

**MIDLANDS MINERALS CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008 AND 2007**

# MIDLANDS MINERALS CORPORATION

## CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

<b>INDEX</b>	<b>PAGE</b>
Consolidated Balance Sheets	1
Consolidated Statements of Operations and Deficit	2
Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Loss	3
Consolidated Statements of Property Acquisition Costs and Deferred Exploration Expenditures	4
Consolidated Statements of Cash Flows	5
Notes to the Consolidated Financial Statements	6 – 26

**MIDLANDS MINERALS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT DECEMBER 31**

	2008 \$	2007 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 5)	203,467	2,460,517
Share investment (Note 6 and 10a)	3,000	23,000
Prepaid expenses and deposits	18,298	19,928
Sundry receivable	<u>7,215</u>	<u>4,563</u>
	231,980	2,508,008
<b>EQUIPMENT</b> (Note 9)	35,597	29,419
<b>INTEREST IN MINERAL PROPERTIES AND DEFERRED</b>		
<b>EXPLORATION EXPENDITURES</b> (Note 10 and Statement)	<u>7,063,979</u>	<u>5,805,778</u>
	<u>7,331,556</u>	<u>8,343,205</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Note 13(a))	354,455	108,455
Accounts payable exploration properties (Note 10)	<u>281,201</u>	<u>260,952</u>
	635,656	369,407
<b>FUTURE INCOME TAX LIABILITY</b> (Note 12)	157,810	215,296
<b>NON-CONTROLLING INTEREST</b>	<u>36,125</u>	<u>36,125</u>
	<u>829,591</u>	<u>620,828</u>
<b>GOING CONCERN</b> (Note 1)		
<b>COMMITMENTS</b> (Note 14)		
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b> (Note 11)	8,098,340	8,098,340
<b>WARRANTS</b> (Note 11)	360,558	2,359,490
<b>CONTRIBUTED SURPLUS</b> (Note 11)	3,062,669	1,022,089
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b> (Note 5)	(29,000)	(9,000)
<b>ACCUMULATED DEFICIT</b>	<u>(4,990,602)</u>	<u>(3,748,542)</u>
	<u>6,501,965</u>	<u>7,722,377</u>
	<u>7,331,556</u>	<u>8,343,205</u>

See accompanying notes to the consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD:

Signed (Original signed by Kim F. Harris), Director

Signed (Original signed by Noel Nedrick), Director

**MIDLANDS MINERALS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**FOR THE YEARS ENDED DECEMBER 31**

	2008 \$	2007 \$
<b>EXPENSES</b>		
Management fees	212,952	340,007
Office and administrative expense	343,070	278,233
Foreign exchange (gain) loss	(27,635)	195,426
Investor relations, shareholder information and promotion	280,751	178,763
Travel and automobile expense	136,254	110,854
Professional fees	147,756	71,003
Rent	55,208	44,265
Telephone	33,846	31,202
Transfer agent and filing fees	41,977	23,060
Write-off of advances to Sika Resources Inc.	-	20,470
Bank charges and interest	15,871	9,166
Consulting fees	24,863	7,500
Amortization	<u>9,631</u>	<u>8,612</u>
Loss before undernoted	(1,274,544)	(1,318,561)
Interest income	32,484	125,926
Gain on mining options granted (Note 10a)	-	18,360
Write down of interest in mineral properties and deferred exploration Expenditures	<u>-</u>	<u>(19,500)</u>
<b>NET LOSS FOR THE YEAR</b>	(1,242,060)	(1,193,775)
<b>DEFICIT, beginning of year</b>	<u>(3,748,542)</u>	<u>(2,554,767)</u>
<b>DEFICIT, end of year</b>	<u>(4,990,602)</u>	<u>(3,748,542)</u>
<b>NET LOSS PER SHARE - Basic and diluted</b>	<u>(0.02)</u>	<u>(0.02)</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<u>53,046,458</u>	<u>49,623,849</u>

See accompanying notes to the consolidated financial statements.

**MIDLANDS MINERALS CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS AND**  
**ACCUMULATED OTHER COMPREHENSIVE LOSS**  
**FOR THE YEARS ENDED DECEMBER 31**

	2008 \$	2007 \$
<b>NET LOSS FOR THE YEAR</b>	(1,242,060)	(1,193,775)
Other comprehensive loss, net of tax		
Unrealized loss on share investment (net of tax of \$5,220)	<u>(23,780)</u>	<u>(7,375)</u>
<b>COMPREHENSIVE LOSS</b>	<u>( 1,265,840)</u>	<u>(1,201,150)</u>
Accumulated other comprehensive loss, upon adoption of new accounting standards (note 4)	-	-
Other comprehensive loss	<u>( 29,000)</u>	<u>( 9,000)</u>
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF YEAR</b>	<u>( 29,000)</u>	<u>( 9,000)</u>

See accompanying notes to the consolidated financial statements.

**MIDLANDS MINERALS CORPORATION**  
**CONSOLIDATED STATEMENTS OF PROPERTY ACQUISITION COSTS AND DEFERRED**  
**EXPLORATION EXPENDITURES**  
**FOR THE YEARS ENDED DECEMBER 31**

	Itilima Gold & Vukene, Lwenge Kishapu, Lalago, Tamota Project Tanzania \$	Kwahu Praso, Kaniago, Sian & Bonuama Concession Ghana \$	Total \$
<b>PROPERTY ACQUISITION COSTS</b>			
Balance, December 31, 2006	546,180	2,547,052	3,093,232
Less Sian Amendment (Note 10b)	-	(2,296,000)	(2,296,000)
Write down of interest in mineral properties and deferred exploration expenditures (Note 10a)	(19,500)	-	(19,500)
Additions	<u>1,617</u>	<u>639,103</u>	<u>640,720</u>
Balance, December 31, 2007	528,297	890,155	1,418,452
Additions	<u>1,584</u>	<u>192,345</u>	<u>193,929</u>
Balance, December 31, 2008	<u>529,881</u>	<u>1,082,500</u>	<u>1,612,381</u>
<b>DEFERRED EXPLORATION EXPENDITURES</b>			
Balance, December 31, 2006	1,612,146	713,825	2,325,971
Additions	284,614	1,846,381	2,130,995
New Kilindi (Note 10a)	<u>(69,640)</u>	<u>-</u>	<u>(69,640)</u>
Balance, December 31, 2007	1,827,120	2,560,206	4,387,326
Additions	<u>172,278</u>	<u>891,994</u>	<u>1,064,272</u>
Balance, December 31, 2008	<u>1,999,398</u>	<u>3,452,200</u>	<u>5,451,598</u>
<b>TOTAL BALANCE, DECEMBER 31, 2008</b>	<u><u>2,529,279</u></u>	<u><u>4,534,700</u></u>	<u><u>7,063,979</u></u>

See accompanying notes to the consolidated financial statements.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

	2008	2007
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	(1,242,060)	(1,193,775)
Add items not requiring cash:		
Amortization	9,631	8,612
Interest revenue	-	(7,060)
Stock-based compensation	41,648	183,789
Foreign exchange	-	223,001
Write-off of advances to Sika Resources Inc.	-	20,471
Write down of interest in mineral properties and deferred exploration expenditures	-	19,500
Gain on mining options granted	-	(18,360)
Future Taxes	<u>(57,486)</u>	<u>-</u>
	<u>(1,248,267)</u>	<u>(763,822)</u>
Changes in non-cash working capital balances:		
Increase in prepaid expenses	1,630	(10,535)
Decrease (increase) in sundry receivable	(2,652)	8,639
(Decrease) increase in accounts payable and accrued liabilities	<u>266,249</u>	<u>(34,600)</u>
Cash flows from operating activities	<u>(983,040)</u>	<u>(800,318)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Short-term investments	2,240,640	(139,321)
Purchase of equipment	(15,809)	-
Interest in mineral properties and deferred exploration expenditures	(1,258,201)	(3,019,795)
Proceeds on mining options granted	-	<u>55,090</u>
Cash flows from investing activities	<u>966,630</u>	<u>(3,104,026)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Exercise of warrants	-	615,350
Issuance of common shares for cash, net of costs	-	2,392,586
Issuance of warrants for cash	-	<u>661,209</u>
Cash flows from financing activities	<u>-</u>	<u>3,669,145</u>
Decrease in cash	(16,410)	(235,199)
Cash and cash equivalents, beginning of year	<u>2,460,517</u>	<u>338,656</u>
Cash and cash equivalents, end of year	<u>2,460,517</u>	<u>2,460,517</u>
<b>Supplemental Information</b>		
Interest paid	-	-
Taxes paid	-	-

See accompanying notes to the consolidated financial statements.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**1. BASIS OF PRESENTATION AND GOING CONCERN**

Midlands Minerals Corporation (the "Company") is in the process of exploring its resource properties in the continent of Africa for mineral reserves and is considered to be in the development stage. The Company has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the carrying values of mineral properties is dependent upon the discovery of economically recoverable reserves, the preservation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing necessary to complete development of the properties, and the future profitable production therefrom or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

As at December 31, 2008, the Company had a working capital deficit of \$403,676 (working capital surplus of \$2,138,601 - 2007) and an accumulated deficit of \$4,990,602 (\$3,748,542 - 2007). The Company's ability to continue operations and fund its exploration property expenditures is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, 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.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company is in the development stage with no history of profitability. There is no guarantee that the Company's exploration programs will yield positive results or that the Company will be able to obtain the necessary financing to carry out the exploration and development of its properties. If the "going concern" assumption was not appropriate for these consolidated financial statements, then assets would have to be stated at liquidated values and adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Such adjustments could be material.

**2. NATURE OF OPERATIONS**

The Company is engaged in the search, evaluation and development of gold, precious metals and other resources in the continent of Africa (Tanzania and Ghana). The assets of the Company that are located outside of North America are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and political uncertainty.

The Company's exploration operations are subject to local government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In order for the Company to carry out its exploration and mining activities, the Company is required to hold certain permits. There is no assurance that the Company's existing permits will be renewed or that new permits that have been applied for will be granted. Although the Company has taken steps to verify title to the properties on which it is conducting exploration and 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.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. Changes in future conditions could require material write downs of the carrying values. Major expenditures are required to locate and establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. Management reviews the carrying value of the Company's interest in each property and where necessary, mineral properties and deferred exploration expenditures are written down to their fair value. Although management has made its best estimate based on these factors, it is reasonably probable that certain events could adversely affect management's estimates of fair value and the need for additional provision for impairment in the carrying value of exploration properties and related assets.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year. Outlined below are those policies considered particularly significant.

**a) Principles of Consolidation**

The consolidated financial statements include the accounts of the Company, its 75% owned subsidiary, Itilima Mining Company Limited ("Itilima"), its 80% owned subsidiary Midenka Resources Limited, its 65% owned subsidiary Akroma Gold Company Limited, and its wholly owned subsidiaries, Midlands Minerals (TZ) Limited, Harbour Capital Corporation and Midlands Minerals Ghana Limited and have been prepared by management in accordance with Canadian generally accepted accounting principles. All material intercompany balances and transactions have been eliminated.

**b) Cash and cash equivalents**

Cash and equivalents include short term deposits with terms to maturity of ninety days or less when acquired. Cash and cash equivalents are designated as held for trading with changes in fair value recognized in results from operations.

**c) Share Investment**

Share investment is recorded at fair value. Gains and losses are recorded in other comprehensive income until the shares are sold or impaired at which time the amounts would be recorded in net earnings.

**d) Equipment**

Equipment is recorded at cost. Amortization is provided over the related assets' estimated useful lives using the following methods and annual rates:

Computer equipment	30% declining balance
Office equipment	20% declining balance
Field equipment	20% declining balance

**e) Mineral Properties and Deferred Expenditures**

Interest in mineral properties and deferred exploration expenditures are carried at cost until they are brought into production, at which time they are depleted on a unit-of production method based on proven and probable reserves. If a property is subsequently determined not to be economic, the property and related deferred costs are written down to net realizable value. Other general exploration expenses are charged to operations as incurred. The cost of exploration properties abandoned or sold and their related deferred exploration costs are charged to operations in the current year.

The Company reviews capitalized costs on its property interests on a periodic basis but at least annually and recognizes an impairment in value based upon a review of exploration results, whether the Company has significant exploration plans in the immediate future and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. The recoverability of costs incurred on the mineral properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of exploration properties. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**f) Stock-Based Compensation**

The Company has a stock-based compensation plan as described in note 10 to the consolidated financial statements. The Company records compensation cost based on the fair value method of accounting for stock-based compensation.

**g) Income Taxes**

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial carrying values and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

**h) Loss Per Share**

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants. As the Company had a loss in each of the periods presented, basic and diluted loss per share are the same as the exercise of all options and warrants would be anti-dilutive.

**i) Foreign Currency Translation**

The Canadian dollar is the functional currency of the Company's operations, which are classified as integrated for foreign currency translation purposes. Under the temporal method translation gains or losses are included in the determination of net income or loss.

Monetary assets and liabilities of the Company's integrated foreign operations are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rates in effect on the balance sheet date. Revenues and expenses, except amortization which is translated at historical rates, are translated at the average exchange rates for the period.

**j) Use of Estimates**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant areas where management's judgment is required include the determination of impairment of interest in mineral properties and deferred exploration expenditures, asset retirement obligations, stock-based compensation expense, warrant valuation and future tax assets and liabilities. Actual results may differ from those estimates.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**k) Impairment of Long-lived Assets:**

The Company reviews and evaluates its long-lived assets for impairment when or changes in circumstances indicate that the related carrying amounts may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its estimated discounted future cash flows expected to be generated by the asset. Measurement of an impairment loss is based on the estimated fair value of the asset compared to its carrying value.

Whenever events or circumstances indicate that an asset's fair value may not be least equal to its carrying value, management of the Company reviews the net carrying value. This review involves consideration of the fair value of each property to determine whether a permanent impairment in value has occurred and whether any asset write down is necessary. The Company considers metal prices, cost of production, proven and probable reserves and salvage value of the mineral property and equipment in its valuation.

Management's estimates are subject to risks and uncertainties of changes affecting the recoverability of the Company's investment in mineral property and equipment. Management's estimates of these factors are based on current conditions. Nonetheless, it is reasonably possible that in the near term, changes that could adversely affect management's estimate of net cash flows expected to be generated from its properties could occur. This would necessitate a write down for asset impairment.

**l) Asset Retirement Obligations**

The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. The Company did not have any asset retirement obligations as at December 31, 2008 and 2007.

**4. ACCOUNTING POLICY CHANGES**

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, "Financial Instruments – Recognition and Measurement"; Section 3861, "Financial Instruments – Disclosure and Presentation"; Section 1530 "Comprehensive Income", Section 3865 "Hedges" and Section 1506 "Accounting Changes". Prior periods have not been restated as a result of implementing the new accounting standards.

The adoption of these standards has had no material impact on the Company's consolidated net loss or cash flows for the years ended December 31, 2008 and 2007. The other effects of the implementation of the new standards are discussed below.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**4. ACCOUNTING POLICY CHANGES (Continued)**

**a) Financial Instruments – Recognition and Measurement**

CICA Handbook Section 3855 provides guidance on when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet of the Company and on what basis these assets, liabilities and derivatives should be valued. Under the new standards, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at their fair value except loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on its initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive earnings until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

With the adoption of this new standard, the Company has classified its short term investments as held for trading, share investment as available for sale, and accounts payable and accrued liabilities as other financial liabilities.

This standard requires derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. The Company has reviewed all significant contractual arrangements and determined there are no material embedded derivatives that must be separated from the host contract and fair valued and there are no non-financial derivatives that need to be fair valued.

**b) Financial Instruments – Disclosure and Presentation**

Revised CICA Handbook Section 3861 replaces Handbook Section 3860, Financial Instruments – Disclosure and Presentation, and establishes standards for presentation of financial instruments and non-financial derivatives, and identifies information that should be disclosed. There was no material effect on the Company's consolidated financial statements when CICA Handbook Section 3861 was adopted January 1, 2007.

**c) Comprehensive Income**

CICA Handbook Section 1530 establishes standards for reporting and presenting comprehensive earnings, which is defined as the change in equity from transactions and other events from non-owner sources. Accordingly, a new statement of comprehensive earnings now forms part of the Company's consolidated financial statements and displays current period net loss and other comprehensive earnings. The cumulative changes in other comprehensive loss are included in accumulated other comprehensive loss, which is a new category within shareholders' equity in the consolidated balance sheet.

**d) Hedges**

CICA Handbook Section 3865 specifies circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any hedges.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**4. ACCOUNTING POLICY CHANGES (Continued)**

**e) Accounting Changes**

CICA Handbook Section 1506, "Accounting Changes" establishes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and the correction of errors. It includes the disclosure, on an interim and annual basis, of a description and the impact on our financial results of any new primary source of GAAP that has been issued but is not yet effective. The Company has determined that there is no material impact on the consolidated financial statements from the adoption of Handbook Section 1506.

**f) Equity**

As a result of the issuance of guidance on financial instruments accounting, the CICA issued an amended accounting standard regarding Equity ("Section 3251"), which replaces Section 3250, Equity. The standard requires companies to disclose the impact of the new financial instruments accounting on equity within the Consolidated Balance Sheets and the Consolidated Statements of Retained Earnings. The standard requires prospective application and was effective for the Company's first quarter of fiscal 2007. The Company applied the new accounting standard at the beginning of its current fiscal year.

**g) Going Concern**

In June 2007, the CICA issued amendments to Section 1400, "General Standards of Financial Statement Presentation" to include requirements to assess and disclose an entity's ability to continue as a going concern. The amendments are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company will apply the new amendments at the beginning of its fiscal year and does not expect the implementation to have a significant impact on the Company's results of operations, financial position or disclosures.

**New Accounting Standards adopted in 2008**

**(i) Capital Disclosures**

CICA Handbook Section 1535, Capital Disclosures, requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such noncompliance.

This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. The Company has provided disclosures in these financial statements with respect to this standard.

**(ii) Financial Instruments – Disclosure**

CICA Handbook Section 3862, Financial Instruments – Disclosure, increases the disclosure previously required that enables users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risk arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**4. ACCOUNTING POLICY CHANGES (Continued)**

**New Accounting Standards adopted in 2008 (Continued)**

The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. The Company has provided disclosures in these financial statements with respect to this standard.

(iii) Financial Instruments – Presentation

CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this section. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. The adoption of this standard has no material effect on these financial statements.

(iv) General Standards on Financial Statement Presentation

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically January 1, 2008 for the Company. The adoption of this standard has no material effect on these financial statements.

**Future Accounting Standards**

(v) Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period of the Corporation beginning on or after January 1, 2011. Early adoption is permitted. This section replaces Section 1581, Business Combinations and harmonizes the Canadian standards with international financial reporting standards (IFRS). The Company does not anticipate that the adoption of this standard will impact its financial results.

(vi) Consolidated Financial Statements and Non-Controlling Interests

CICA HB Section 1601, Consolidated Financial Statements and HB Section 1602, Non-controlling Interests replace CICA HB Section 1600, Consolidated Financial Statements. HB Section 1601 establishes standards for the preparation of consolidated financial statements. HB Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. HB Section 1602 is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. These standards are effective for the Company for interim and annual financial statements beginning on or after January 1, 2011. The Company has not yet determined the impact of the adoption of these changes on its Financial Statements.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**4. ACCOUNTING POLICY CHANGES (Continued)**

**Future Accounting Standards (Continued)**

(vii) International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standards Board (AcSB) confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011. The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The AcSB proposes that CICA Handbook Section, Accounting Changes, paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to the IFRS Omnibus Exposure Draft. The Company is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required, as well as system changes that may be necessary to gather and process the required information.

(viii) Goodwill and Intangible Assets

In January 2008, the CICA issued Section 3064 "Goodwill and Intangible Assets", which replaces Section 3062 "Goodwill and Other Intangible Assets", and results in the withdrawal of Section 3450 "Research and Development Costs", and Emerging Issues Committee Abstract 27 "Revenues and Expenditures during the Pre-operating Period", and amendments to Accounting Guideline No 11 "Enterprises in the Development Stage". The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 specifically April 1, 2009 for the company. Earlier adoption is encouraged.

**5. CASH AND CASH EQUIVALENTS**

As at December 31, 2008, cash and cash equivalents consists of cash in bank of \$87,047 (\$103,456 – 2007) and a cashable guaranteed investment certificate of \$116,420 (\$2,357,061 – 2007) which bears interest at 3.05% per annum.

**6. SHARE INVESTMENT**

Share investment consists of shares received as consideration from the sale of a resource property interest. The share investment is shares in Canaco Resources Inc., a public company which trades on the Toronto Stock Exchange-Venture under the symbol "CAN". (See Note 9a)

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**7. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT**

The Company is exposed in varying degrees to a number of risks arising from financial instruments. Management's involvement in the operations allows for the identification of risks and variances from expectations. The Company does not participate in the use of financial instruments to mitigate these risks. The Board approves the risk management processes. The Board's main objectives for managing risks are to ensure liquidity, the fulfillment of obligations, the continuation of the Company's search for a Qualifying Transaction, and limited exposure to credit and market risks. There were no changes to the objectives or the process from the prior period.

The types of risk exposure and the way in which such exposures are managed are as follows:

(a) Concentration risk:

Concentration risks exist in cash and cash equivalents because significant balances are maintained with one financial institution. The risk is mitigated because the financial institution a trust account with the company's lawyers and is held either as cash or short term investment at a prime Canadian bank.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company ensures there is sufficient capital to meet short term business requirements. The Company's cash and cash equivalents are invested in guaranteed investment certificates which are available on demand to fund the Company's operating costs and other financial demands.

**8. FAIR VALUES OF FINANCIAL INSTRUMENTS**

The fair values of financial instruments at December 31, 2008 and December 31, 2007 are summarized as follows:

	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
	<b>Year Ended December 31, 2008</b>		<b>Year Ended December 31, 2007</b>	
Financial Assets Held for Trading				
-Cash	87,047	87,047	103,457	103,457
Financial Liabilities				
- Accounts Payable and Accrued Liabilities	635,656	635,656	369,407	369,407

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**9. EQUIPMENT**

	2008		
	Cost	Accumulated Amortization	Net
	\$	\$	\$
Computer equipment	29,940	17,479	12,461
Office equipment	44,109	21,290	22,819
Field equipment	999	682	317
	75,048	39,451	35,597
	75,048	39,451	35,597
	2007		
	Cost	Accumulated Amortization	Net
	\$	\$	\$
Computer equipment	20,111	13,071	7,040
Office equipment	38,130	16,147	21,983
Field equipment	999	603	396
	59,240	29,821	29,419
	59,240	29,821	29,419

**10. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

**1. TANZANIA PROPERTIES**

The Government of Tanzania issues mineral rights as follows:

- Reconnaissance License (RL) which is valid for two years and is renewable with a reduction of area of no less than 50%
- Prospecting License (PL) which is valid for three years and is renewable with a reduction of area of no less than 50%
- An Extension of up to three years after the expiration of the Second Renewal
- Mining Lease (ML) which is valid for 30 years or less depending on the life of the mine, and is renewable.

**(a) Itilima Gold Project**

The Company holds a 75% interest in the Itilima Gold and Diamond Project, which consists of four contiguous licences totalling 65 square kilometres in the Lake Victoria Goldfields in Tanzania. Midlands' interest is through its subsidiary company in Tanzania – the Itilima Mining Company Limited.

The licences were granted for all minerals including gold and diamonds but not including building materials and gemstones. Net smelter royalties ("NSR") payable upon production to Juma Motors Transport Ltd. ("JMT"), the Company's local exploration partner, are 2% for the first two years of the mine's life once commercial production commences, 1.5% for the next two years, and 1% thereafter for the life of the mine. In addition, there is a royalty payable upon commercial production to the Government of Tanzania of a 3% NSR for gold and a 5% NSR for diamonds. The licences are all in good standing.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**10. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (cont'd)**

**(a) Itilima Gold Project (cont'd)**

The Company's exploration program to date has focused on geochemistry followed by 1,345 metres of RC drilling in 2004 and 2,070 metres of diamond core drilling which was conducted in the last quarter of 2006. The Company plans to continue exploration activities based on results from current exploration. Through work done to date, the Company has confirmed a number of gold-bearing structures and shear zones including the previously known Itilima Shear Zone ("ISZ") and the Chanya Shear Zone ("CSZ"). There is now a 3 kilometre diorite surrounded by soil anomalies and a 10 kilometre strike length NW-SE structure. In April 2004, the Company conducted a reverse-circulation drilling program (drilling 14 holes, totalling 1,345 metres), to further confirm the gold mineralized potential of both the ISZ and CSZ.

In 2005, the Company conducted an extensive Mobile Metal Ion ("MMI") soil geochemistry program to confirm previous MMI results prior to further drilling. The results of the MMI geochemistry program confirmed repeatability and continuity of orientation of previously detected anomalous trends. One of the anomalous trends extends the strike direction of the Itilima artisanal mining site in both directions. Two other parallel trends indicate potential for parallel gold-bearing horizons under transport overburden. In the last quarter of 2006, the Company conducted a 2,070 metre diamond core drilling program and intends to follow up with further drilling in the last quarter of 2008, subject to financing.

The Itilima prospecting licence was originally issued as PL 1406/99. As a result of the requirement to shed ground at each renewal point, and as the Company was re-applying for the shed ground, there are now four prospecting licenses covering the same area of 65 square kilometres (PL 1406/99, PL 2043/02, PL 3192/05, and PL 4086/07).

**PL 1406/99** is now 15.86 square kilometres. The license is valid for a period of 3 years until November 10, 2009 at which time the Company will apply for renewal.

**PL 2043/02** is 16.50 square kilometres and the licence is in good standing. All property payments and fees due to the Government of Tanzania have been paid. The Company intends to apply for renewal as required.

**PL 3192/05** is 16.45 square kilometres and the licence is in good standing. All property payments and fees due to the Government of Tanzania have been paid. The Company intends to re-apply for the prospecting licence as required.

**PL 4086/06** is 16.25 square kilometres and is valid until September 25, 2009. All property payments and fees due to the Government of Tanzania have been paid. The Company intends to apply for renewal as required.

**Itilima Diamond Project**

The Itilima diamond project is located in Archean geology and also sits within the Shinyanga Kimberlite Field. The property is located 25 kilometres south of the Mwadui Williamson Open Pit Diamond Mine which was previously operated by the De Beers Diamond company.

There are 2 kimberlites which have been drilled by Midlands and 80 kimberlite targets identified by an airborne magnetic and radiometric survey conducted by Fugro Airborne Services in 2003. Of these, nine targets were identified as high priority. Two of the nine kimberlite targets which were identified as priority targets were drilled by Midlands in April 2004 using reverse circulation drilling. The results showed the presence of small micro diamonds. The perographic, diamond selection and chemical analyses were done by SGS Lakefield Research Laboratories in Ontario Canada. Midlands plans to do more work on these kimberlite targets and the Company is seeking a partner to develop the diamond potential of the Itilima project. In this regard, Midlands has set up a subsidiary private company registered in Ontario, Canada (Mara Diamond Company Ltd.) to develop the diamond potential on the Itilima project.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**10. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (cont'd)**

**(b) Vukene**

The company has an option on this 752.30 square kilometre prospecting licence. The license is held by SIKA Resources Inc. Midlands is evaluating the property and earning an interest through exploration expenditures. The licence expired in February 14, 2009 and new applications for renewal have been submitted. No problems are anticipated in the renewal process.

**(c) Lwenge**

The Company acquired the Lwenge property in Tanzania in 2007. PL 3212/2005 is 25.73 square kilometres and is located in the Geita district in the Lake Victoria Gold Fields Area. The Company owns 90% of the license and the licence is in good standing.

**NEW PROJECTS - TANZANIA**

**(d) Kishapu and Lalago Gold Projects**

In 2008, the Company was granted two prospecting licences PL 2864 (Kishapu) which is 38.4 square kilometres in size, and PL 2865 (Lalago) which is a 154.30 square kilometres in size. The licences are valid for a period of three years.

**(e) Tamota Project – New Kilindi**

The Company paid US\$25,000 to obtain a new gold property PL 5068/2008 in the Handeni district in Tanzania which is 175 square kilometers in size. The licence, which is valid for a period of three years, was transferred to Midlands on July 23, 2008. The Tamota project is in the Kilindi - Handeni area, approximately 160 kilometres from the City of Dar es Salaam.

**2. GHANA PROPERTIES**

**a) Sian Property**

On August 23, 2006, the Company signed an agreement with Sian Goldfields Limited ("Sian"), whereby the Company acquired a 65% interest in the mineral assets of Sian and as part of the agreement, the Company agreed to pay to a maximum amount of US\$2,000,000, based on cash flow, monies owed to certain farmers around the Sian property and certain Sian workers who were owed money. The money, which is payable directly to affected farmers and affected Sian workers, is intended to ensure that the Company can proceed to conduct exploration on the Sian property without hindrance from the local community. The funds cover such things as payments to farmers for crop compensation, and past due payments to some of Sian's former workers that are being hired by the Company for current exploration activities. The local communities around the Sian property form the labour pool for the Company's exploration activities. The expenditures involved fall within general exploration expenditures and are accounted for as part of the Company's capitalized exploration costs.

Sian is an open pit recent gold producer with an indicated resource which has increased by 92% to 192,400 ounces of gold (2,568,000 tonnes at 2.33 g/t Au) up from 100,000 ounces and an inferred resource which has gone up to 203,350 ounces (2,694,000 tonnes at 2.35 g/t Au) from 100,000 ounces, an increase of 103.4%. There is a CIL mill and a valid mining lease with an expiry date of 2026. Together with the contiguous Kwahu Praso property, Midlands controls 160 square kilometres of a prime gold exploration gold district with a 16 kilometre corridor and with large anomalies providing potential for the discovery of several gold deposits on the property.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**10. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (cont'd)**

**2. GHANA PROPERTIES (cont'd)**

**a) Sian Property (cont'd)**

The Sian Project is located 30 kilometres north east of Newmont Mining's Akyem deposit with over 8 million ounces of gold. Sian produced 16,193 ounces of gold with a mineral recovery of 93% between 2001 and 2003 when the mine was closed due to the price of gold at the time and other operational issues.

The Company holds a 65% interest in Akroma Gold Company Limited into which the Sian property was transferred following an agreement between Midlands Minerals Corporation and Sian Goldfields Limited. Under the terms of the agreement, Sian Goldfields Limited transferred all its mineral assets including the mining lease which was granted to Sian in 1996 for a period of 30 years, the gold processing plant as well as all of the machinery and equipment. The mineral assets include an area of approximately 50 square kilometres of ground which is contiguous to Midlands' 109 square kilometres Kwahu Praso property on the north-east end of the Ashanti Gold Belt.

**(b) Kwahu Praso Property**

Midenka Resources Limited ("Midenka"), a subsidiary, holds title to the Kwahu Praso Concession ("Concession") situated in the Eastern Region along the Northeastern border of the Ashanti gold belt of Ghana. Midenka is a Ghanaian company originally owned 80% by the Company and 20% by the Enkaakyiri Trading Company Limited ("Enkaakyiri"). Pursuant to a joint venture agreement dated April 23, 2003, the Company will cover all exploration costs until such time as an inferred resource has been established. At that time, Enkaakyiri will be required to participate in 20% of all costs related to exploration and development of the Concession.

On September 4, 2008, Enkaakyiri elected to sell its 20% interest in the joint venture to Midlands for a total price of US\$80,000. Midlands paid a non refundable deposit of US\$10,000 with the balance of US \$70,000 being a contingent liability, and payable only upon the Company's discretion based on availability of financing.

The Kwahu Praso prospecting licence was granted by the Ghanaian Government and was valid until March 2009. An application for renewal has been submitted and no problems are anticipated in the renewal process.

**(c) Kaniago Concession**

The Company holds a 100% interest in the Kaniago Concession which is located on the Asankrangwa Gold Belt in Ghana and is 45.14 square kilometers in size. The mineral rights are owned by the Company through its subsidiary company, Midlands Minerals Ghana Limited. The Company has a prospecting licence which was valid for a period of two years until February 2009. A new application for renewal has been submitted and no problems are anticipated in the renewal process.

**(d) Bonuama Property**

The Company acquired an option on the Bonuama property in Ghana on June 7, 2008. Bonuama is 150 squares kilometers in size and is located on the Asankrangwa Gold Belt. Midlands paid a non-refundable deposit of US\$20,000 with the balance of US \$45,000 being a contingent liability and payable only upon the Company's discretion based on availability of financing.

The Government of Ghana is entitled to a 10% carried interest in the Concessions with no contribution requirement, upon commencement of commercial production.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**11. CAPITAL STOCK**

**Authorized**

Unlimited common shares

**Shares Issued and Outstanding :**

	<b>Number of Common Shares</b>	<b>Amount (\$)</b>
Balance, December 31, 2006	40,786,374	5,164,785
Issued for cash January 11, 2007 (a)	3,796,667	891,910
Issued for cash June 14, 2007 (b)	6,245,000	1,771,631
Share issue costs	-	(425,544)
Warrants exercised (c)	<u>2,218,417</u>	<u>695,558</u>
Balance, December 31, 2007 and 2008	<u>53,046,458</u>	<u>8,098,340</u>

- a) On January 11, 2007 the Company issued 3,796,667 units at \$0.30 per unit for gross proceeds of \$1,139,000. Each unit consists of one common share and one half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.45 per share until July 11, 2008. The warrants were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 117%, expected dividend yield of 0, risk-free interest rate of 4.2% and expected life of 1.5 years. The fair value of these warrants were estimated to be \$247,090.

In connection with the Private Placement, the Company paid a cash commission of \$79,730 to the agents and issued compensation warrants to acquire 265,767 common shares at a price of \$0.30 per share until July 11, 2008. The fair value of the compensation warrants of \$53,100 was calculated using the Black-Scholes option pricing model with the following average assumption: expected volatility of 117%, expected dividend yield of 0, risk-free interest rate of 4.2% and expected life of 1.5 years.

- b) On June 14, 2007 the Company issued 6,245,000 units at \$0.35 per unit for gross proceeds of \$2,185,750. Each unit consists of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.50 per share until December 14, 2008. The warrants were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumption: expected volatility of 98%, expected dividend yield of 0, risk-free interest rate of 4.2% and expected life of 1.5 years. The fair value of these warrants were estimated to be \$414,119.

In connection with the Private Placement, the Company paid a cash commission of \$140,752 to the agents and issued compensation warrants to acquire 499,600 common shares at a price of \$0.35 per share until December 14, 2008. The fair value of the compensation warrants of \$101,488 was calculated using the Black-Scholes option pricing model with the following average assumption: expected volatility of 98%, expected dividend yield of 0, risk-free interest rate of 4.2% and expected life of 1.5 years.

- c) 2,218,417 warrants were exercised for gross proceeds of \$695,558 as at December 31, 2007.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**11. CAPITAL STOCK (Continued)**

**WARRANTS**

A summary of changes in warrants during the years indicated is as follows:

	Number of Warrants	Weighted Average Exercise Price	Estimated Grant date Fair market Value
	#	\$	\$
Balance, December 31, 2006	22,903,565	0.41	1,800,774
Issued as part of private placements, net of costs	5,020,833	0.50	650,836
Issued for services	765,367	0.35	164,960
Exercised	(2,218,417)	(0.30)	(81,013)
Expired	<u>(4,955,936)</u>	<u>(0.30)</u>	<u>(176,067)</u>
Balance, December 31, 2007	21,515,412	0.46	2,359,490
Expired	(18,392,912)	0.43	(2,359,490)
Extended	<u>3,122,500</u>	0.50	<u>360,558</u>
Balance, December 31, 2008	<u>3,122,500</u>	<u>0.50</u>	<u>360,558</u>

As at December 31, 2008, the following warrants were outstanding:

Date Granted	Warrants Granted #	Exercise Price \$	Expiry Date
June 14, 2007	<u>3,122,500</u>	<u>0.50</u>	June 14, 2012
	<u>3,122,500</u>	<u>0.50</u>	

**WARRANTS**

During the year, 21, 515, 412 warrants previously granted to certain of its directors, officers, employees and other consultants expired of which 3,122,500 were subsequently extended by the company until June 14, 2012. The fair value of the warrants was estimated on the date of extension using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate 4%, expected dividend yield of 0%, expected stock price volatility 98%, and expected life of four years. The extension was approved by the Board resolution and the TSX Venture Exchange.

**STOCK OPTIONS**

The Company has a stock option plan for the purchase of common shares for its directors, officers, employees and other service providers. The aggregate number of common shares reserved for issuance under the stock option plan is a maximum of 10% of the issued and outstanding common shares of the Company. No one person shall be granted options representing more than 5% of the issued and outstanding common shares of the Company. Options granted to persons providing investor relations services may not exceed 2% of the issued and outstanding share capital and must vest over a 12-month period with no more than 25% of the options vesting in any quarter. The options are non-assignable and non-transferable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the board of directors of the Company and shall be determined on the basis of the market price of the shares at the time of grant, subject to all applicable regulatory requirements.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**11. CAPITAL STOCK (Continued)**

A summary of changes in options during the years indicated is as follows:

	<u>Options Granted #</u>	<u>Weighted Average Exercise Price \$</u>
Balance, December 31, 2005	2,346,025	0.23
Expired	(60,000)	(0.23)
Granted (i)	<u>1,125,000</u>	0.45
Balance, December 31, 2006	3,411,025	0.30
Granted (ii)	896,019	0.45
Expired	<u>(50,000)</u>	<u>(0.45)</u>
Balance, December 31, 2007	4,257,044	0.33
Expired	(730,000)	(0.45)
Granted (iii)	250,000	0.40
Granted (iv)	<u>100,000</u>	<u>0.40</u>
Balance, December 31, 2008	<u><u>3,877,044</u></u>	<u><u>0.40</u></u>

As at December 31, 2008, the following options were outstanding:

<u>Date of Grant</u>	<u>Options Granted #</u>	<u>Exercise Price \$</u>	<u>Expiry Date</u>
June 22, 2005	1,660,825	0.20	June 22, 2010
June 22, 2005	207,600	0.30	June 22, 2010
June 22, 2005	207,600	0.43	June 22, 2010
August 17, 2006	765,000	0.45	August 9, 2011
April 4, 2007	686,019	0.45	April 4, 2012
April 16, 2008	(a) 250,000	0.40	April 14, 2010
July 10, 2008	<u>100,000</u>	<u>0.40</u>	July 10, 2013
	(a) <u><u>3,877,044</u></u>	<u><u>0.40</u></u>	

(a) All of the stock options noted above are exercisable except for 83,336 options which are exercisable in fiscal 2009.

- i) On August 17, 2006, the Company granted 1,125,000 stock options to directors, officers, and consultants of the Company, exercisable at \$0.45 per share until August 9, 2011. The fair value of the stock options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate 4.3%, expected dividend yield of 0%, expected stock price volatility 100%, and expected option life of five years. The stock options which vest immediately upon grant, were assigned a value of \$188,519. 968,000 options were granted to officers and directors of the Company.
- ii) On April 4, 2007, the Company granted 896,019 stock options to directors, officers, and consultants of the Company, exercisable at \$0.45 per share until April 4, 2012. The fair value of the stock options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate 4.2%, expected dividend yield of 0%, expected stock price volatility 114%, and expected option life of five years. The stock options which vest immediately upon grant, were assigned a value of \$254,912. 751,019 options were granted to officers and directors of the Company.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**11. CAPITAL STOCK (Continued)**

- iii) On April 16, 2008, the Company granted 250,000 stock options to Agoracom Investor Relations Corporation, exercisable at \$0.40 per share until April 15, 2010. The fair value of the stock options was estimated on the date of grant using the Black-Scholes options pricing model with the following assumptions: risk-free interest rate 2.63%, expected dividend yield of 0%, expected stock price volatility 118.45%, and expected option life of two years. The stock options vest in equal quarter amounts and stages over the next twelve months. The stock options were assigned a value of \$28,094. The vested portion of the stock based compensation exercised during the year was \$18,729.
- iv) On July 10, 2008, the Company granted stock options to a consultant to purchase 100,000 common shares at \$0.40 per share until July 10, 2013. The fair value of the stock options was estimated on the date of grant using the Black-Scholes options pricing model with the following assumptions: risk-free interest rate 3.4%, expected dividend yield of 0%, expected stock price volatility 124.06%, and expected option life of five years. The stock options which vest immediately upon grant, were assigned a value of \$22,919.

**CONTRIBUTED SURPLUS**

	<b>\$</b>
Balance, December 31, 2006	590,305
Warrants expired	176,872
Stock-based compensation	<u>254,912</u>
Balance, December 31, 2007	1,022,089
Warrants expired	2,359,490
Warrants extended	(360,558)
Stock-based compensation	<u>41,648</u>
Balance, December 31, 2008	<u>3,062,669</u>

**12. INCOME TAXES**

**Provision for Income Taxes**

The provision for (recovery of) income taxes differs from the amount that would have resulted by applying Canadian federal and provincial statutory tax rates of 36% (2007 – 36%); the Tanzanian statutory rate of 30%; and the Ghanian tax rate of 25%.

	<u>2008</u>	<u>2007</u>
	\$	\$
(Loss) before taxes:	<u>(1,242,060)</u>	<u>(1,193,775)</u>
Expected income tax (benefit)	(416,000)	(431,000)
Adjustments to benefit resulting from:		
Stock-based compensation	17,000	66,000
Share issue costs	-	-
Other	6,000	-
Change in valuation allowance	<u>393,000</u>	<u>365,000</u>
	<u>-</u>	<u>-</u>

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**12. INCOME TAXES (Continued)**

**Future Tax Balances**

The tax effects of temporary differences that give rise to future income tax assets and liabilities are as follows:

	<u>2008</u>	<u>2007</u>
	\$	\$
Future income tax assets (liabilities):		
Non-capital loss carry-forwards	2,953,000	1,918,000
Equipment and share issue costs	125,000	128,000
Mineral properties and deferred exploration costs	(1,596,000)	(1,258,000)
Valuation allowance	<u>(1,639,810)</u>	<u>(1,003,296)</u>
Future income tax liability	<u><u>(157,810)</u></u>	<u><u>(215,296)</u></u>

**Tax Loss Carry-Forwards**

The Company has approximately \$4,592,042 of non-capital losses in Canada which, under certain limited circumstances, may be used to reduce taxable income in future years.

The Company's Tanzanian subsidiaries have approximately \$551,000 (586,396,000 Tanzanian shillings) of capitalized exploration expenditures for tax purposes at December 31, 2008. Capitalized exploration expenditures are amortized over five years and the resultant tax losses can be carried forward indefinitely. At December 31, 2008, the Tanzanian subsidiaries had approximately \$1,466,000 (1,562,000,000 Tanzanian shillings) in non-capital losses which may be used to reduce taxable income in future years.

The Company's Ghanaian subsidiaries have approximately \$582,000 (601,000 cedis) of capitalized exploration expenditures for tax purposes December 31, 2008. Capitalized exploration expenditures are amortized over four years and the resultant tax losses can be carried forward for five years. At December 31, 2008, the Ghanaian subsidiaries had approximately \$3,991,000 (4,117,000 cedis) in non-capital losses which may be used to reduce taxable income in future years.

<u>Year of Expiry</u>	<u>Canada</u>	<u>Ghana</u>
	\$	\$
2009	30,600	71,098
2010	269,500	45,222
2011	-	394,583
2012	90,600	2,269,676
2013	-	1,210,015
2014	302,700	-
2015	830,300	-
2026	900,400	-
2027	996,000	-
2028	1,171,942	-
	<u><u>4,592,042</u></u>	<u><u>3,990,595</u></u>

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**13. RELATED PARTY TRANSACTIONS**

- a) Included in accounts payable as of December 31, 2008 was \$56,712 (2007 - \$31,200) owing to directors and officers, which includes accrued management fees and amounts owing for certain expenditures incurred by the individuals on behalf of the Company.
- b) During the year ended December 31, 2008, \$212,952 (2007- \$203,160) was paid or payable to an officer for management fees.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**14. COMMITMENT**

The Company is committed to a minimum amount of rental payments under a long-term lease for their premises which expires June 30, 2013. Minimum rental commitments remaining under this lease approximate \$303,102 including \$66,553 due within one year. Minimum rental commitments for successive years approximate the following:

2009	26,499
2010	26,499
2011	27,704
2012	28,908
2013	<u>14,454</u>
	<u>\$124,064</u>

**15. SEGMENTED INFORMATION**

The Company's principal operations are the acquisition, exploration and development of mineral properties. All mineral properties are situated in Ghana and Tanzania (see Note 10). Cash and short-term investments of \$118,097 (2007 - \$2,432,182) are held in Canadian chartered banks, cash of \$4,670 (2007 - \$1,397) is held in Tanzania and cash of \$79,700 (2007 - \$26,938) is held in Ghana.

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>ASSETS</b>		
Canada	267,577	2,537,427
Tanzania	2,529,279	2,230,958
Ghana	<u>4,534,700</u>	<u>3,574,820</u>
	<u>7,331,556</u>	<u>8,343,205</u>

Substantially all operating expenses are incurred in Canada.

**16. FINANCIAL INSTRUMENTS**

**Foreign Exchange Risk**

The Company is exposed to foreign exchange risk as a result of its portion of the expenses being denominated in currencies other than its functional currency, the Canadian dollar. Certain of the Company's expenses are incurred in the United States, Tanzanian and Ghanaian currencies. The Company does not currently use derivative financial instruments to reduce its exposure to foreign currency risk.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**16. FINANCIAL INSTRUMENTS (Continued)**

**Commodity Price Risk:**

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals. The Company does not currently use derivative financial instruments to reduce its exposure to commodity price risk.

**Liquidity Risk:**

The Company's exposure to liquidity risk is dependent on the ability to raise funds to meet purchase commitments and to sustain operations. The Company controls its liquidity risk by managing working capital and cash flows.

**Fair Value:**

The Company has classified its short term investments as held-for-trading, share investment as available for sale and measures them at fair value. Accounts payable and accrued liabilities are measured at amortized cost.

The fair value of accounts payable and accrued liabilities on the balance sheet are not materially different from their carrying values due to their short term nature.

**Warrants**

See Note 11.

**Stock Options**

See Note 11.

**17. SUBSEQUENT EVENTS**

1. Subsequent to December 31, 2008, 1,280,290 stock options with an expiry date of February 2, 2014 were granted to consultants, officers, directors and employees of the Company. The options are exercisable at \$0.40 per share.

2. Subsequent to December 31, 2008, the Insiders and Founders of Midlands decided to provide funds on a loan basis, to sustain the Company financially until alternative financing is secured and finalized. The Board of Midlands approved the transaction on December 18, 2008.

The amount involved is a Line of Credit of up to \$500,000 and the funds will be provided to the Company in tranches on as needed basis and until the Company finalizes its re-capitalization. The Loan carries a rate of interest of 10.5% per annum, reflecting the risk to the Lenders, and the outstanding amount is repayable to the lenders within a 24 month period.

The TSX Venture Exchange approved the payment of bonus shares to the Lenders in the common shares of the Company equal to 20% of the funds provided to the Company.

3. Subsequent to the year ended December 31, 2008, the Company appointed a current director, Pierre Lalonde, P.Geol. to be the Company's Senior Geologist. Mr. Lalonde is receiving compensation for his services.

**MIDLANDS MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**18. CAPITAL DISCLOSURE**

The Company's objectives when managing capital are:

- a) To maintain balance sheet strength, ensuring the Company's strategic objectives are met, while retaining an appropriate amount of leverage;
- b) And, to provide an appropriate return to shareholders relative to the risk of the Company's underlying assets.

The Company manages its capital structure within guidelines approved by the Board of Directors. The Company makes adjustments to its capital structure based on changes in economic conditions and Company's planned requirements. The Company has the ability to adjust its capital structure by issuing new equity or debt, selling assets to reduce debt, controlling the amount it distributes to shareholders, and making adjustments to its capital expenditure program.

**19. COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified to conform to the current year's financial statement presentation.