

MIDLANDS MINERALS CORPORATION
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2008
Unaudited

MIDLANDS MINERALS CORPORATION
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 2008
Unaudited

INDEX	PAGE
Interim Consolidated Balance Sheets	1
Interim Consolidated Statements of Operations and Deficit	2
Interim Consolidated Statements of Comprehensive Loss and Accumulated other comprehensive Loss	3
Interim Consolidated Statement of Property Acquisition Costs and Deferred Exploration Expenditures	4
Interim Consolidated Statements of Cash Flows	5
Notes to the Interim Consolidated Financial Statements	6 -13

MIDLANDS MINERALS CORPORATION
INTERIM CONSOLIDATED BALANCE SHEETS
AS AT

Page 1

	September 30, 2008	December 31, 2007
	\$	\$
ASSETS		
CURRENT		
Cash	35,015	103,457
Short term investments	340,000	2,357,060
Share investment	10,000	23,000
Prepaid expenses	36,939	19,928
Sundry receivable	<u>5,433</u>	<u>4,563</u>
	427,387	2,508,008
EQUIPMENT (Note 4)	38,280	29,419
INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Note 5 and Statement)	<u>7,088,520</u>	<u>5,805,778</u>
	<u>7,554,187</u>	<u>8,343,205</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	<u>400,814</u>	<u>369,407</u>
	400,814	369,407
FUTURE INCOME TAX LIABILITY	215,296	215,296
NON-CONTROLLING INTEREST	<u>36,125</u>	<u>36,125</u>
	<u>652,235</u>	<u>620,828</u>
GOING CONCERN (Note 1)		
RELATED PARTY TRANSACTIONS (Note 7)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6)	8,098,340	8,098,340
WARRANTS (Note 6)	507,998	2,359,490
CONTRIBUTED SURPLUS (Note 6)	2,915,229	1,022,089
ACCUMULATED OTHER COMPREHENSIVE LOSS	(22,000)	(9,000)
DEFICIT	<u>(4,597,615)</u>	<u>(3,748,542)</u>
	<u>6,901,952</u>	<u>7,722,377</u>
	<u>7,554,187</u>	<u>8,343,205</u>

APPROVED ON BEHALF OF THE BOARD:

Original signed by Edward Harris, Director

Original signed by Kim Harris, Director

Unaudited

MIDLANDS MINERALS CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
 FOR THE NINE MONTHS ENDED SEPTEMBER 30th

	Three months ended Sept 30, 2008 \$	Three months ended Sept 30,2007 \$	Nine months ended Sept 30, 2008 \$	Nine months ended Sept 30, 2007 \$
REVENUE	-	-	-	-
EXPENSES				
Office and administrative expense	132,259	90,310	442,201	421,895
Management fees	48,825	48,825	146,475	273,754
Investor relations and shareholder information	10,591	5,367	37,112	49,876
Professional fees	6,015	16,259	57,212	37,074
Telephone	9,073	7,652	24,975	22,836
Travel and automobile expense	7,627	7,703	106,395	77,786
Rent	16,375	11,066	38,833	33,198
Bank charges and interest	3,263	2,438	11,989	6,615
Foreign exchange (gain)	(4,859)	3,484	3,469	3,012
Amortization	<u>2,683</u>	<u>2,153</u>	<u>6,948</u>	<u>6,459</u>
Loss before the undernoted	231,852	195,257	875,609	932,505
Interest income	(3,477)	(5,924)	(26,536)	(56,766)
Mining options granted	<u>-</u>	<u>-</u>	<u>-</u>	<u>(176,000)</u>
NET LOSS for the period	228,375	189,333	849,073	699,739
DEFICIT , beginning of period	<u>4,369,240</u>	<u>3,065,173</u>	<u>3,748,542</u>	<u>2,554,767</u>
DEFICIT , end of period	<u>4,597,615</u>	<u>3,254,506</u>	<u>4,597,615</u>	<u>3,254,506</u>
NET LOSS PER SHARE - Basic and diluted	<u>0.00</u>	<u>0.00</u>	<u>0.02</u>	<u>0.01</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	<u>53,046,458</u>	<u>53,046,458</u>	<u>53,046,458</u>	<u>48,470,442</u>

MIDLANDS MINERALS CORPORATION
**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS AND
ACCUMULATED OTHER COMPREHENSIVE LOSS**
FOR THE NINE MONTHS ENDED SEPTEMBER 30

	Sept 30, 2008 \$	Sept 30, 2007 \$
Net Loss for period ended September 30	849,073	699,739
Other comprehensive loss		
Unrealized loss on share investment	<u>22,000</u>	<u>-</u>
COMPREHENSIVE LOSS	<u><u>871,073</u></u>	<u><u>699,739</u></u>
Accumulated other comprehensive loss, upon adoption of new accounting standards	-	-
Other comprehensive loss	<u>22,000</u>	<u>-</u>
ACCUMULATED OTHER COMPREHENSIVE LOSS	<u><u>22,000</u></u>	<u><u>-</u></u>

Unaudited

MIDLANDS MINERALS CORPORATION
**INTERIM CONSOLIDATED STATEMENTS OF PROPERTY ACQUISITION COSTS AND DEFERRED
EXPLORATION EXPENDITURES**
FOR THE NINE MONTHS ENDED SEPTEMBER 30

Page 4

	Itilima Gold & Vukene,Lwenge Kishapu,Lalago Tamota, Project Tanzania \$	Kwahu Praso Kaniago , Sian Bonuama Concession Ghana \$	Total \$
PROPERTY ACQUISITION COSTS			
Balance, December 31, 2007	528,297	890,155	1,418,452
Additions	<u>1,205</u>	<u>253,407</u>	<u>254,612</u>
Balance, September 30, 2008	<u>529,502</u>	<u>1,143,562</u>	<u>1,673,064</u>
DEFERRED EXPLORATION EXPENDITURES			
Balance, December 31, 2007	1,827,120	2,560,206	4,387,326
Additions during period	<u>187,182</u>	<u>840,948</u>	<u>1,028,130</u>
Balance September 30, 2008	<u>2,014,302</u>	<u>3,401,154</u>	<u>5,415,456</u>
TOTAL BALANCE, September 30, 2008	<u>2,543,804</u>	<u>4,544,716</u>	<u>7,088,520</u>

Unaudited

MIDLANDS MINERALS CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30

Page 5

	Three months ended Sept 30, 2008 \$	Three months ended Sept 30, 2007 \$	Nine months ended Sept 30, 2008 \$	Nine months ended Sept 30, 2007 \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	(228,375)	(189,333)	(849,073)	(699,739)
Add items not requiring cash:				
Stock based compensation	-	-	-	237,089
Amortization	<u>2,683</u>	<u>2,153</u>	<u>6,948</u>	<u>6,459</u>
	(225,692)	(187,180)	(842,125)	(456,191)
Changes in non-cash working capital balances:				
(Increase) decrease in prepaid expenses	(2,602)	(2,250)	(17,011)	(641)
(Increase) decrease in sundry receivable	7,140	1,802	(870)	(526)
(Increase) in mining companies receivable	-	-	-	(88,000)
Increase (decrease) in accounts payable and accrued liabilities	<u>(25,197)</u>	<u>(1,717,226)</u>	<u>31,407</u>	<u>(2,393,126)</u>
Cash flows from operating activities	<u>(246,351)</u>	<u>(1,904,854)</u>	<u>(828,599)</u>	<u>(2,938,484)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Short term investments	370,000	850,000	2,017,060	(982,261)
Purchase of equipment, net	(5,017)	-	(15,809)	-
Advances to Sika Resources	-	-	-	(13,929)
Share investments	-	-	-	(32,000)
Interest in mineral properties and deferred exploration expenditures	<u>(197,482)</u>	<u>1,009,656</u>	<u>(1,282,742)</u>	<u>83,956</u>
Cash flows from investing activities	<u>167,501</u>	<u>1,859,656</u>	<u>718,509</u>	<u>(944,234)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Exercise of warrants	-	-	-	615,350
Issuance of common shares for cash, net of costs	-	-	-	2,445,005
Issuance of warrants for cash, net of costs	-	-	-	431,916
Options Valuation	<u>32,284</u>	<u>-</u>	<u>41,648</u>	<u>176,872</u>
Cash flows from financing activities	<u>32,284</u>	<u>-</u>	<u>41,648</u>	<u>3,669,143</u>
(Decrease) Increase in cash	(46,566)	(45,198)	(68,442)	(213,575)
Cash, beginning of period	<u>81,581</u>	<u>170,279</u>	<u>103,457</u>	<u>338,656</u>
Cash, end of period	<u><u>35,015</u></u>	<u><u>125,081</u></u>	<u><u>35,015</u></u>	<u><u>125,081</u></u>
SUPPLEMENTAL INFORMATION:				
Interest paid	-	-	-	-
Taxes paid	-	-	-	-
Shares issued for services during the period	-	-	-	-
Compensation options issued for services rendered	-	-	-	237,089
Accrued exploration expenditures	-	384,151	248,994	384,151

Unaudited

1. NATURE OF OPERATIONS AND GOING CONCERN

Midlands Minerals Corporation (the "Company") is engaged in the evaluation and development of mineral properties in Tanzania and Ghana. The Company is considered to be in the development stages. The Company has not yet determined whether these properties contain ore reserves that are economically recoverable. As the Company's assets are located outside of North America, they are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and political uncertainty. 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.

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 there from or alternatively, upon the Company's ability to dispose of its interests on an advantageous basis.

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, exploration properties are written down to their fair value. Although management has made its best estimate of these factors, it is reasonably possible that certain events could adversely affect management's estimates of fair value and the need for, as well as the amount of, provision for impairment in the carrying value of exploration properties and related assets.

These consolidated interim 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 interim financial statements, then 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. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and follow the same accounting policies and methods of application as the audited consolidated financial statements of the Company for the year ended December 31, 2007. They do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these consolidated financial statements. Operating results for the nine-month period ended September 30, 2008 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2008. For further information, see the Company's consolidated financial statements including the notes thereto for the year ended December 31, 2007.

These interim consolidated financial statements are unaudited and have not been reviewed by the Company's auditors.

3. ACCOUNTING POLICY CHANGES

Unaudited

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, 2007 and 2006. The other effects of the implementation of the new standards are discussed below.

a) 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.

b) Inventories

In June 2007, the CICA issued Handbook Section 3031 "Inventories", which requires inventory to be measured at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. Further, it requires the reversal of previous write downs to net realizable value when the economic circumstances have changed to support an increased inventory value. This standard is effective for years beginning on or after January 1, 2008. The Company is in the process of evaluating the impact of this standard.

c) Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535 "Capital Disclosures". This section establishes criteria for disclosure of i) an entity's objectives, policies and processes for managing capital; ii) quantitative data about what the entity regards as capital; iii) whether the entity has complied with any capital requirements; and iv) if it has not complied, the consequences of such non-compliance. Section 1535 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company is in the process of evaluating the impact of this standard.

d) Financial Instruments - Disclosure and Presentation

The Company will be required to adopt two new accounting standards concerning financial instruments: "Financial Instruments - Disclosures" ("Section 3862") and "Financial Instruments - Presentation" ("Section 3863"). These standards were issued in December 2006 and will replace Section 3861, "Financial Instruments, Disclosure and Presentation". The new disclosure standard increases the emphasis on the risk associated with financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements under the existing Section 3861. The standards are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The Company will apply the new accounting standards at the beginning of its 2008 fiscal year with the impact being limited to the Company's disclosures, with no impact on the Company's results of operations or financial position.

3. ACCOUNTING POLICY CHANGES (Continued)

Future Accounting Standards

e) International Financial Reporting Standards

In February 2008, the Accounting Standards Board (AcSB) confirmed that Canadian public companies will have to adopt International Financial Reporting Standards (IFRS) effective for years beginning on or after January 1, 2011. The Company is currently evaluating the impact this new framework will have on its consolidated financial statements

4. EQUIPMENT

	<u>Cost</u>	<u>Accumulated Amortization</u>	Sept 30, 2008 <u>Net</u>	December 31, <u>2007</u>
	\$	\$	\$	\$
Computer equipment	29,941	16,215	13,726	7,040
Office equipment	44,109	19,891	24,218	21,983
Field equipment	<u>999</u>	<u>662</u>	<u>336</u>	<u>396</u>
	<u>75,049</u>	<u>36,768</u>	<u>38,280</u>	<u>29,419</u>

5. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

a) TANZANIA

Itilima Gold Project

The Company's interest in the Itilima Gold Project consists of a 75% interest in contiguous prospecting licenses registered under the name of the Itilima Mining Company, and Midlands Minerals Tanzania Limited, both subsidiary Tanzanian corporations. The licenses 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 mine life, 1.5% for the next two years, and 1% thereafter for the life of the mine. In addition, there is a royalty payable upon production to the Government of Tanzania of a 3% NSR for gold and a 5% NSR for diamonds. All the licences have been renewed and are in good standing.

New Kilindi Concession

Through its subsidiary, Midlands Minerals (Tanzania) Limited, the Company held a 2,700 square kilometre reconnaissance licence granted July 14, 2005 (the "New Kilindi Project") and valid until July 14, 2007, renewable thereafter as a prospecting license.

On March 15, 2007, the Company entered into an option agreement with Canaco Resources Inc. ("Canaco") to develop its New Kilindi gold property in Tanzania. Canaco agreed to spend US\$2,500,000 in work programs on the New Kilindi property, and pay the Company US\$50,000 over a one-year period and issue 100,000 common shares of Canaco to earn a 60% interest in the property. Canaco had the option to acquire an additional 15% interest in the property by bringing the project to a bankable feasibility study stage. To date the Company has received US\$50,000 and 100,000 shares.

5. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES(continued)

a) TANZANIA(continued)

On August 13, 2007, Midlands reapplied for mineral rights for the New Kilindi project. The New Kilindi reconnaissance licence. One block of 200 square kilometres was approved as PL 4781/07 and this has been transferred to Canaco under an amended agreement due to undue delays in getting the other applications through on the part of the Tanzania Ministry of Energy and Minerals which is undergoing internal re-organization. The Company transferred that one licence of the New Kilindi gold property during 2008 in recognition of the monies and shares received by Midlands from Canaco to date.

The other applications are still pending as of the day of this report and Midlands has agreed to give Canaco an option on the pending applications upon approval. Midlands held 100% ownership of the licenses relating to the New Kilindi Gold Project through Midlands Minerals TZ Limited ("**Midlands Tanzania**"), a wholly owned subsidiary of Midlands.

Vukene Property

The Company paid US\$7,523 in license fees for Prospecting Licence PLR 4079/7 on February 14, 2007. The Company holds an interest in a 752.30 square kilometre reconnaissance licence which is valid for a period of two years and renewable thereafter as a prospecting licence.

Lwenge Project

The Company acquired the Lwenge property in Tanzania on October 19, 2007 and paid US\$10,000 for prospecting licence PL 3212/2005. The Company holds a 25.73 square kilometre prospecting licence valid until May 1, 2008. The company owns 90% of the licence. The Company re-applied for the prospecting licence, and the renewal application is currently being processed.

Kishapu and Lalago Projects

The company paid US\$7,500 on November 8, 2007 for application PL 2864 (Kishapu) which is 24.94 square kilometres in size and PL 2865 (Lalago) which is 154.30 square kilometres in size. The Company was informed in May 2008 that the applications have been approved. On September 29, 2008 the Company paid an additional US\$7,500 for both properties. As at September 30, 2008, the prospecting licences are pending.

Tamoto Project: The Company paid US\$25,000 to obtain a new property PL 5068/2008 in the Handeni District in Tanzania which is 175 square kilometres in size. The licence was transferred to Midlands on July 23, 2008.

b) GHANA

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. In addition, a one-time fee of US\$100,000 was paid to Sian at closing in August of 2006.

5. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES(continued)

b) GHANA(continued)

During the year, the Company was released by Sian from its obligations to fund Sian's obligations to its creditors as stated in the agreement signed on August 23, 2006. The Company will utilize its resources to develop and fund the exploration activities on the Sian property on an ongoing basis.

The Sian mineral property covers approximately 50 square kilometres and is contiguous to the Company's Kwahu Praso property. The Government of Ghana has a statutory 10% free-carried interest in the Sian property. The agreement required that the Sian property be held in Akroma Gold Company Limited, a Ghanaian company in which the Company holds a 65% interest through its wholly owned subsidiary Harbour Capital Corporation.

Kwahu Praso Property

Midenka Resources Limited ("Midenka"), a subsidiary of Midlands Minerals Corporation, 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 corporation 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 holds an 80% interest in the concession and will cover all exploration costs until such time as a National Instrument 43-101 compliant 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 or Midlands may elect to dilute their interest.

Midlands has the right to buy Enkaakyiri's 20% interest at any time and Enkaakyiri may elect to sell its 20%, or portion thereof, with the sale price being determined by the resources defined at the time of sale. Midlands has the first right of refusal. In the event that Enkaakyiri sells its interest in the Concession, it would receive a Net Smelter Royalty equal to:

- a) 2.00% for the first two years;
- b) 1.00% for the next two years; and
- c) 0.25% thereafter for the life of the mine.

In addition, the Government of Ghana is entitled to a 10% carried interest in the Concession with no contribution requirement. Both the Company and Enkaakyiri shall cede this 10% interest in proportion to their existing interests at that point in time.

On September 4, 2008 the Company acquired the 20% interest of Enkaakyiri and paid US\$10,000 deposit to Enkaakyiri. Balance of US\$70,000 will be paid upon execution of the agreement for a total purchase price of US\$80,000.

The Kwahu Praso prospecting licence renewal has been approved by the Ghana Minerals Commission and is valid until March 2009.

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 squares kilometres in size. The mineral rights are owned by the Company through its subsidiary company - Midlands Minerals Ghana Limited. The Company has a prospecting license, which is valid for a period of three years until February 2009.

5. INTEREST IN MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES(continued)

b) GHANA(continued)

Bonuama Property

Unaudited

The Company acquired the Bonuama property in Ghana on June 7, 2008 which is 150 squares kilometres in size and paid US\$20,000 first instalment. The Company has two more instalments to make until June 6, 2009 for a total purchase price of US\$65,000

6. CAPITAL STOCK

Authorized

Unlimited common shares

Shares Issued and Outstanding :

	Number of Common Shares	Amount (\$)
Balance of Capital stock as at December 31, 2007, March 31, 2008, June 30, 2008 and September 30, 2008	<u>53,046,458</u>	<u>8,098,340</u>

Warrants

As at September 30, 2008, the following warrants were granted and outstanding:

	Number of Warrants	Weighted Average Exercise Price \$	Value \$
Outstanding at beginning December 31, 2007	21,515,412	0.46	2,359,490
Warrants Expired	<u>(17,893,312)</u>	0.43	<u>(1,851,492)</u>
Balance, September 30, 2008	<u>3,622,100</u>	0.43	<u>507,998</u>

As at September 30, 2008, the following warrants were outstanding:

Date Granted	Warrants Granted #	Exercise Price \$	Expiry Date
June 14, 2007	<u>3,622,100</u>	<u>0.50</u>	December 14, 2008
	<u>3,622,100</u>	<u>0.47</u>	

6. CAPITAL STOCK(continued)

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

Unaudited

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. Option grants 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.

A summary of changes in options is as follows.

	<u>Options Granted</u>	<u>Weighted Average Exercise Price</u>
	#	\$
Balance, December 31, 2007	4,257,044	
Granted	<u>350,000</u>	
	<u>4,607,044</u>	<u>0.40</u>

As at September 30, 2008, the following options were outstanding:

<u>Date of Grant</u>	<u>Options Granted And Exercisable</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
	Number of Options	Canadian Dollars	
June 22, 2005	1,828,825	0.20	June 22, 2010
June 22, 2005	228,600	0.30	June 22, 2010
June 22, 2005	228,600	0.43	June 22, 2010
August 17, 2006	1,075,000	0.45	August 9, 2011
April 4, 2007	896,019	0.45	April 4, 2012
April 16, 2008	250,000	0.40	April 15, 2010
July 10, 2008	<u>100,000</u>	<u>0.40</u>	July 10, 2013
	<u>4,607,044</u>	<u>0.40</u>	

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.

On April 16, 2008 the Company granted 250,000 stock options to Agoracom Investor Relations Corp. 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 Black-Scholes options pricing model with the following assumptions: risk-free interest rate 0.0263% expected dividend yield of 0%, expected stock price volatility 1.1845% and expected option life of two years will vest in equal quarter amounts and stages over the next twelve months. The stock options were assigned a value of \$18,729 for its 1st Quarter.

6. CAPITAL STOCK(continued)

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 Black-Scholes options pricing model with the following assumptions: risk-free interest rate 0.0340 expected dividend yield of 0%, expected stock price volatility 1.2406% and expected option life of five years. The stock options which vests immediately upon grant were assigned a value of \$22,919.

Unaudited

Contributed Surplus

	<u>Amount</u>
	\$
Balance, December 31, 2007	1,022,089
Warrants Expired March 20, June 12, July 11, 2008	1,851,492
Stock Based Compensation	<u>41,648</u>
	<u>2,915,229</u>

7. RELATED PARTY TRANSACTIONS

During the period ended September 30, 2008, management fees totaling \$146,475 (September 30, 2007 - \$273,754 inclusive of \$127,279 stock based compensation) were paid or accrued to a director who is also an officer of the Company. Included in accounts payable and accrued liabilities as at September 30, 2008, was Nil (December 31, 2007- \$31,200) due to this individual, which includes accrued management fees and amounts owing for certain expenditures incurred by the individual on behalf of the Company.

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.

8. INCOME TAXES

The estimated taxable income for the period is \$Nil. Based upon the level of historical taxable income, it cannot be reasonably determined at this time if it is more likely than not the Company will realize the benefits from future income tax assets or the amount owing from future income tax liabilities.

For further information about the Company's losses for tax purposes, refer to the audited December 31, 2007 Consolidated Financial Statements. The benefits of these losses and the estimated loss for the period are not recognized in these interim financial statements.