,990 | (13,613) | 29,600 |
| Abitibi Au | 100 | - | 300 | - | 300 |
| Project Generation | 100 | 450 | 106,927 | - | 107,377 |
| | | <u>401,053</u> | <u>222,336</u> | <u>(110,433)</u> | <u>512,956</u> |

| <u>Mining properties</u> | <u>Undivided interest %</u> | <u>As at September 30, 2006</u> | <u>Additions</u> | <u>Option payments</u> | <u>As at September 30, 2007</u> |
|--------------------------|-----------------------------|---------------------------------|------------------|------------------------|---------------------------------|
| | | \$ | \$ | \$ | \$ |
| Quebec | | | | | |
| Maritime-Cadillac | 100 | 275,091 | 30,000 | (25,000) | 280,091 |
| Vermillon | 50 | 766 | 2,114 | - | 2,880 |
| Weedon | 100 | - | 27,118 | (27,118) | - |
| Gatineau | 100 | - | 35,305 | (35,305) | - |
| James Bay Au | 100 | - | 93,439 | - | 93,439 |
| James Bay Mo | 100 | - | 8,970 | - | 8,970 |
| James Bay U | 100 | - | 15,223 | - | 15,223 |
| Project Generation | 100 | - | 450 | - | 450 |
| | | <u>275,857</u> | <u>212,619</u> | <u>(87,423)</u> | <u>401,053</u> |

Midland Exploration Inc.

Notes to Financial Statements

September 30, 2008 and 2007

5. Mining assets (cont'd)

| <u>Deferred exploration expenses</u> | <u>Undivided interest %</u> | <u>As at September 30, 2007</u> | <u>Additions</u> | <u>Option payments</u> | <u>Tax credits</u> | <u>As at September 30, 2008</u> |
|--------------------------------------|-----------------------------|---------------------------------|------------------|------------------------|--------------------|---------------------------------|
| | | \$ | \$ | | \$ | \$ |
| Quebec | | | | | | |
| Maritime-Cadillac | 100 | 153,349 | 2,920 | - | - | 156,269 |
| Vermillon | 50 | 286,835 | 21,387 | - | (2,214) | 306,008 |
| Weedon | 100 | 48,922 | 38,871 | (29,625) | (398) | 57,770 |
| Gatineau | 100 | 42,363 | 29,174 | (48,555) | (685) | 22,297 |
| James Bay Au | 100 | 37,931 | 32,776 | - | (5,055) | 65,652 |
| James Bay Mo | 100 | 10,491 | 43,635 | - | (6,287) | 47,839 |
| James Bay U | 100 | 7,222 | 15,884 | (10,801) | (4,841) | 7,464 |
| Abitibi Au | 100 | - | 1,075 | - | - | 1,075 |
| Project Generation | 100 | 16,041 | 52,980 | - | (9,412) | 59,609 |
| | | <u>603,154</u> | <u>238,702</u> | <u>(88,981)</u> | <u>(28,892)</u> | <u>723,983</u> |

| <u>Deferred exploration expenses</u> | <u>Undivided interest %</u> | <u>As at September 30, 2006</u> | <u>Additions</u> | <u>Option payments</u> | <u>Tax credits</u> | <u>As at September 30, 2007</u> |
|--------------------------------------|-----------------------------|---------------------------------|------------------|------------------------|--------------------|---------------------------------|
| | | \$ | \$ | | \$ | \$ |
| Québec | | | | | | |
| Maritime-Cadillac | 100 | 149,370 | 4,509 | - | (530) | 153,349 |
| Vermillon | 50 | 99,134 | 221,085 | - | (33,384) | 286,835 |
| Weedon | 100 | - | 67,633 | (12,882) | (5,829) | 48,922 |
| Gatineau | 100 | - | 54,476 | (4,695) | (7,418) | 42,363 |
| James Bay Au | 100 | - | 56,754 | - | (18,823) | 37,931 |
| James Bay Mo | 100 | - | 15,674 | - | (5,183) | 10,491 |
| James Bay U | 100 | - | 10,495 | - | (3,273) | 7,222 |
| Project Generation | 100 | - | 18,690 | - | (2,649) | 16,041 |
| | | <u>248,504</u> | <u>449,316</u> | <u>(17,577)</u> | <u>(77,089)</u> | <u>603,154</u> |

a) Maritime Cadillac

On January 6, 2005, the Company entered into an agreement for the acquisition of a mining exploration property in Abitibi, Quebec, owned in part by an officer of the Company and known as "Maritime-Cadillac", for the following consideration:

- Five annual payments of \$30,000 each for a total of \$150,000; the Company has the option to pay half of this amount by the issuance of common shares of its capital stock. As of September 30, 2008, \$120,000 was paid;
- Issuance of 2,400,000 common shares recorded at a price of \$0.10 per share; the transaction has been recorded at the fair value of the common shares given up at the date of the transaction. The fair value of the common shares has been determined based on the last issuance of shares;
- Payment of a 2% net smelter return royalty; the Company can buy back half of the royalty for a payment of \$1,000,000; and

Midland Exploration Inc.

Notes to Financial Statements

September 30, 2008 and 2007

5. Mining assets (cont'd)

- On March 7, 2006, an amendment to the agreement establishes that the Company will not have to retrocede the property if the Company ceases to carry out exploration work on it.

On June 1, 2006, the Company entered into an option agreement with Agnico-Eagle Mines Limited ("Agnico-Eagle") whereby Agnico-Eagle was offered the right to earn a 50% undivided interest in the Maritime-Cadillac property and, after having earned such interest, to participate with the Company in a joint operation to further explore and develop the property. The consideration is:

- Four annual payments of \$25,000 for a total of \$100,000. As of September 30, 2008, \$75,000 was received;
- A commitment to carry out work in the amount of \$300,000 the first year, \$300,000 the second year and \$400,000 for the third year for a total of \$1,000,000; and

Subject to approval by the relevant regulatory authorities, Agnico-Eagle will contribute 9.9% up to a maximum of \$200,000 of the Company's initial public offering if it's completed before December 31, 2007. Agnico-Eagle did effectively contribute \$200,000 at the March 2, 2007 initial public offering ('IPO').

Following the acquisition of a 50% undivided interest upon exercising its option, Agnico-Eagle will have the option to increase its undivided interest in the Property from 50% to 65% during a period of 3 years by financing a bankable feasibility study in respect of the Maritime Cadillac property or by assuming all mining operations on the Maritime Cadillac Property and will earn 1% additional interest for every \$1,000,000 spent on the Maritime Cadillac property (up to 15% by spending \$15 millions).

b) Vermillon

On June 30, 2006, the Company entered into an option agreement with Soquem Inc. ("Soquem") whereby the Company was offered the right to earn a 50% interest in the Vermillon Property subject to the following conditions:

- A commitment to carry out a maximum of \$210,000 of work:
 - \$100,000 before December 31, 2006; and
 - a maximum of \$110,000 to match Soquem's investments on or before December 31, 2007;
- A 1% NSR royalty on specific claims of the property was granted, which can be purchased back for 500 000 \$ per each 0.5%, to an individual from which Soquem bought the claims on June 26, 2006; and
- If the option is exercised, Soquem and the Company will form a joint venture.

On July 9, 2007, the Company fulfilled its commitments to Soquem, exercised its option and thus acquired 50% undivided interest in the Vermillon property. As specified in the agreement, Soquem and the Company formed a joint venture.

The Vermillon Property is located some 90 km southwest of the town of La Tuque, Quebec.

c) Weedon

On March 6, 2007, the Company acquired a 100% interest in the Weedon claim block in exchange for 3 payments totalling \$60,000, including \$15,000 upon signing the agreement. As of September 30, 2008, \$35,000 was paid. These claims are subject to a net smelter return (NSR) royalty of 1% to the vendors. The Company can buyback the royalty, in total or in two parts of 0.5% each, upon payment to the vendors of \$500,000 per 0.5%, for a total amount of \$1,000,000. Additional adjoining claims were staked for which, in certain cases, a 0.5% royalty is payable and the Company can buy back this royalty for \$500,000. This property is located in the Eastern Townships, about 120 kilometres south of Quebec City.

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September 30, 2008 and 2007

5. Mining assets (cont'd)

On August 24, 2007, the Company signed a letter of agreement with Breakwater Resources Ltd. ("Breakwater") whereby Breakwater can acquire 50% of the Weedon property subject to the following conditions:

| | Payments in cash | Works |
|-----------------|-----------------------------|------------------|
| | \$ | \$ |
| Upon signing | 40,000 | - |
| August 24, 2008 | 50,000 | 500,000 |
| August 24, 2009 | 50,000 | 1,000,000 |
| August 24, 2010 | 60,000 | 1,500,000 |
| Total | 200,000 | 3,000,000 |

- Only the \$40,000 cash payment upon signing and the first year work commitment for \$500,000 are firm commitments. As of September 30, 2008, \$90,000 was received.
- The Company is the operator 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. In addition, Breakwater will have the option to acquire an additional 15% interest by delivering a bankable feasibility study under the following conditions:
 - Annual cash payment of \$40,000 and a minimum of \$200,000 worth of exploration work per year until the delivery of a bankable feasibility study within a 4-year period.

On September 13, 2008, Breakwater notified that it was terminating the letter of agreement signed on August 24, 2007, without penalties as stipulated in the agreement.

d) Gatineau Zn

The Company acquired claims located in the Gatineau region located approximately 200 km northwest of Montreal city.

On August 24, 2007, the Company signed a letter of agreement with Breakwater Resources Ltd. ("Breakwater") whereby Breakwater can acquire 50% of the Gatineau Zn property subject to the following conditions:

| | Payments in cash | Works |
|-----------------|-----------------------------|------------------|
| | \$ | \$ |
| Upon signing | 40,000 | - |
| August 24, 2008 | 50,000 | 500,000 |
| August 24, 2009 | 50,000 | 1,000,000 |
| August 24, 2010 | 50,000 | 1,500,000 |
| August 24, 2011 | 60,000 | 1,500,000 |
| Total | 250,000 | 4,500,000 |

- Only the \$40,000 cash payment upon signing and the first year work commitment for \$500,000 are firm commitments. As of September 30, 2008, \$90,000 was received.
- The Company is the operator 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. In addition, Breakwater will have the option to acquire an additional 15% interest by delivering a bankable feasibility study under the following conditions:

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5. Mining assets (cont'd)

- Annual cash payment of \$40,000 and a minimum of \$200,000 worth of exploration work per year until the delivery of a bankable feasibility study within a 4-year period.

On September 13, 2008, Breakwater notified that it was terminating the letter of agreement signed on August 24, 2007, without penalties as stipulated in the agreement.

e) 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:

| | Payments in cash | Works |
|------------------------------------|-----------------------------|------------------|
| | \$ | \$ |
| 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 |
| Total | <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 and therefore charges project management fees and receives from time to time advances for exploration work.
- 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).

f) James Bay Mo

The Company owns claims located 35 km west of LG-4 hydroelectric complex in the James Bay region.

g) James Bay U

The Company owns claims in the James Bay region.

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:

Midland Exploration Inc.

Notes to Financial Statements

September 30, 2008 and 2007

5. Mining assets (cont'd)

| | Payments in cash | Works |
|---------------|-----------------------------|------------------|
| | \$ | \$ |
| 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 |
| Total | 200,000 | 2,400,000 |

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

On September 16, 2008, the Company elected to purchase a 50% interest in the Bawolak property, subject to a payment of \$27,250 in cash on the date of the election and of \$27,250 in cash on the first anniversary.

h) Abitibi Au

The Company acquired claims in the James Bay region in the Clericy, La Pause, Destor and Dufresnoy townships.

i) Project generation

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

6. Capital stock

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

| | 2008 | | 2007 | |
|-------------------------|---------------|------------------|---------------|------------------|
| | Number | Amount | Number | Amount |
| | | \$ | | \$ |
| Common shares (note 6a) | 20,386,546 | 7,057,834 | 20,178,879 | 6,933,234 |
| Warrants (note 6b) | 420,000 | 92,400 | 420,000 | 92,400 |
| | | <u>7,150,234</u> | | <u>7,025,634</u> |

a) Common shares

Authorized

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

Midland Exploration Inc.

Notes to Financial Statements

September 30, 2008 and 2007

6. Capital stock (cont'd)

Issued and to be issued

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

| | 2008 | | 2007 | |
|--|-------------------|------------------|-------------------|------------------|
| | Number | Amount \$ | Number | Amount \$ |
| Balance – Beginning of year | 20,178,879 | 6,933,234 | 10,181,660 | 2 110 325 |
| Issued following | | | | |
| Initial public offering ii) | - | - | 9,000,000 | 4 500 000 |
| Flow-through private placement i) iii) | 207,667 | 124,600 | 282,222 | 127 000 |
| Exercise of warrants iv) | - | - | 714,997 | 178 749 |
| <i>Plus: Value of warrants exercised</i> | - | - | - | 17 160 |
| Balance – End of year | <u>20,386,546</u> | <u>7,057,834</u> | <u>20,178,879</u> | <u>6,933,234</u> |

i) On December 31, 2006, the Company completed a private placement of 282,222 flow-through common shares for a total cash consideration of \$127,000.

ii) On March 2, 2007, the Company closed its IPO and the trading of its common shares commenced on the TSX Venture Exchange under the symbol MD. The Company issued 9,000,000 common shares at a price of \$0.50 per share, for gross proceeds of \$4.5 million. Desjardins Securities Inc. acted as agent for the distribution and received a cash commission of \$262,500 and 420,000 broker warrants, each warrant entitling its owner to acquire one common share at a price of \$0.50 for a 24-month period.

The total broker warrants cost amount to \$92,400 and was recorded as share issue cost. This \$92,400 fair value was estimated using the Black-Scholes model with no expected dividend yield, an expected volatility of 76%, a risk free interest rate of 4.25% and an expected life of the broker warrants of 24 months.

iii) On December 31, 2006, the Company completed a private placement of 282,222 flow-through common shares for a total cash consideration of \$127,000.

iv) In October 2006, the Company issued 714,997 commons shares upon the exercise of warrants for an amount of \$178,749.

v) There are 1,139,114 shares held in escrow as at September 30, 2007 (1,898,526 as at September 30, 2007).

b) Warrants

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

| | 2008 | | 2007 | |
|------------------------------------|----------------|---------------|----------------|---------------|
| | Number | Amount \$ | Number | Amount \$ |
| Balance – Beginning of year | 420,000 | 92,400 | - | - |
| Issued (note 6a ii)) | - | - | 420,000 | 92,400 |
| Balance – End of year | <u>420,000</u> | <u>92,400</u> | <u>420,000</u> | <u>92,400</u> |

Midland Exploration Inc.

Notes to Financial Statements

September 30, 2008 and 2007

6. Capital stock (cont'd)

Warrants outstanding as at September 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> | | |

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 will be limited to 2,000,000. The plan provides that no single person may hold options representing more than 5% of the outstanding common shares. The number of common shares granted to a beneficiary and the vesting period will be determined by the Board of Directors.

The exercise price of any option granted under the plan shall be fixed by the Board of Directors at the time of grant and shall not be lower than the closing price on the day preceding the grant. If there are no transactions on such day the closing price will be replaced by the average between the bid price and ask price. The term of the option will not exceed five years from the date of grant. Options are not transferable and can only be exercised while the beneficiary remains a director, an officer, an employee or a consultant of the Company. The options are vesting 1/6 per 3 months from the grant date, or otherwise as determined by the Board of Directors and the cost of the options will be recorded over the vesting period. When the stock-based compensation is granted to individual for whom the fees or the salary are capitalised against the deferred exploration expenses, the fair value of this compensation is also capitalized against the deferred exploration expenses.

On November 1, 2006, the Company nominated a new president with the following conditions:

- i) The Company has granted 250,000 options exercisable at its initial public offering price of \$0.50, valid for 5 years. Total stock-based compensation costs amount to \$82,500 for an estimated fair value of \$0.33 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 96%, a risk-free interest rate of 4.14% and an expected life of options of 5 years.
- ii) Two shareholders of the Company have granted 250,000 options with immediate vesting to the new president at \$0.25 which is 50% of the initial public offering price, valid for 2 years. Total stock-based compensation costs for these options amount to \$67,500 for an estimated fair value of \$0.27 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 76%, a risk-free interest rate of 4.16% and an expected life of options of 2 years. 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 (note 11).

Midland Exploration Inc.

Notes to Financial Statements

September 30, 2008 and 2007

6. Capital stock (cont'd)

iii) A principal shareholder of the Company has transferred to the new president 250,000 shares, of which 122,498 are held in escrow as of September 30, 2007. The fair value of these shares amount to \$73,125 for an estimated value of \$0.2925 \$ per share. The fair value of these shares is based on the value of the private placement that occurred on December 2006 minus a discount of 35% since the shares are held in escrow. 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 January 11, 2007, the Company granted 1,000,000 options exercisable at its initial public offering price of \$0.50, valid for 5 years. Total stock-based compensation costs amount to \$320,000 for an estimated fair value of \$0.32 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 93%, a risk-free interest rate of 4.25% and an expected life of options of 5 years.

On May 1, 2007, the Company granted 100,000 options exercisable at \$0.64, valid for 5 years. Of these 100,000 options, 50,000 vest immediately and 50,000 vest on May 1, 2008. Total stock-based compensation costs amount to \$46,000 for an estimated fair value of \$0.46 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 90%, a risk-free interest rate of 4.51% and an expected life of options of 5 years.

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, vesting immediately. 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:

| | 2008 | | 2007 | |
|-------------------------------|-------------------|---------------------------------------|-------------------|---------------------------------------|
| | Number of options | Weighted average exercise price \$ | Number of options | Weighted average exercise price \$ |
| Balance – Beginning of period | 1,350,000 | 0.51 | - | - |
| Granted | 100,000 | 0.63 | 1,350,000 | 0.51 |
| Balance – End of period | <u>1,450,000</u> | <u>0.52</u> | <u>1,350,000</u> | <u>0.51</u> |

Midland Exploration Inc.

Notes to Financial Statements

September 30, 2008 and 2007

6. Capital stock (cont'd)

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

| <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 | 25,000 | 0.60 | December 10, 2012 |
| 50,000 | 50,000 | 0.65 | May 6, 2013 |
| <u>1,450,000</u> | <u>1,425,000</u> | | |

d) Contributed surplus

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

| | <u>2008</u> | <u>2007</u> |
|--|----------------|----------------|
| | \$ | \$ |
| Balance - Beginning of the period | 395,992 | 12,365 |
| Stock-based compensation | <u>242,507</u> | <u>383,627</u> |
| Balance - End of period | <u>638,499</u> | <u>395,992</u> |

e) Policies and processes for managing capital

The capital of the Company consists of the items included in shareholders' equity of \$4,525,282 as of September 30, 2008 (\$4,613,154 as of September 30, 2007). 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.

7. Income taxes

- a) In December 2007, the Company issued flow-through shares for gross proceeds of \$124,600 (\$127,000 in December 2006). Under the flow-through share agreements, the Company renounced in February 2008 to \$124,600 of qualifying expenditures to the investors effective December 31, 2007 (\$127,000 in December 2006), although under the Canadian Income Tax Act, the expenditures may actually be incurred up to December 31, 2008.

The Company is required to record a tax liability at the time the renunciation is filed with the tax authorities by an increase in the share and warrant issue expenses relating to the flow-through shares for the future income taxes related to the tax deductions the Company had forgone. The Company has estimated that the future income taxes recorded at the time of renunciation would be approximately \$34,000 (\$41,000 in December 2006). Consequently, the Company has recognized share and warrant issue expenses and an increase in future income tax liability of \$34,000 respectively in February 2008 (\$41,000 in February 2007).

Midland Exploration Inc.

Notes to Financial Statements

September 30, 2008 and 2007

7. Income taxes (cont'd)

The Company has future income tax assets of loss carryforwards and deductible temporary differences that it had not recognized in previous years as a result of applying the "more likely than not" test. The taxable temporary differences, which arose through the issuance of the flow-through shares in December 2007, are expected to reverse, so that part of the unrecognized future income tax assets can be applied against the full taxable temporary differences. Accordingly, the Company has recognized that portion of its unrecognized future income tax assets by reversing a valuation allowance of \$34,000 (\$41,000 for the year ended September 30, 2007).

- b) The provision for income taxes presented in the financial statements is different from what would have resulted from applying the combined Canadian Statutory tax rate as a result of the following:

| | <u>2008</u> | <u>2007</u> |
|--|-----------------|-----------------|
| | \$ | \$ |
| Loss before income taxes | (452,061) | (481,986) |
| Combined federal and provincial income tax at 31.18% (32.02% in 2007) | (141,000) | (154,300) |
| Stock-based compensation | 53,300 | 82,800 |
| Change in enacted rates | 39,400 | - |
| Other non deductible elements | 2,400 | 4,000 |
| Other elements | (14,000) | (6,100) |
| Valuation allowance | 25,900 | 32,600 |
| Recovery of future income taxes | <u>(34,000)</u> | <u>(41,000)</u> |

- c) The future income tax balances are summarized as follows:

| | <u>2008</u> | <u>2007</u> |
|---|------------------|------------------|
| | \$ | \$ |
| Future income tax assets | | |
| Non-capital losses | 278,000 | 156,000 |
| Share and warrant issue expenses | 116,000 | 196,000 |
| Total future income tax assets | 394,000 | 352,000 |
| Valuation allowance | <u>(304,000)</u> | <u>(318,000)</u> |
| Total net future income tax assets | 90,000 | 34,000 |
| Future income tax liabilities | | |
| Mining assets | 90,000 | 34,000 |
| Total future income tax liabilities | <u>90,000</u> | <u>34,000</u> |
| Total net future income tax liabilities | <u>-</u> | <u>-</u> |

Midland Exploration Inc.

Notes to Financial Statements

September 30, 2008 and 2007

7. Income taxes (cont'd)

- d) The Company has accumulated non-capital losses of approximately \$1,048,000. These losses will expire from 2009 to 2028 as follows:

| | | \$ |
|---------------------------|------|---------|
| Years ending September 30 | 2009 | 4,000 |
| | 2010 | 1,000 |
| | 2014 | 20,000 |
| | 2015 | 96,000 |
| | 2026 | 84,000 |
| | 2027 | 126,000 |
| | 2027 | 177,000 |
| | 2028 | 540,000 |

- e) As at September 30, 2008, the cost for income tax purposes of mining assets, prospectus costs and share and warrants issue expenses totalled approximately \$1,380,000. The difference between the fiscal cost and the amount capitalized in the financial statements arises from the write-off of certain capital assets for accounting purposes and the tax benefits related to some exploration expenses being renounced in favour of subscribers of flow-through shares.
- f) These tax values of assets and liabilities have not been accepted by the relevant tax authorities nor have they been disputed.

8. Related party transactions

In the normal course of operations (other than those already disclosed):

- a) During the year ended September 30, 2008 a firm in which an officer is a partner charged professional fees amounting to \$48,163 (\$156,718 for the year ended September 30, 2007);
- b) During the year ended September 30, 2008, a company controlled by an officer charged professional fees of \$44,000 (\$22,838 for the period from January 11, 2007 to September 30, 2007);
- c) As at September 30, 2008, the balance due to the related parties amounted to \$13,488 (September 30, 2007 – \$8,215).

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 6ai) for a total consideration of \$104,600 (\$47,000 for the year ended September 30, 2007 (note 6aiii)).

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

9. Commitment

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

Midland Exploration Inc.

Notes to Financial Statements

September 30, 2008 and 2007

10. 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 \$11,237 as of September 30, 2008. 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 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 September 30, 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:

| | 2008 | | 2007 | |
|--|-----------------|------------|-----------------|------------|
| | Carrying amount | Fair Value | Carrying amount | Fair value |
| | \$ | \$ | \$ | \$ |
| Financial assets | | | | |
| <i>Held for trading</i> | | | | |
| Cash and cash equivalents | 3,320,571 | 3,320,571 | 3,865,012 | 3,865,012 |
| <i>Loans and receivables</i> | | | | |
| Accounts receivable | 303,131 | 303,131 | 18,528 | 18,528 |
| Financial liabilities | | | | |
| <i>Other liabilities</i> | | | | |
| Accounts payable and accrued liabilities | 391,805 | 391,805 | 62,131 | 62,131 |
| Advance for exploration work | 4,772 | 4,772 | 367,960 | 367,960 |

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

Midland Exploration Inc.

Notes to Financial Statements

September 30, 2008 and 2007

11. Subsequent event

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, and will be recorded in the first quarter of the 2009 fiscal year. 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.