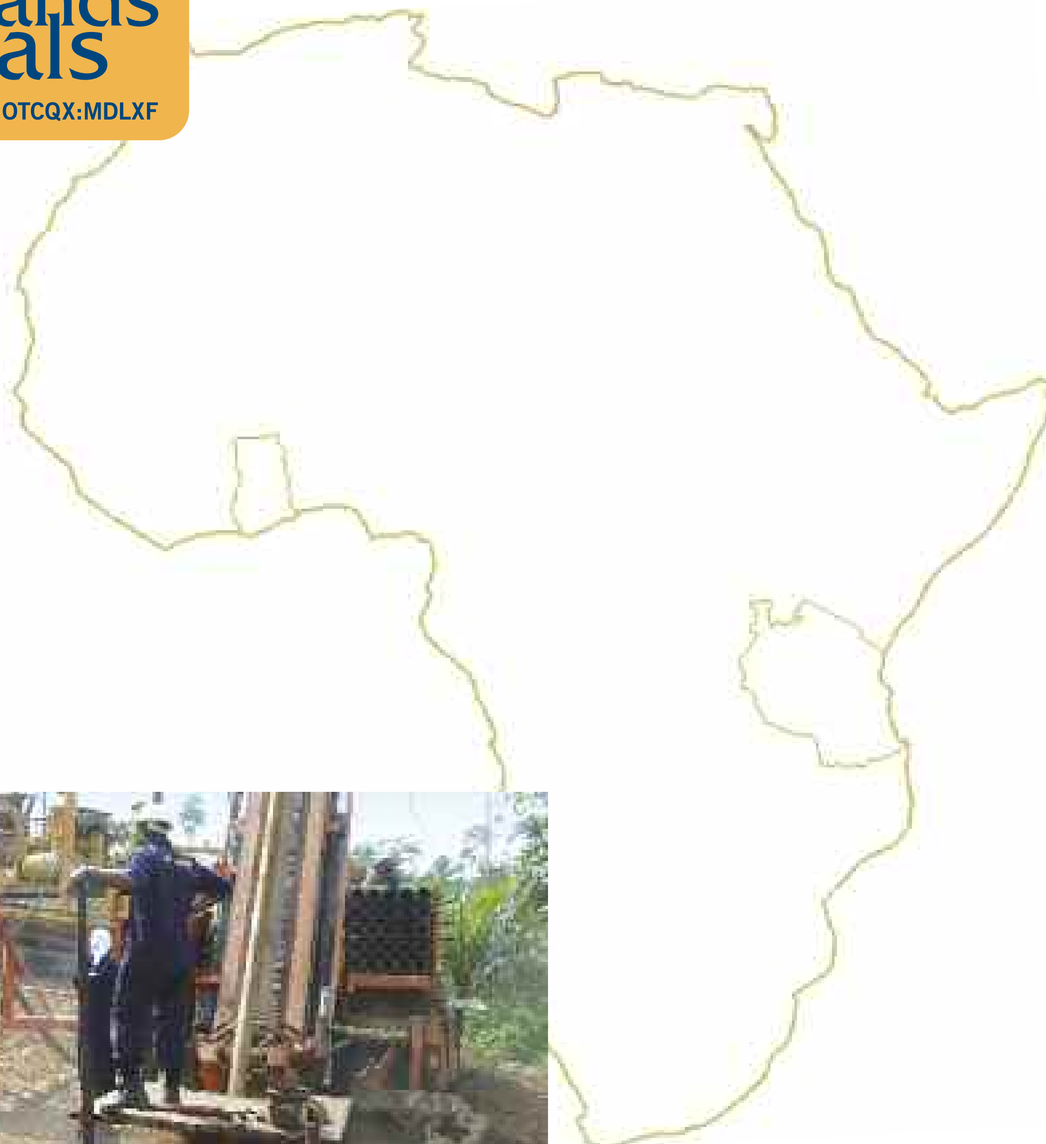
Midlands Minerals

TSX-V:MEX OTCQX:MDLXF



2010 ANNUAL REPORT

Midlands Minerals Corporation

DIVERSITY | POTENTIAL | GROWTH

Centre photo, left: Kim Harris, President and CEO of Midlands, overseeing drilling at Kaniago, March 2011.

HIGHLIGHTS

- The Sian-Praso Project, located on the Ashanti Goldbelt in Ghana, shows potential for a multi-million-ounce gold deposit; and new targets in the Mpeyo area, south of the current gold deposit, are expected to add an additional two million inferred ounces of gold;
- Drilling has commenced on the Kaniago Project, located in the Asankrangwa Goldbelt, and the discovery hole is well-mineralized, indicating significant potential;
- Spin-off of some of the Tanzania assets is expected by the end of 2011;
- Joint ventures on some of the Tanzania assets is currently ongoing.

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LETTER TO THE SHAREHOLDERS

A MESSAGE FROM THE PRESIDENT AND CEO

May 19, 2011

Dear Fellow Shareholders:

Midlands is poised for growth with the Sian gold resource increasing with each new phase of drilling. At least 11,000 metres were drilled in 2010 with the objective of bringing the resource to an initial one million ounces. The gold resource, as calculated at September 15, 2010, was at 540,000 ounces of gold, of which 400,000 ounces are NI 43-101 compliant.

The results on the Sian-Praso Project continue to show promise. The previously announced 'Atonsu Anomalous Soil Zone' has been extended from 850 metres to 1.6 kilometres, south into the area of the Atonsu artisanal workings. It remains open to the south. The geochemical analyses are as high as 720 ppb Au and the delineated zones are in the 350 to 450 ppb Au range.

A second soil anomaly lies southeast of the Essase tailings pond on Sian and was detected in four MMI samples. Soil sampling has demonstrated an anomalous zone 1.8 kilometres long by 200 metres width.

Sian produced gold between 2001 and 2003 with a gold-recovery rate of 93 percent. Midlands' goal is to increase the tonnage on Sian and move the Project to a pre-feasibility study by the end of 2012 with a production decision expected by the end of 2013, subject to availability of financing and positive results from the pre-feasibility study.

The Company will continue to focus its efforts on further development of its mineral properties in Ghana and Tanzania, and will also continue its search for a partner to develop its diamond properties in Tanzania.

What makes the Sian-Praso Project promising for Midlands is the following:

- Quality gold properties in the prolific Goldbelts, which in Ghana are located 30 kilometres from Newmont Mining's Akyem deposit with over 8.7 million ounces of gold, and in Tanzania are on strike with Barrick Gold's Bulyanhulu with over 13 million ounces;
- A diamond property with kimberlites, 25 kilometres from a world-class open-pit diamond mine which has produced more than 20 million carats in Tanzania;
- Midlands operates in known stable and democratic gold-producing countries with a long history of gold mining and favourable tenure and permitting laws;
- With a growing resource on its Sian property in Ghana, Midlands controls a large gold district on the Ashanti Goldbelt, thereby increasing the potential of discovering more gold deposits;
- Prudent and experienced Management and a Board with solid knowledge of the countries in which the Company operates;
- A technical team with a history of discovery.

LETTER TO THE SHAREHOLDERS *(continued)*

Overall, Midlands Minerals Corporation's prospects for achieving its short-term exploration objectives are good, given results from the drilling and the potential offered by new discoveries on Sian, Praso and Kaniago. Midlands continues to review its options for resuming production on the fully permitted Sian Project, which has all the infrastructure in place as well as an existing CIL plant and a 30-year mining lease.

In summary:

1. The Company's plan is to grow its core assets as quickly as possible, subject to availability of financing. Drilling on Sian, Kwahu Praso and Kaniago remains a key priority.
2. Further drilling is planned for the Itilima Project in Tanzania in the last quarter of 2011, subject to availability of financing.
3. The Company is evaluating its prospects for the Itilima Diamond Project and seeking prospective partners following completion of the NI 43-101 report in July 2010.

Midlands has viable quality projects in low-risk mining-friendly countries and a seasoned management team with extensive experience in Africa. The Company has demonstrated access to the capital markets and low overhead costs, all of which ensures that Midlands Minerals Corporation is focused on its exploration activities. However, to further explore our prime assets the Company will require additional funding. As a result, the second half of 2011 will be devoted to aggressively acquiring the necessary financing for our highly prospective projects.

We thank you all for your continuing support.

On behalf of the Board

Kim F. Harris, *President and Chief Executive Officer*

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of the performance and financial condition of Midlands Minerals Corporation (the 'Company') is prepared as of May 2, 2011 and should be read in conjunction with the Audited Consolidated Financial Statements of the Company and the accompanying notes thereto for the years ended December 31, 2010, and 2009, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Additional information about the Company can be found at www.sedar.com.

Unless otherwise indicated, a reference to a year relates to the Company's fiscal year ended December 31. Unless specifically stated to the contrary, all amounts are reported in Canadian dollars.

OVERVIEW

Midlands Minerals is a growth-oriented and entrepreneurial junior exploration stage company focused on growing its mineral assets in Ghana and Tanzania. The Company trades on the TSX Venture Exchange under the ticker symbol 'MEX' and the Premier Over the Counter (OTCQX) as 'MDLXF,' and holds a diversified portfolio of gold and diamond projects and operates in stable low-risk countries with a long history of gold mining.

Corporate Social Responsibility and Environmental Policy

The Company works to minimize the social and environmental impact in all its exploration activities, and puts the health and safety of its employees first and foremost. The Company and its employees interact well and effectively with the host and local communities to ensure that its exploration activities do not compromise the values of the local communities.

The Company is committed to its policy on the Environment, Health and Safety (EHS) issues and it undertakes to:

- Comply with EHS regulatory requirements in Canada and in the countries in which the Company operates;
- Provide information on EHS to locally hired personnel;
- Develop and use EHS practices that are efficient and apply these in all the Company's exploration activities;
- Require contractors and consultants to comply with applicable legislation and local regulatory requirements;

Drilling at Kaniago, March 2011.

- Reclaim exploration and mining sites in compliance with applicable regulations and site-specific requirements in the countries in which the Company is operating.

Such EHS practices will be reviewed from time to time to take into account technical and economic developments.

Our Objective is to build shareholder value through exploration and development of our gold properties in Ghana and our gold and diamond properties in Tanzania. Our business model is to operate in low-risk, politically stable and mining-friendly countries. The Company has two first-priority projects in Ghana: Sian-Praso and Kaniago; and nine second-priority projects in Tanzania: Lwenge, Kishapu, Lalago, Vukene and Itilima (in the Lake Victoria Goldfields area) and the Kilindi projects – Tamota, Mziha East, Ruanda and Turian East (in the Handeni Area). The Itilima Project has been explored for both gold and diamonds; Kishapu also has both gold and diamond potential.

In Ghana, at the Sian-Praso Project, the target is to find a significant gold deposit on the contiguous Sian and Kwahu-Praso ('Praso') properties. The Sian-Praso Project consists of a large land package of 156 square kilometres. The Project has excellent infrastructure consisting of power, roads, water and a trained labour force. In addition, the Sian mine of previous owner Sian Goldfields Ltd. ('Sian') has a 30-year mining lease, an open pit and a proven gold recovery rate of 91 percent. The Project is located in the prolific Ashanti Gold Belt just 30 kilometres east of Newmont Mining's Akyem gold deposit. Akyem which is presently under construction is reported to host approximately eight million ounces of gold. With a growing resource from satellite targets, the Company believes that the Sian-Praso Project will be rapidly advanced to the pre-feasibility stage by the end of 2012.

The Company's expectations and targets are conceptual and are primarily based on geochemical and geophysical anomalies as well as on results from the Company's drilling conducted between 2007 and 2010. The Company adds a cautionary statement to the effect that the funding and progress of all the projects in this MD&A is dependent on obtaining financing.

The Company's short-term objective is to initially add shallow 'inferred' ounces at 50-metre drill centres from approximately 30 geochemical-geophysical anomalies and other partially drill-tested anomalies in the Mpeyo Area. This area is immediately south of Sian's Esaase open pit and covers an area of 16 square kilometres. This would put the planned and targeted resource of the Sian-Praso Project at over two million ounces. Additional 'indicated' infill drilling at 25-metre centres would follow where good results warrant it. The timing of the pre-feasibility study will be dependent on funding which is in the progress of being obtained.

The Sian's Essase Zone is interpreted to be a shear-hosted gold deposit model located in a larger shear that in the Mpeyo Area may exceed three kilometres in width and a length of 16 kilometres that strikes generally north-south. To the west, the Mpeyo Area is in contact with a 'Dixcove' granite intrusion which is interpreted to be the granitic source for most of the gold mineralization in Ghana. This interpretation is borne out by the fact that the Esaase Zone contains narrow quartz-porphyry mineralized dykes that have emanated from the granite. The three-kilometre-wide shear parallels the north-striking stratigraphy of mafic and felsic volcanics that crosses the property from north to south, a distance of 16 kilometres. Within this strike length, there are many gold soil anomalies that have yet to be drill-tested.

2010 HIGHLIGHTS

GHANA HIGHLIGHTS

Sian-Praso Project

- In early 2010, Geotech Airborne Limited flew the Sian-Praso Project and recovered radiometric, magnetic and electromagnetic data. An analysis of the data generated 18 targets that were prioritized for follow-up. In addition to the other measured parameters, strong east-northeast lineaments were interpreted from the magnetic data which correlated well with the soil sampling that had been completed at a spacing of 200 metres by 50 metres. This was most obvious in an area south of the Esaase Zone in the Mpeyo Area. As a result of initial drilling on some of the airborne targets, it was decided to complete infill soil sampling at a spacing of 100 metres by 50 metres in the highly prospective Mpeyo Area as well as on two of the recommended airborne targets A1 and C1. Both the Mpeyo Area and A1 and C1 anomalies are targeted for drilling in mid-2011.

- An in-house resource for the Sian's Esaase Zone gold property was received October 2010 from SGS Geostat in Montreal, Quebec. Using a cut-off of 0.5g/t Au the following non-compliant estimates were reported from the Main Esaase Zone and Satellite Zones – 216,800 inferred ounces of gold from 4,009,000 tonnes at a grade of 1.69g/t Au and the Main Esaase Zone – 322,100 indicated ounces of gold from 5,360,000 tonnes at a grade of 1.87g/t Au.

Kaniago Project, Ghana

The Kaniago Project is located on the Asankrangwa Gold Belt and is on strike with three previously producing mines – the Obotan Open Pit and Underground Mine with 793,701 oz Au, the Adubiaso Open Pit Mine to the south with 113,248 oz Au and the Abore Open Pit Mine to the north with 295,400 oz Au.

- There is an anomalous trend, seven kilometres in strike length and on direct strike with the Abore Open Pit Mine.
- On the eastern part of the Project, there is a gold-soil anomaly zone which is on strike with the Obotan Open Pit Mine, previously operated by Resolute Mining Ltd.
- On the central southern part of the Project is a gold-soil anomaly, which is the extension of the Adubiaso Open Pit Mine also previously operated by Resolute Mining Ltd.
- In early 2010, Geotech Airborne Limited flew the Sian-Praso Project and recovered radiometric, magnetic and electromagnetic data. An analysis of the data generated eight targets that were prioritized for follow-up.
- A Reverse Circulation (RC) drilling program is planned for early 2011.

TANZANIA HIGHLIGHTS

Kilindi Projects and New Applications

Three new highly prospective gold properties that are close to the Handeni Project of Canaco Resources Inc. and the Company's Tamota Project were acquired early in 2010. These are the Mziha East Project, the Ruanda Project and the Turian East Project. The projects total approximately 175 square kilometres and are 160 kilometres west of the City of Dar es Salaam. In addition to the existing nine projects, the Company has applied for two additional prospecting licences: PL 6569/2010 (Sengerema) which is 185.89 square kilometres in size in the Sengerema District; and PL 6571/2010 (Geita) which is 34.13 square kilometres in size in the Geita District.

Itilima Gold Project, Tanzania

Considerable exploration has outlined the Itilima Shear Zone and more infill sampling and an Induced Polarisation (IP) survey are recommended prior to further infill drilling.

Drilling and assessment of Kaniago, March 2011.

SELECTED ANNUAL INFORMATION

The following table sets forth selected consolidated financial information of the Company for, and as of the end of each of, the last three fiscal years ended December 31. The selected consolidated financial information should be read in conjunction with the Consolidated Financial Statements of the Company.

	For the years ended December 31,		
	2010	2009	2008
Consolidated Statement of Operations	$	$	$
Total Revenue	–	–	–
Net Loss	3,141,015	1,435,508	1,242,060
Basic and Diluted Net Loss per Share	0.03	0.03	0.02
Balance Sheet			
Total Cash and Short-term investment	3,553,265	2,658,446	203,467
Working Capital Surplus (Deficiency)	3,504,765	2,057,640	(403,676)
Non-controlling Interest	36,125	36,125	36,125
Total Assets	16,716,318	10,162,892	7,331,556
Shareholders' Equity	15,930,943	9,456,981	6,501,965
Deferred Exploration and Property Acquisition Cost			
Acquisition Cost	2,987,574	1,836,303	1,612,381
Deferred Exploration Expenditures	9,453,816	5,571,932	5,451,598
Total Balance	12,441,390	7,408,235	7,063,979

SUMMARY OF QUARTERLY RESULTS

Selected consolidated financial information for the most recently completed quarters of 2010 and 2009 are as follows:

	2010				2009			
Three months ended	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.
	$	$	$	$	$	$	$	$
Revenue	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net Loss	1,889,110	396,842	321,517	533,546	336,095	228,156	46,708	824,549
Basic and diluted net loss per share	0.02	0.02	0.00	0.01	0.01	0.00	0.00	0.01

DESCRIPTION OF BUSINESS

Midlands Minerals Corporation is a publicly traded Canadian natural resources company engaged in the exploration of mineral properties. The Company is a development stage organization and is presently in the process of exploring its mineral properties, and has not yet determined whether these properties contain reserves that are economically recoverable. The primary focus of the Company is on its gold and diamond exploration and development properties in Tanzania and gold exploration properties in Ghana. To date the Company has raised funds to explore its mineral properties principally through the issuance of shares. The Company will continue to depend on the issuance of additional shares to further the development of its mineral properties. The exploration and development of mineral deposits involve significant financial risk and the success of the company will be influenced by a number of factors including risks associated with exploration and eventual extraction, foreign-investment regulations, renegotiation of contracts and political uncertainty.

Gold is the primary focus and Tanzania and Ghana are the target countries. At present the Company's natural resources activities do not generate any revenues.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the Company's financial statements conforms to Canadian Generally Accepted Accounting Principles and requires management to make the 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. Actual results may differ from those estimates. Management believes that the estimates are reasonable. Expenditures which do not relate to specific resource properties are written off in the year incurred.

Interest in exploration properties and property-acquisition costs and related direct-exploration costs are deferred until such time as the properties are placed into commercial production, sold, determined not to be economically viable or abandoned. These deferred costs will be amortized on the unit-of-production basis over the estimated useful lives of the properties following the commencement of production. If the properties are subsequently determined not to be economic the properties are written down to net realizable value. If the properties are allowed to lapse, or are abandoned or sold, their related deferred exploration costs are charged to operations in the current year.

The cost of exploration property includes any cash consideration paid and the fair market value of shares issued, if any, on the acquisition of property interests. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property-claim acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews its exploration properties and capitalized costs on its property interests on an annual basis to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of cost incurred on the exploration properties is dependent upon numerous factors and estimates including exploration results, environmental risk, political risk and the Company's ability to attain profitable production.

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 these standards, 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.

FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

The Company has elected to apply the following classifications to each of its significant categories of financial instruments:

ASSET/LIABILITY	CATEGORY	MEASUREMENT
Cash and cash equivalents	Held for trading	Fair value
Share investment	Available for sale	Fair value
Sundry receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Loan payable	Other liabilities	Amortized cost

The company classifies derivative instruments, such as foreign exchange forward contracts and foreign exchange options contracts, as held-for-trading unless the instruments meet all the criteria of a hedge in accordance with Section 3865 which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. If the criteria are met, then any unrealized gains and losses will be reported in other comprehensive income.

COMPREHENSIVE INCOME

Comprehensive income is the change in shareholders' equity during a period from transactions and other events from non-owner sources. Gains and losses that would otherwise be recorded as part of net income (loss) are presented in other 'comprehensive income' until it is considered appropriate to recognize into net income (loss). The Company reports a consolidated statement of comprehensive loss and includes the account 'accumulated other comprehensive income (loss)' in the shareholders' equity section of the consolidated balance sheet.

International Financial Reporting Standards (IFRS)

On February 13, 2008 the CICA Accounting Standards Board announced that Canadian public-reporting issuers will be required to report under International Financial Reporting Standards (IFRS), which will replace current Canadian GAAP for years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of the Company's opening balance sheet as at January 1, 2010, all interim quarterly periods in 2010 and for its year ended December 31, 2010. The Company's first IFRS compliant financial statements will be for the three months ended March 31, 2011. The objective is to improve financial reporting by having one single set of accounting standards that are comparable with other entities on an international basis.

The Company is finalizing the financial-reporting impacts on the adoption of IFRS. The assessment provided insight as to the most significant areas of GAAP differences applicable to the Company and include treatment of future income taxes, share-based payments, as well as more extensive presentation and disclosure requirements under IFRS. IFRS in-depth reviews have been concentrated on cash-generating units, options available under IFRS for modified full cost accounting, decommissioning liabilities, share-based compensation and a preliminary analysis of the impact on our data-gathering and reporting systems. We are still assessing the impact of IFRS and have not finalized all of our accounting policy choices and IFRS 1 exemptions. To date, efforts are underway to fully quantify the impact of IFRS on the Company's January 1, 2011 transition-date balance sheet and the future financial position and results of operations.

IFRS 1 – 'First-time Adoption of International Financial Reporting Standards' is the standard that governs mandatory exceptions and optional exemptions that an entity may elect for its transition to IFRS in order to assist the entity with the transition process. This standard is only applicable to the opening balance sheet of the entity on the transition date of January 1, 2011.

The following are IFRS 1 exemptions that the Company currently anticipates electing on transition date. The quantification of certain of the effects of the adoption of IFRS discussed below are an estimate of the impact based on the policy elections currently proposed which may change prior to finalization. In addition, other differences may exist between amounts reported by the Company under Canadian GAAP versus IFRS. New or revised IFRS are being developed by the International Accounting Standards Board (IASB) that may impact the adoption of IFRS by the Company. The Company continues to monitor these and other accounting standard developments within IFRS which might impact its IFRS conversion. The following is also not exhaustive as to all actual or potential differences, which remain subject to determination and change.

FUTURE INCOME TAXES

The transition to IFRS will require the Company to re-measure its deferred income taxes for its January 1, 2010 balance sheet. Adjustments to deferred income taxes will be made accordingly in conjunction with other transition IFRS adjustments discussed earlier, with an offsetting adjustment to the January 1, 2010 deficit. Subsequent changes in the deferred-tax liability are recognized in profit or loss. Like IFRS, under Canadian GAAP the total income tax expense recognized in profit or loss generally is the sum of current income tax expense (or recovery) plus the change in deferred (future) income tax liabilities and assets during the period, net of tax recognized either in other comprehensive income or directly in equity, or arising from a business combination. However the treatment of income taxes relating to certain items charged or credited directly to equity and relating to business combinations differs from IFRS. Also, unlike IFRS, income tax expense under Canadian GAAP specifically excludes changes in deferred tax liabilities and assets during the period arising from acquisition of an asset other than in a business combination, which is recorded as an adjustment to the carrying amount of such asset and taxes relating to certain other items. Also unlike IFRS, under Canadian GAAP there is no exemption from recognizing a deferred-tax liability (asset) for the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit. Unlike IFRS, under Canadian GAAP the carrying amount of an asset acquired, other than in a business combination, is adjusted for the amount of the deferred tax recognized. Like IFRS, under Canadian GAAP deferred tax is measured based on enacted or substantially enacted tax rates and laws. However, unlike IFRS, Canadian GAAP provides additional guidance on the determination of substantively enacted tax rates.

FINANCIAL INSTRUMENTS

Like IFRS, all financial instruments under Canadian GAAP are classified into ‘loans and receivables,’ ‘held to maturity,’ ‘held for trading’ (fair value through profit or loss) or ‘available for sale’ categories. However, under Canadian GAAP, there are certain differences from IFRS with respect to designating assets into the held-for-trading category. Also, like IFRS, under Canadian GAAP financial instruments are initially measured at fair value, except that there are special rules with respect to the measurement of financial instruments originating as a result of transferred to or from related parties, which is unlike IFRS.

EVENTS AFTER THE REPORTING DATE

The financial statements are adjusted to reflect events that occur after the reporting (balance sheet) date, if those events provide evidence of conditions that existed at the reporting date. Under IFRS, the post-reporting date period is to the date that the financial statements are authorized for issue. Unlike IFRS, under Canadian GAAP, the post-reporting date period is to the date of completion of the financial statements, which may be earlier than the date that the financial statements are authorized for issue.

SHARE-BASED PAYMENTS

IFRS 2 Share-based Payments requires the expense related to share-based payments to be recognized as the options vest; that is, for options that vest over a period of time, each tranche must be treated as a separate option grant which accelerates the expense recognition in comparison to Canadian GAAP which allows the expense to be recognized on a straight-line basis over the period the options vest. While the carrying value for each reporting period will be different under IFRS, the cumulative expense recognized over the life of the instrument under both methods will be the same. Going forward under IFRS, stock-based compensation is expected to be higher because the graded vesting requirements of IFRS result in accelerated expense recognition.

INFORMATION TECHNOLOGY AND DATA SYSTEMS

The Company is performing and reviewing an assessment of the implications of IFRS on its information technology and data systems.

BUSINESS ACTIVITIES

The Company has reviewed the impact of IFRS and it is not expected that IFRS will result in any significant changes to the Company's business activities.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

The implementation of IFRS may require changes to the Company's internal controls over financial reporting (ICFR) and disclosure controls and procedures (DC&P). The Company plans to assess the changes required in its ICFR and DC&P as accounting-policy choices are finalized and its implications on ICFR and DC&P are identified. The Company continues to quantify the effects of choices available under IFRS which impact the opening balance sheet. Once the opening balance sheet adjustments are finalized, the Company will complete the roll-forward of the first to fourth quarter 2010 financial statements to IFRS. IFRS will likely result in additional disclosures in the Company's financial statements. As part of preparing draft IFRS disclosures, the Company has analyzed and will continue to analyze the additional disclosures to ensure sufficient information is available upon adoption of IFRS.

OVERVIEW OF PERFORMANCE

MINERAL PROPERTIES – TAMOTA, MZIHA EAST, RUANDA AND TURIAN EAST

Midlands Minerals properties in Ghana and Tanzania:

NAME OF PROJECT	OWNERSHIP	LOCATION
1. Sian	65%	Ghana
2. Kwahu Praso	100%	Ghana
3. Kaniago	100%	Ghana
4. ltilima	75%	Tanzania
5. Turian East	100%	Tanzania
6. Lalago	100%	Tanzania
7. Kishapu	100%	Tanzania
8. Vukene	100%	Tanzania
9. Llwenge	90%	Tanzania
10. Tamota	100%	Tanzania
11. Mziha East	100%	Tanzania
12. Ruanda	100%	Tanzania

GHANA PROPERTIES

The Government of Ghana issues mineral rights as follows:

- Reconnaissance License (RL) which is valid for one year and is renewable;
- Prospecting License (PL) which is valid for three years and is renewable with a reduction of area to not less than 50 percent;
- Mining Lease (ML) which is valid for 30 years or less depending on the life of the mine and is renewable.
- The Government of Ghana is entitled to a 6-9 percent carried interest in the Concessions with no contribution requirement, upon commencement of commercial production.

a. Sian-Praso Property, Sian Mining Lease (ML Sian No. 4188/96)

On August 23, 2006, the Company signed an agreement with Sian Goldfields Limited ('Sian'), whereby the Company acquired a 65 percent interest in the mineral assets of Sian; and, as part of the agreement, the Company agreed to pay US$2,000,000 based on cash flow and monies owed to certain affected farmers and the Sian Goldfields workers. Under the terms of the agreement, Sian Goldfields Limited transferred the gold-processing plant and the 30-year mining lease (ML4188/96) which was granted to Sian in 1996 and as such it has an expiry date of 2026. The final payment to Sian was made on Nov. 16, 2010. The mineral assets include an area of approximately 47 square kilometres of ground which is contiguous to the Company's 100 percent owned 109-square-kilometre Kwahu Praso property. The total asset of approximately 156 square kilometres is referred to as the Sian-Praso Property which is on the northeast end of the Ashanti Gold Belt. All the Licences are in good standing which includes the payment of fees and rent, and the submission of quarterly reports.

The Sian-Praso Project is located 150 kilometres northwest of Accra, the capital city of the Republic of Ghana and is located in the Kwahu West District Assembly in the Eastern Region. The District Assembly is located in Nkawkaw, the nearest town that is eight kilometres to the east of the Sian-Praso Property and which has a population of approximately 45,000. Within the property boundary there are approximately 40 villages with a population of approximately 20,000 people. The property is between latitude 6° 36′ north and 6° 39′ north and longitudes 0° 46′ west and 0° 54′ west. Besides the mill site, water and a good labour force there is excellent infrastructure. The Accra-Kumasi highway and a hydro-power transmission line traverse just north of the Sian Licence through the Kwahu-Praso property.

The Sian Deposit was an open-pit mine from 2001 to 2003 and was closed mainly due to low gold prices. Sian Goldfields completed 182 drill holes (23,782 metres of drilling) and 12 adits (2,744 metres of drifting). During that period Sian produced only 16,193 oz Au and were able to do it at a gold-recovery rate of 91.4 percent.

In 2008, the Company commissioned SGS Geostat to complete a compliant resource calculation according to the standards set out in NI 43-101. This report is filed on the Sedar website of the Canadian Securities Administrators. That resource was based on historical drilling and 13,551 metres of drilling that was completed by the Company between April and October 2007. Using a cut-off grade of 0.5g/t Au, the Main Esaase Zone contained 192,400 oz in the indicated category in 2,568,000 tonnes at a grade of 2.33g/t Au; and the Main Esaase Zone and Satellite Zones contained 203,350 oz in the inferred category in 2,694,000 tonnes at a grade of 2.35g/t. Two years later, in October 2010, SGS Geostat completed an updated in-house, non-compliant resource based on an additional 50 holes totalling 9,732 metres. This report estimated a 67 percent increase in ounces in the indicated category using a cut-off of 0.5g/t Au. From the Main Esaase Zone, 322,100 indicated ounces were reported totalling 5,360,000 tonnes of 1.87g/t Au, and from the Main Esaase Zone and Satellite Zones 216,800 inferred ounces were reported from 4,009,000 tonnes of 1.69g/t Au. The indicated resource tonnage was increased by 109 percent.

Hosted by mafic volcanics, the gold mineralization occurs in a 20-metre-wide, potassic-silica-carbonate rich shear zone with lensoid quartz veinlets. The pinch and swell style of mineralization contains minor (2-5 percent) pyrite, pyrrhotite and chalcopyrite where visible gold is very rare. In the pit the zone strikes north-northeast (25°) and is obliquely cross-cut by narrow (2-5 metres) mineralized and non-mineralized albite-quartz-porphyry dykes that strike at 30°. Both the zone and the dykes dip steeply (65-90°) to the southeast. Re-logging of the core is planned for early 2011 to obtain a clearer picture of the geological model.

The Sian-Praso Property is located in the north-eastern part of the Ashanti Gold Belt, 30 kilometres east-northeast of Newmont Mining's Akyem deposit which hosts approximately eight million ounces of gold. The Belt is dominated by Proteozoic volcaniclastics and phyllites that have been intruded by Na-rich intermediate 'Dixcove' intrusives. The intrusives are interpreted to be comagmatic with the Belt's volcanism and it is generally accepted that they are associated with the gold mineralization. Based on age, the Belt is divided into two groups, the Lower Proterozoic and Upper Proterozoic. The Lower Proterozoic consists mainly of volcanics and the Upper Proterozoic of sediments (phyllite). Newmont's Akyem deposit occurs in phyllite near the upper contact with the volcanics and the Esaase Zone occurs in mafic volcanics lower down in the stratigraphy.

Besides the drilling to complete the 2008- and 2010-resource estimates, other exploration activity by the Company included geochemical soil sampling and ground IP geophysics in the Mpeyo Area in late 2006 and early 2007. The Mpeyo Area is located to the south of the Esaase Zone and covers an area of approximately 16 square kilometres. From November, 2006 to February, 2007, 108.02 kilometres of pole-dipole-induced polarisation (IP) data were captured by Sagax Afrique S.A. and 256 IP anomalies were identified that are orientated along north-northwest and north-northeast trends. Conventional soil sampling by the Company included 1,448 samples at a spacing of 200 metres by 50 metres that covered 14.3 square kilometres. Twenty-two percent of the samples returned values greater than 100 ppb Au. In most instances the IP anomalies coincide with the geochemical anomalies. RC hole (MERC53) drilled 600 metres south of the Esaase zone on one of the combined geochemical/IP anomalies intersected 2.25g/t Au over 15 metres. Initial testing of only a few of the 30 anomalies in the Mpeyo Area with scout drilling has in most cases intersected economic gold (>0.5g/t) with widths varying from two metres to 20 metres.

In early 2010, Geotech Airborne Limited (GAL) completed an airborne magnetic-electromagnetic-radiometric survey over both the Sian and Kwahu Praso concessions. Initial follow-up drilling was completed on a few of the targets recommended by GAL but due to the wide-spaced soil sampling it was recommended that prior to further testing of the anomalies more infill soil sampling be completed.

b. Sian-Praso Property – Kwahu Praso Licences (PL4188/1096, PL5/52, PL5-137)

Midenka Resources Limited ('Midenka'), a subsidiary of the Company, holds title to the Kwahu Praso Concession. Midenka is a Ghanaian-registered company originally owned 80 percent by the Company and 20 percent by the Enkaakyiri Trading Company Limited ('Enkaakyiri'). On September 4, 2008 the Company exercised its right to a joint-venture agreement dated April 23, 2003 to purchase the remaining 20 percent for US$80,000. The Company paid a non-refundable deposit of US$10,000 leaving a balance of US$70,000. On February 26, 2010 the Company paid US$35,000 with the balance of US$35,000 being paid during the fourth quarter of 2010.

The Kwahu Praso prospecting licences are in good standing. Due to the 'shedding' of half of the Licence after four years, the Kwahu Praso property now consists of Nsuta PL5/52 (29.25 square kilometres), Fodowa (29.25 square kilometres), Praso PL5/137 (27 square kilometres) and Pankese (27.8 square kilometres). Fodowa and Pankese are in process of being renewed as the application is being processed by the Minerals Commission of Ghana.

In 2010, 3,147 samples were collected at a spacing of 200 metres by 50 metres which brought the total number of samples collected to 4,191.

As reported above, in 2010 Geotech Airborne Limited (GAL) completed an airborne magnetic-electromagnetic-radiometric survey over both the Sian and Kwahu Praso concessions. Follow-up will be continued after more infill soil sampling is completed.

After MMI infill sampling has been completed in early 2011, the Company expects to commence drilling on Mypeyo Area targets, Satellite targets proximal to the Sian/Esaase Zone in mid-2011 and GAL targets A1 and C1 on Kwahu-Praso.

c. Kaniago Concession

The Company, through its subsidiary Midlands Minerals Ghana, holds a 100 percent interest in the Kaniago Concession. It is located on the Asankrangwa Gold Belt. Due to the 'shedding' of 50 percent of the Licence, the Kaniago Property now consists of Kaniago (25.5 square kilometres) and Besease (20.2 square kilometres). The mineral rights are owned by Midlands Minerals Ghana Limited and the licences are in good standing.

In early 2010, Geotech Airborne Limited (GAL) completed an airborne magnetic-electromagnetic-radiometric survey over the Kaniago concession. Seven geophysical-geochemical anomalies were identified and infill sampling at 100 metres by 50 metres was completed over these areas in April 2010. Drilling of these anomalies is planned for March 2011.

TANZANIA PROPERTIES

The Government of Tanzania issues mineral rights as follows:

- Reconnaissance Licence (RL) which is valid for two years and is renewable with a reduction of area of no less than 50 percent;
- Prospecting Licence (PL) which is valid for three years and is renewable with a reduction of area of no less than 50 percent;
- 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;
- There is a Net Smelter Return payable to the Government of Tanzania upon commercial production of three percent for gold and five percent for diamonds.

a-i. Itilima Gold Project (PL6507/2010 and PL4086/2008)

The Company holds a 75 percent interest in the Itilima Gold and Diamond Project, which consists of two contiguous licences totalling 16.8 square kilometres in the Lake Victoria Goldfields of Tanzania. The Company's interest is through its subsidiary company in Tanzania – the Itilima Mining Company Limited. Exploration by Itilima was initiated in January 2002. The Licences were granted for all minerals including gold and diamonds but not including building materials and gemstones. Juma Motors Transport Ltd. ('JMT') holds the remaining 25 percent and the net smelter royalty (NSR) which is payable upon production to JMT, the Company's local exploration partner. The NSRs are two percent for the first two years of the mine's life once commercial production commences, 1.5 percent for the next two years and one percent thereafter for the life of the mine. In addition, there are NSRs payable to the Government of Tanzania upon commercial production of three percent for gold and five percent for diamonds. 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 two prospecting licences covering 16.84 square kilometres: PL 6507/2010 (8.06 square kilometres) and PL 4086/2006 (8.78 square kilometres). Five re-applications have been submitted which total 48.09 square kilometres. All the Licences are in good standing which includes the payment of fees and rent, and the submission of quarterly reports.

Please see below for additional information on the Itilima Diamond Project.

The Licences are located in the Shinyanga gold-diamond district in northwest Tanzania, 150 kilometres southeast of Lake Victoria. The property is underlain by rocks of the Nyanzian system, a 2.6 to 2.9 Ga old greenstone complex, consisting of largely mafic volcanic lavas and tuffs and immature sediments surrounded by granite. These rocks have been subjected to low-grade greenschist facies metamorphism. On the property, the sediments include narrow (one to two metres wide) banded iron formation (BIF) recrystallized cherts, phyllites, black pelites and some conglomerate. This greenstone/granite terrain is found mainly within 300 kilometres of the southern and southeast shores of Lake Victoria. Locally the stratigraphy generally strikes at 40° northeast and dips steeply west at around 80° with a regional structural overprint that strikes north-south, north-northeast and east-southeast. Several dolerite dykes that parallel stratigraphy and are locally magnetic intrude the volcanic rocks. Narrow high-grade auriferous quartz veins, ranging from five centimetres to 10 centimetres in width are found in the sediments and the volcanics; they strike 035° and dip between 75-85° west.

Previous work focused on diamonds and gold. In 1940, Dr. J.T. Williamson, a Canadian, discovered the Williamson 'diamond' Mine which is located 25 kilometres northeast of the property. In the 1980s local prospectors discovered gold showings on the property. In 2003, on behalf of the Company, Fugro Airborne Surveys completed magnetic and radiometric surveys and Watts, Griffis and McOuat Limited (WGM) completed ground geological, geochemical and geophysical surveys over the 'diamond' airborne targets and the Itilima (ITZ) and Chanya (CSZ) gold-bearing shear zones. Of the 83 airborne magnetic circular features that were identified as potential kimberlite targets, two (K1 and K2) were selected for more detailed exploration.

In 2004, WGM supervised the drilling of the ITZ and CSZ, and the K1 and K2 airborne targets. WGM conducted a 14-hole, 1,345-metre reverse circulation (RC) drilling program from March 20 to April 8, 2004. Nine holes tested the 1.5 kilometres long ITZ, three holes the CSZ and three holes obtained composite samples from the K1 and K2 targets.

At the ITZ, drilling results were mixed as most of the RC holes intersected phyllite rather than the more favoured host the felsic volcanics. The best gold assay returned 6.08 g/t Au over a core length of 1.0 metres in RC drill hole ITRC-5. The more central holes in the zone ITRC-1,-2,-5 and -6 which covered a strike length of 400 metres intersected the most continuous low values. Hole ITRC intersected 11 metres of five to 10 percent quartz that averaged 0.50g/t Au with a cutoff of 0.10g/t Au. None of the high gold values obtained by the surface-grab sampling in 2003 (those in excess of 40 g/t Au) were repeated during this program.

From June 2004 to September 2006, Marc Boisvert, then Acting V-P Exploration, supervised the mapping and sampling of the whole property and determined that the gold occurs mainly in folded and carbonated felsic volcanics in contact with the more barren phyllite. Mobile Metal Ion (MMI) soil sampling was successful in penetrating the Mguba Proto-Lake Victoria lacustrine sediment that covers the area. Boivert determined that the gold generally occurs in narrow pyritic quartz veins and veinlets, and that the northeast trending mineralization occurs within the Geita-Bulyanhulu northwest Trend/Corridor which is defined by felsic porphyries and intermediate intrusives. In 2005 and 2006, infill MMI sampling was conducted over a two kilometres by four kilometres area which helped define targets within the ITZ. In addition, two other parallel anomalies were upgraded. Five drill targets were selected: Itilima South Extension Anomaly, Ikonokelo Village Anomaly, West Area Anomaly, Central Area Anomaly, South Area Anomaly and High-grade MMI Anomalies.

In the last quarter of 2006 (October 26 – December 17), the Company drilled 13 NQ-size diamond drill holes totalling 2,141.9 metres in and around the ITZ and the CHZ and intersected grades varying from 0.21g/t Au to 2.84 g/t Au in 13 one-metre-wide samples. Holes ITDD-015 and -024 followed-up the results of ITRC005 in the Central Area/Aly's Shaft (Licence PML-818). The best gold value was obtained in hole ITDD-024 under Aly's Shaft in a 15-centimetre quartz vein averaging 2.77 g/t Au over 1.0 metres. In general the background grades of the core drilling were similar to the RC drilling. This follow-up drilling proved that the Itilima Shear had a mineralized strike length of approximately 400 metres.

The Company plans to continue exploration on the ITZ and the CHZ. It is recommended that an Induced Polarization (IP) survey be completed over the central portion of the ITZ prior to drilling.

a-ii. Itilima Diamond Project (PL6507/2010 and PL4086/2008)

The Itilima Diamond Project includes the Itilima Gold Project (as described above) and is located in Archean geology 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. As described above, the original Prospecting licence PL 1406/99 was reduced twice by 'shedding' over the years in 2002 and 2004 to a total area of 16.8 square kilometres.

Of the 83 circular targets identified by the Fugro Airborne magnetic and radiometric survey in 2003, nine targets were identified as high priority. Of these, two (K1 and K2) were identified as first-priority targets and were drilled in April 2004 using reverse-circulation drilling. The results showed the presence of small micro-diamonds. The petrographic work, diamond selection and chemical analyses were done by SGS Lakefield Research Laboratories in Ontario, Canada. The Company plans to do more work on these 'kimberlite' targets and is seeking a partner to develop the diamond potential of the Itilima Project. In this regard, the Company has set up a subsidiary private company registered in Ontario, Canada (Mara Diamond Company Ltd.) to develop the diamond potential on the Itilima Diamond Project.

In June 2010, Dr. Matthew Field, a Qualified Person within the meaning of NI 43-101, completed a desktop study titled 'An Assessment of the Diamond Potential of the Itilima Property, Tanzania.' The Report is filed on the SEDAR website.

b. Vukene Gold Project (PL6492/2010)

The Company first acquired the property in 2007, which then consisted of 752.3 square kilometres. In 2010, the Company was granted prospecting licences PL6492/2010 which after 'shedding' the property now totals 197.92 square kilometres. It is located in the Vukene South area of the Nzega District. The Licence is in good standing and is located 135 kilometres southwest of Shinyanga where the Company's office is located.

The property is located in the Nzega Greenstone Belt, which consists of felsic and mafic volcanics intercalated with minor BIF, which has been intruded by granitic batholiths. The Canuk Mine is located 30 kilometres north of the property and, in 1953, 34,100 tonnes were mined at a grade of 5.8g/t Au. According to the regional mapping by the Geological Survey, the original property was divided into West, Central and East parts. The West part is underlain by biotite granite and porphyritic biotite granite; the Central part by porphyritic and biotite granite in contact with northwest striking greenstones; and the East part by granite with a thick covering of laterite. The East part is on strike with the Canuk Mine which strikes north-by-northeast.

In late 2007, the Company initiated reconnaissance geological mapping and MMI sampling at a spacing of 1,000 metres by 1,000 metres. Eight hundred and twenty-eight (828) samples were analyzed for Au, Ag, Ni, Pd and Co. Five large Au anomalies were located in the East half of the property. The anomalies are generally two to four kilometres in length and trend mainly north-south. Planned work for 2011 is infill sampling at 100 metres by 50 metres and an airborne magnetic survey.

c. Lwenge Gold Project (PL3212/2005)

In 2007, the Company acquired the Lwenge property in Tanzania. Prospecting Licence (PL) 3212/2005 is 12.80 square kilometres. Two re-applications have been made totalling 25.67 square kilometres –

HQ-P-18296 (12.8 square kilometres) and HQ-P 21688 (12.87 square kilometres). The Licences are located in the Geita district in the Lake Victoria Gold Fields Area approximately 70 kilometres west of Mwanza, the second-largest city in Tanzania. The Company owns 90 percent of the Licence. The Geita greenstone belt has been a target for gold exploration since 1913. The Geita Mining Kukuluma gold prospect explored by Samax in 1999 is adjacent to the property.

The Archean Geita belt is underlain by sediments (BIF, banded chert and mudstone) and mafic and felsic volcanics which were later subjected to tectonic and metamorphic events and then intruded by granite. Isoclinal folds that plunge northwest and north-by-northwest are accompanied by shearing and faulting along fold planes.

In the second quarter of 2008, the Company completed reconnaissance mapping and sampling. The Licence is underlain by K-feldspar granite, which is intruded by hornblende granite and aplite dykes. In the Belt, gold is found at the contact of intrusive bodies with felsic tuffs and BIF.

A budget has been prepared to complete geological mapping, MMI soil sampling at a 200 metres by 50 metres spacing and a ground Magnetometer survey at 100 metres line spacing.

d. Kishapu Gold-Diamond Project (PL5482/2008)

In 2008, the Company was granted prospecting licence (PL) 5482, which is 38.26 square kilometres in size and is located in Kishapu District. The Licences are valid for the full year of 2011. The Licences are located 50 kilometres east-northeast of Shinyanga and are in good standing.

The Licences are underlain by mica granite, which is intruded by medium- to coarse-grained leuco-granite, felsic and pegmatite dykes, ultramafic intrusives and kimberlite pipes. The focus of the exploration is gold even though diamond artisan workings have been located. The kimberlite bodies are sheared serpentinized ultramafics. Quartz veins have been located and are orientated in north-south, east-west and northwest directions.

In March 2010, the Company completed 14 lines of MMI soil sampling at a spacing of 500 metres by 200 metres to collect 410 samples. One 1.5 kilometre by 1.3 kilometre anomaly with coincident Cu-Pb-Zn-Ag-Au occurs near the south boundary. It has the following maximum MMI Response Ratios: Cu (8), Ag (21,) Au (28), Pb (78) and Zn (92). Detailed mapping and infill sampling are planned for 2011.

e. Lalago Gold Project (PL 5481/2008)

In 2008, the Company was granted prospecting licence (PL) 5481, which is 153.51 square kilometres and is located 80 kilometres northeast of Shinyanga.

The Licence is underlain mainly by biotite-rich granite and gneiss that is intruded by mafic intrusives and pegmatite dykes. Quartz veins have been located and are orientated in north-south, east-west and north-west directions.

In March 2010, the Company completed 37 lines of MMI soil sampling at a spacing of 400 metres by 400 metres (over greenstone) and 800 metres by 400 metres (over granite) to collect 608 samples.

A two-kilometre-square Cu-Ni-Ag-Zn-Pb coincident anomaly was defined in the northwest part of the Licence. Nine of the Zn samples range from 45 to 280 times the MMI Response Ratio. This is part of a six-kilometre-long, northwest- striking Cu and Zn trend that may have base metal potential. One Au sample, which analyzed 64 times the Response Ratio, will require additional sampling. Infill sampling is recommended for 2011.

f. The Kilindi Gold Properties

Four non-contiguous Prospecting Licences (PL) make up the Kilindi Gold Properties, which are to the south and west of the Handeni Project of Canaco Resources Inc. These Licences are Tamota (PL 6703/2008), Mziha East (PL 6719/2010), Turiani East (PL 6703/2010) and Ruanda (PL6721/2010). The Kilindi gold properties are located 170 kilometres northwest of Dar es Salaam. During December 2010 numerous artisans' workings were located on the properties during reconnaissance mapping and prospecting.

The properties occur in the Pan Africa Proterozoic Mozambique Belt (PAPMB) where the PAPMB stretches from the Red Sea to Mozambique. The Tanzanian part of the PAPMB lithological units consist of psamitic and pelitic meta-sediments and crystalline marble derived from an older Archean craton called the Tanzanian Craton. The Ubendian Mobile Belt is on the western margin of the Tanzania Craton and the Usagaran Mobile Belt is on the eastern margin. These sediments have been tectonically pushed against the stable craton rocks by the Eastern Africa rifting on both sides of the craton and were then uplifted, faulted, folded, sheared and intruded by younger magmatic bodies. This resulted in partial melting and re-crystallization which metamorphosed the rocks to the amphibolite and to lower granulite facies.

Recent research studies by geological institutes in both Tanzania and Australia have divided the Tanzania Craton into four major segments that trend broadly west-northwest – east-southeast and have different gold potential. The studies concluded that the gold mineralization at Canaco's Hendeni Project is metamorphosed or reworked Archean orogenic gold rather than epigenetic deposits of Proterozoic age formed in largely reworked continental crust.

It is recommended to complete:

- An air photo or satellite-image study in order to interpret the structural connection between Canaco's Hendeni setting and the Company's properties;
- Soil sampling at a spacing of 200 metres by 200 metres;
- Contour mapping around ridges and along streams;
- Sampling and prospecting of interesting showings;
- Geochemical silt sampling and panning of the streams.

f-i. Tamota Gold Property (PL 5068/2008)

The Tamota Licence includes 174.95 square kilometres. The terrain ranges from flat to low rolling in the valleys and flood plains to vertical rock faces on high hills, a vertical distance of 300 metres. The property is underlain by quartzites and mica schists/gneisses that are intruded by pegmatites and diorite dykes. Foliation generally trends in two directions, northwest and northeast. Within the mica schists in the north part of the property, foliation strikes east-west and east-by-southeast. Folding was observed in outcrops. Thirteen artisanal sites were visited and grab samples were collected from bedrock. All analyses for gold were less than background. From verbal reports and field observations it appears that in all but one of the artisanal sites, the artisans are mining an alluvial/depositional auriferous basal gravel horizon at or just above bedrock within a drainage channel. Bedrock exposure in the streams is limited and consists mainly of gneisses containing quartz/biotite/feldspar/hornblende/garnet. Road access within the Tamota PL is poor to moderate due to the high hilly terrain.

f-ii. Mziha East Gold Property (PL 6719-2010)

The Licence includes 73.09 square kilometres. The terrain is predominantly flat to low rolling hills. Streams tend to be deep drainage incisions. Within the PL boundaries of Mziha East, three abandoned artisanal sites are located. Extensive artisanal mining occurs immediately south of the Licence. This mining area, dormant during the dry season, follows a north-northeast trending dry drainage channel located along a V-shaped valley with narrow floodplain (25 metres to 50 metres wide). Approximately 75 to 100 pits and shafts were observed ranging in depth from one metre to eight metres. The target of the artisanal miners is a gold-bearing alluvial gravel horizon at or near bedrock. Some of the shafts are reportedly connected as the miners followed the gold horizon. There were no indications of any primary gold mineralization.

f-iii. Turiani East Gold Property (PL 6721-2010)

The Turani East Licence includes 194.51 square kilometres and is located in the Mvomero district. Terrain is essentially flat with very low relief in the west central area of the PL where there is a high concentration of sugar-cane cultivation and tree farming (i.e. teak, eucalyptus) in an area of brown soils and sparse granitic float and outcrop. Moving east the terrain becomes low to moderate rolling hills combined with a transition to orange/red/brown soils and intermediate to mafic float and outcrop. Bedrock exposure of gneisses consisting of quartz, feldspar, tourmaline, biotite, garnet and hornblende are strongly foliated in a predominantly northwest direction.

f-iv. Ruanda Gold Property (PL6703/2010)

In 2010, one prospecting licence in the Bagamoyo District was granted to the Company. PL6703/2010 is 157.87 square kilometres in size. The Licence is in good standing.

RESULTS OF OPERATIONS

	For the years ended December 31,		
EXPENSES	2010	2009	Change
	$	$	$
Management fees	1,411,148	291,076	1,120,072
Office and administrative expenses	851,578	386,748	464,830
Foreign exchange gain	(112,255)	(60,306)	(51,949)
Investor relations and shareholder information	422,228	456,630	(34,402)
Travel and automobile expenses	176,488	24,363	152,125
Professional fees	197,816	118,888	78,928
Rent	67,876	66,553	1,323
Telephone	46,018	35,683	10,335
Transfer agent and filing fees	5,827	8,862	(3,035)
Bank charges and interest	24,582	43,812	(19,230)
Consulting expenses	80,608	56,830	23,778
Amortization	6,318	8,366	(2,048)
Interest Income	(37,217)	(1,997)	(35,220)

The Company's operations are based primarily on the acquisition and exploration of precious metal properties in Africa and as such the Company did not generate any revenues in fiscal years 2010 and 2009.

The Company incurred a loss from operations of $3,141,015 for the fiscal year ended December 31, 2010, as compared to a loss of $1,435,508 for fiscal 2009. The increase was attributable to higher costs for management fees of $1,411,148 (includes non-cash stock-based compensation of $1,157,420) in 2010 as compared to $291,076 (includes non-cash stock based compensation for $66,296) in 2009, office and administrative expenses of $851,578 in 2010 as compared to $386,748 in 2009, travelling expenses of $176,488 in 2010 as compared to $24,363 in 2009, professional fees of $197,816 in 2010 as compared to $118,888 in 2009, consulting fees of $80,608 in 2010 as compared to $56,830 in 2009 and telephone expenses of $46,018 in 2010 as compared to $35,683 in 2009. These increases were offset by a reduction attributable to foreign exchange gain of $112,255 in 2010 as compared to $60,306 in 2009, interest expenses of $24,582 in 2010 as compared to $43,812 in 2009, marketing and investor relations of $422,228 in 2010 as compared to $456,630 in 2009 and transfer agent and filing fees of $5,827 in 2010 as compared to $ 8,862 in 2009.

In addition to the above, other changes in operating expenses reflect the continued growth and development of the Company and the execution of the Company's business strategies. Most of the changes resulted from initiatives undertaken by management to establish a solid and sustainable technical and administrative foundation and to further improve our communication to all existing and potential stakeholders.

The major component of increase in individual expenses relates to increase in non-cash stock-based compensation expense of $1,157,420 included in management fees in 2010, as compared to non-cash stock-based compensation expense of $66,296 in 2009. Cash-based management fees were $253,728 in 2010 as compared to $224,780 in 2009 (an increase of $28,948 or 12.9 percent in 2010 as compared to 2009).

Travelling expenses increased by $152,125 to $176,488 and are associated with increases of attendance at various trade shows and conferences as well as increase of number of trips to Ghana and Tanzania. The Company has incurred substantial deferred exploration costs which are capitalized for $3,881,884 in 2010 as compared to $120,334 for 2009. Administrative costs increased by $464,830 to $851,578 and are associated with non-cash stock-based compensation to the board of directors.

Given the Company's growth strategy, additional funds will be required to maintain and grow current operations. More advanced exploration is planned on Ghana properties and in particular on the Sian, Praso and Kaniago gold properties. The Company continues to seek qualified mineral properties that meet its criteria in both Ghana and Tanzania. The Company has committed its resources to develop and fund the exploration activities on the Sian/Praso property and is seeking financing to advance the exploration activities on these properties. The amount payable for property acquisition and interest in mineral properties, and deferred exploration expenditures has been reflected accordingly.

FOURTH QUARTER RESULTS

The Company is focused on Ghana and on the Sian Project in particular. As such during 2010, an additional $4,806,805 was spent on acquisition and deferred exploration expenses primarily on Sian, bringing the total spent in Ghana as at December 31, 2010 to $9,697,872.

In Tanzania, MMI soil geochemistry surveys were conducted on the Kishapu and Lalago Projects. New properties in Tanzania were also acquired. The Company spent $226,350 on acquisition and deferred exploration expenses in 2010, bringing the total expenditures in Tanzania to $2,743,518.

LIQUIDITY AND CAPITAL RESOURCES

The working capital as at December 31, 2010 was a working capital surplus of $3,504,765 compared to a working capital surplus of $2,057,640 as at December 31, 2009. The increase is a result of the additional cash surplus from financing efforts in the fiscal year.

CASH FLOW STATEMENT

Cash outflow from operating activities decreased by $14,257 to $1,015,594. Non-cash items added back include amortization for $6,318 (2009: $8,366) and stock-based compensation expense for $1,892,209 (2009: $679,638). Changes in non-cash working capital for 2010 include an increase in prepaid expenses by $71,422, increase in sundry receivable by $12,348 and increase in accounts payable by $310,664. Changes in non-cash working capital for 2009 include a decrease in prepaid expenses by $10,446, increase in sundry receivable by $912 and decrease in accounts payable of $197,071.

Cash flow from investing activities includes reduction in securities of $72,458 in 2010 (2009: increase by $2,244,425) and increase in investment in mineral properties and deferred exploration expenses by $5,033,155 (2009: $344,256). The Company increased investment in mineral properties in Ghana and Tanzania and incurred substantial deferred exploration costs of $3,655,841 in Ghana (2009: $132,691).

Cash flow from financing activities increased by $3,114,482 to $6,943,568 in 2010 as compared to 2009. In 2010, the Company raised $7,432,598 from private placement of common shares and warrants (net of costs), as compared to raising $3,597,886 from private placement of common shares and warrants (net of costs) in 2009. In addition during 2010, the Company raised $42,647 through the exercise of warrants and expended cash of $300,477 on purchase of 1,784,000 common shares for cancellation. The details of common shares and warrants (units) issued in 2010 are as follows:

On January 29, 2010 the Company issued 12,839,624 units at $.35 per unit for gross proceeds of $4,493,868. Each unit comprises one Common Share ('Common Share') and one half of one Common Share purchase warrant (each such whole Common Share purchase warrant a 'Warrant'). Each Warrant shall be exercisable into one additional Common Share of the Corporation ('Warrant Share') at an exercise price of $.50 per Common Share for a period of 24 months from the closing date provided, however, that if at any time that is 12 months after the closing date, the closing trading price of the Common Shares on the TSX Venture Exchange or other recognized exchange is greater than $1.00 for a period of 30 consecutive trading days, the Corporation shall have an option, exercisable in its sole discretion within 10 days of the end of the aforesaid 30-day period, to request that the subscribers exercise their Warrants by providing notice (the 'Notice') advising the subscribers that they shall have 10 days from their receipt of such Notice to exercise their Warrants and any unexercised Warrants after the expiry of the 10th day following their receipt of such Notice shall expire with no further rights and privileges attached thereto. The warrants were valued at $1,216,188, net of share-issue costs on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: risk-free interest rate of 1.41 percent, expected dividend yield of 0 percent, expected stock-price volatility of 195 percent and expected life of two years. In connection with the private placement, the Company paid cash commissions of $327,205 to the agents and issued 1,016,067 broker warrants to acquire common shares at an exercise price of $0.35 per share for 18 months from the date of issue under the same terms as the Private Placement. The fair value of the broker warrants issued on the private placement was $377,896 based on the fair value of proceeds received using the Black-Scholes option-pricing model with the following weighted-average assumptions: risk-free interest rate of 1.41 percent, expected dividend yield of 0 percent, expected stock-price volatility of 215 percent and expected life of 18 months.

On February 12, 2010, the Company issued 10,214,403 units at $.35 per unit for gross proceeds of $3,575,042. Each Unit comprises one Common Share ('Common Share') and one half of one Common Share purchase warrant (each such whole Common Share purchase warrant a 'Warrant'). Each Warrant shall be exercisable into one additional Common Share of the Corporation ('Warrant Share') at an exercise price of $.50 per Common Share for a period of 24 months from the Closing Date provided, however, that if at any time that is 12 months after the Closing Date, the closing trading price of the Common Shares on the TSX Venture Exchange or other recognized exchange is greater than $1.00 for a period of 30 consecutive trading days, the Corporation shall have an option, exercisable in its sole discretion within 10 days of the end of the aforesaid 30-day period, to request that the subscribers exercise their Warrants by providing notice (the 'Notice') advising the subscribers that they shall have 10 days from their receipt of such Notice to exercise their Warrants and any unexercised Warrants after the expiry of the 10th day following their receipt of such Notice shall expire with no further rights and privileges attached thereto. The warrants were valued at $956,651, net of share issue costs on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: risk-free interest rate of 1.21 percent, expected dividend yield of 0 percent, expected stock-price volatility of 195 percent and expected life of two years.

In connection with the private placement, the Company paid cash commissions of $233,459 to the agents, incurred cash expenses for $63,017 and issued 555,728 broker warrants for common shares ('Common Share Broker Warrants') and 107,235 broker warrants for units ('Unit Broker Warrants'). Each Common Share Broker Warrant is exercisable into a common share at a price of $0.35 per share for 18 months from the date of issue under the same terms as the Private Placement. Each Unit Broker Warrant is exercisable into one Common share and one half of one Common Share Purchase Warrant at a price of $0.50 per unit for 18 months from the date of issuance. The Company also issued 126,187 finder's warrants to acquire common shares at $.50 per share for two years from the date of issue under the same terms as the Private Placement. The fair value of the broker warrants issued on the private placement was $244,312 and finder's warrants was $45,171 based on the fair value of the proceeds received using the Black-Scholes option-pricing model with the following weighted-average assumptions for broker warrants: risk-free interest rate of 1.21 percent, expected dividend yield of 0 percent, expected stock-price volatility of 216 percent and expected life of 18 months; and for finder's warrants: risk-free interest rate of 1.21 percent, expected dividend yield of 0 percent, expected stock-price volatility of 195 percent and expected life of two years.

During the year, the Company initiated a normal course issuer bid (NCIB) to acquire a maximum of 5,212,489 shares of the Company. The bid resulted in the Company buying back 1,784,000 of its shares for cancellation at a weighted average price of $ 0.17 for a total consideration of $300,477.

INVESTMENT IN MINERAL EXPLORATION AND DEVELOPMENT

	Dec. 31, 2010	Dec. 31, 2009
Interest in mineral properties and deferred exploration expenditure	12,441,390	7,408,235

The increase in interest in mineral properties and deferred-exploration expenditure by $5,033,155 in 2010 is primarily attributable to increase of $1,135,064 in acquisition costs of the Sian property in Ghana and an increase of $3,069,598 in deferred-acquisition costs incurred on the Sian property in Ghana.

BUSINESS COMBINATION (HISTORICAL)

On June 2, 2004, the Company amalgamated with 1487852 Ontario Inc. ('Numco'), a corporation with 1,411,000 common shares outstanding. Numco's sole asset was $291,285 due from the Company. The Company was the continuing entity under the amalgamation and the transaction has been accounted for as a settlement of the amount due to Numco through the issuance of shares.

On June 2, 2004, the Company amalgamated with Grand Oakes Resources Corp. ('Grand Oakes'), an unlisted Canadian public company. Certain directors of the Company became directors of Grand Oakes prior to receipt of Grand Oakes' shareholders approval of the amalgamation with the company. Grand Oakes is the successor legal entity following the amalgamation. Former Grand Oakes shareholders received 572,167 shares of the amalgamated entity and former Company shareholders received 17,543,801 shares of the amalgamated company.

As the former Grand Oakes shareholders have less than 50 percent of the outstanding shares of the combined entity, the Company is considered the acquirer of Grand Oakes for accounting purposes. Accordingly, the Company is the accounting entity in these financial statements and the comparative figures presented in the financial statements after this amalgamation are those of the Company. The capital structure reflects that of the successor legal entity, Grand Oakes, and the stated value of the share capital is that of the Company. The amalgamated entity carries on business under the name Midlands Minerals Corporation. At amalgamation, Grand Oakes had net liabilities of $104,509. The assumption of these net liabilities is recorded as a capital transaction. Related transaction costs in the amount of $103,103 were recorded as an expense in the period the transaction closed.

USE OF OFF-BALANCE-SHEET ARRANGEMENTS

With the exception of the Company's right to accelerate the expiration of warrants issued as part of various financings, the Company has not entered into any specialized financial agreement to minimize its investment, currency or commodity risk. There are no off-balance-sheet arrangements such as a guarantee contract, contingent interest in assets transferred to an entity, derivative-instruments obligations and/or any obligations that trigger financing, liquidity, market or credit risk to the Company.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company does not have any commitments or contractual obligations, long-term debt, capital-lease obligations or purchase obligations, other than leases which are part of day-to-day corporate business activities such as an office-rental lease and leased equipment.

OUTLOOK

Midlands is poised for growth with initial drilling on Kaniago adding more value for the shareholders and with the Sian and Praso gold resource increasing with each new phase of drilling. At least 20,000 metres of drilling are planned in 2011 to bring the Sian Project to at least a million ounces in resource and to define a resource on Kaniago. The Company has two objectives: the first is to infill drill to increase the resource to over one million ounces, while at the same time upgrading the quality and category of the resource to at least a measured category. The planned program is follow-up drilling of 2007/2008 and 2010 identified gold structures around the Esaase mine and to the south of the open pit. The second part of the program is to drill-test the south extensions of all identified gold zones where the extensions feature soil anomalies or IP (Induced Polarization) responses in order to increase the resource by an additional 500,000 ounces of gold. The program, which tested the south extensions of the Esaase Main and Esaase East zones, has provided excellent follow-up targets which confirm the reliability of the gold-soil anomaly which extends over a 16-kilometre strike length.

Sian produced gold between 2001 and 2003 with a gold-recovery rate of 93 percent. Midlands' goal is to increase the tonnage on Sian and move the Project to a pre-feasibility study by the end of 2011 with a production decision expected by the end of 2012, subject to availability of financing and positive results from the feasibility study.

The Company will continue to focus its efforts on further development of its gold properties in Ghana and Tanzania. Planned work includes infill RC drilling, diamond drilling at depth on Sian/Praso and Kaniago, soil geochemical surveys, IP surveys and airborne geophysical surveys on the Ghana and Tanzania properties.

What makes the prospects promising for Midlands are the following:

- Quality gold properties located 30 kilometres from a major multimillion-ounce gold deposit on a prolific belt in Ghana and on trend with world class gold deposits like Newmont Mining's Akyem deposit with over 8.7 million ounces of gold in Ghana and Barrick Gold's Bulyanhulu (Tanzania) with over 13 million ounces;
- An NI 43-101-compliant diamond property with kimberlites, 20 kilometres from a world-class open-pit diamond mine which has produced more than 20 million carats in Tanzania;
- Midlands operates in known stable and democratic gold-producing countries with a long history of gold mining and favourable tenure and permitting laws;
- Already with a growing resource on its Sian property in Ghana, Midlands controls a large gold district on the Ashanti Gold belt, thereby increasing the potential of discovery of several large gold deposits;
- Prudent and experienced Management and a Board with solid knowledge of the countries in which the Company operates;
- A technical team with a history of discovery.

Overall, Midlands Minerals Corporation's prospects for achieving its short-term exploration objectives (specifically, bringing the Sian property to a pre-feasibility stage by the end of 2012, subject to financing availability and expanding its existing resource) are good, given results from the drilling and the huge gold-soil anomaly on the Sian/Praso property, in addition to prospects for Kaniago. The plan is to bring the Sian property, which has all the infrastructure in place as well as an existing CIL plant and a mining lease valid 30 years, to a production decision by the end of 2012 either by Midlands on its own or through a joint venture with a gold-mining company.

In summary:

1. The Company's plan is to grow its core assets as quickly as possible subject to availability of financing. In this regard, a minimum of 20,000 metres of drilling is underway on the Sian and Kwahu Praso properties, and on Kaniago.

2. Further drilling is planned for the Itilima Project (PL 2043/02) in the first quarter of 2011, subject to financing for Tanzania, and the Company is seeking partnerships to develop key Tanzania properties.

3. The Company is evaluating its prospects for the Itilima Diamond Project and seeking prospective partners.

Midlands has viable quality projects in geopolitically stable countries and a seasoned management team with extensive experience in Africa. The Company has demonstrated access to the capital markets and low overhead costs, all of which ensures that Midlands Minerals Corporation is focused on its exploration activities. However, to further exploration and development activities, the Company will require funds and these are subject to the availability of future financing.

CAPITAL STOCK
AUTHORIZED UNLIMITED COMMON SHARES

	Number of Common Shares	Amount ($)
Balance, December 31, 2009	80,895,764	10,231,833
Private placement, net of share-issuance costs – January 29, 2010	12,839,624	2,950,476
Private placement, net of share-issuance costs – February 12, 2010	10,214,403	2,309,283
Broker's & Finder's warrants issued on private placement	–	(667,379)
Proceeds on exercise of warrants	270,980	91,133
Cancellation of shares under share buy-back (c)	(1,784,000)	(300,477)
Balance, December 31, 2010	102,436,771	14,614,869

WARRANTS

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

	Number of Warrants	Weighted Average Exercise Price ($)	Value ($)
Balance, December 31, 2008	3,122,500	0.50	360,558
Issued as part of private placements	13,578,001	0.25	1,041,521
Issued as part of private placements – Broker warrants	1,211,266	0.15	286,083
Issued as part of private placements – Finder warrants	1,504,333	0.25	199,789
Balance, December 31, 2009	19,416,100	0.28	1,887,951
Issued as part of private placements	11,527,007	0.50	2,172,839
Issued as part of private placements – Broker warrants	1,679,030	0.35	622,208
Issued as part of private placements – Finder warrants	126,187	0.50	45,171
Warrants exercised	(270,980)	(0.16)	(48,486)
Balance, December 31, 2010	32,477,344	0.36	4,679,683

As at December 31, 2010, the following warrants were outstanding:

Date Granted	Warrants Granted	Exercise Price ($)	Expiry Date
June 14, 2007	3,122,500	0.50	June 14, 2012
November 9, 2009	11,788,501	0.25	November 9, 2011
November 9, 2009	705,520	0.15	November 9, 2011
December 4, 2009	2,740,833	0.25	December 4, 2011
December 4, 2009	148,166	0.15	December 4, 2011
December 7, 2009	533,000	0.25	December 7, 2011
December 7, 2009	106,600	0.15	December 7, 2011
January 29, 2010	6,419,811	0.50	January 29, 2012
January 29, 2010	1,016,067	0.35	July 29, 2011
February 12, 2010	5,233,383	0.50	February 12, 2012
February 12, 2010	662,963	0.35	August 12, 2011
	32,477,344	0.36	

WARRANTS

During the year, 13,332,224 warrants were granted to holders of common share units through private placements in January and February 2010. 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 1.21 to 1.41 percent, expected dividend yield of 0 percent, expected stock-price volatility 195 percent and expected life of two years.

RISK FACTORS

The Company is a mineral exploration and development company and is exposed to a number of risks and uncertainties that are common to other companies in the same business. These risks and uncertainties include exploration, development, commodity, operating, ownership, political, funding, currency and environmental risk.

The Company faces significant risks, inherent in the exploration and development of its mining properties
Mineral exploration and development involves several risks which experience, knowledge and careful evaluation may not be sufficient to overcome. Large capital expenditures are required in advance of anticipated revenues from the Company's operations.

Many exploration programs do not result in the discovery of an economic deposit. The commercial viability of exploiting any precious-metal deposit is dependent on a number of factors including infrastructure and governmental regulation, in particular those relating to the environment, taxes and royalties. No assurance can be given that minerals will be discovered of sufficient quality, size and grade on any of the Company's properties to justify a commercial operation.

Uncertainty of reserve and resource estimates
The mining business relies upon the accuracy of determinations as to whether a given deposit has significant mineable reserves. This reliance is important in that reported mineral reserves and resources are only estimates and do not represent any certainty that the estimated mineral reserves and resources will be recovered. Market fluctuations in the price of metals, as well as increased production costs or reduced recovery rates, may render certain mineral reserves and resources uneconomic.

Political risk
Political and related legal and economic uncertainties exist in countries where the Company operates. Risk of foreign operation in these countries may include political unrest, corruption, war, civil disturbances and terrorist actions, arbitrary changes in the law or policies, changes to governmental regulation, foreign taxation, price and currency controls, delays in obtaining or the inability to obtain, necessary governmental permits, opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitation on the repatriation of earnings, limitation on gold exports and increased financing costs. These risks may limit or disrupt the Company's activities.

The Company will require additional funding to develop its properties
Continued development of the Company's properties will require significant financial resources. As such, the Company needs to raise significant financing. Failure to obtain such additional financing at critical times could lead to delay and indefinite postponement in the exploration and development of the Company's projects. There is no assurance that such funding will be available or that it will be obtained on favourable terms.

Lack of operating profit
The Company has incurred operating losses on an annual basis for a number of years, arising from administrative costs related to continued exploration and development of mineral-resources properties. It is anticipated that the Company will continue to experience operating losses for the foreseeable future. There can be no assurance that the Company will ever achieve significant revenues or profitable operations.

Precious metal price
The price of precious metals can fluctuate widely and is affected by numerous factors including demand, inflation, strength of the U.S. dollar and other currencies, interest rates, gold sales by the central banks, forward sales by producers, global or regional political or financial events, and production and cost levels in major producing regions. In addition, the gold price is sometimes subject to rapid short-term changes because of speculative activities.

Even if the Company discovers commercial amounts of precious metals on its properties, it may not be able to place the property into commercial production if precious metal prices are not at sufficient levels.

Currency risk

A substantial portion of the Company's activities is expected to be carried on outside Canada. Such activities are subject to risk associated with the fluctuation in the rate of exchange of the Canadian dollar and foreign currencies.

SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2010 the Company applied for listing with OTCQX-MDLXF and has been trading since January 24, 2011.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this management's discussion and analysis constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to be materially different from actual results and achievements expressed or implied by such forward-looking statements. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits the Company will obtain from them. These forward-looking statements reflect management's current views and are based on certain expectations, estimates and assumptions which may prove to be incorrect.

The Company adds a cautionary statement to the effect that the potential quantity and grades referred to in this press release are conceptual in nature and there has been sufficient exploration to define a mineral resource. However, the Company is uncertain if further exploration will result in discovery of a mineral reserve. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made. Readers are also advised to consider such forward-looking statements while considering the risks inherent in the business of mineral exploration. For more information, investors should review the Company's filings that are available at www.sedar.com and on the Company's website at www.midlandsminerals.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the consolidated financial statements and other financial information relating to the Company, included in this annual report. The consolidated financial statements of the Company and the accompanying notes thereto for the years ended December 31, 2010 and 2009, have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

Schwartz Levitsky Feldman LLP, our external auditors, have been engaged to express a professional opinion on the consolidated financial statements of the Company. Their audit has been conducted in accordance with Canadian Generally Accepted Auditing Standards and includes tests and other procedures which allow the auditors to report on whether the consolidated financial statements of the Company as prepared by management are presented fairly and in accordance with Canadian Generally Accepted Accounting Principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. In furtherance of the foregoing, the Board has appointed an Audit Committee composed of three directors who are not members of management. The committee meets to discuss the results of their report prior to submitting the consolidated financial statements of the Company to the Board of Directors for their consideration and approval for issuance to the shareholders.

On the recommendation of the audit committee, the Board of Directors has approved the Company's consolidated financial statements for the year ended December 31, 2010.

May 2, 2011

Kim F. Harris
President and Chief Executive Officer

Paul E. Singer, CA
Chief Financial Officer

Schwartz Levitsky Feldman llp
CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS
TORONTO • MONTREAL

SLF

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Midlands Minerals Corporation

We have audited the accompanying consolidated financial statements of Midland Minerals Corporation, which comprise the balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and deficit, comprehensive loss and accumulated other comprehensive income (loss), property acquisition costs and deferred exploration expenditures, cash flows, statements of shareholders' equity for the years then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Midlands Minerals Corporation as at December 31, 2010 and 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Schwartz Levitsky Feldman llp

Toronto, Ontario, Canada
April 28, 2011

Chartered Accountants
Licensed Public Accountants

1167 Caledonia Road
Toronto, Ontario M6A 2X1
Tel: 416 785 5353
Fax: 416 785 5663

CONSOLIDATED BALANCE SHEETS

As at December 31 *(Expressed in Canadian dollars)*

	2010 $	2009 $
ASSETS		
Current		
Cash	1,264,878	297,601
Short-term investments (Note 5)	2,288,387	2,360,845
Marketable securities (Note 6)	601,000	53,000
Prepaid expenses and deposits	79,274	7,852
Sundry receivable	20,476	8,128
	4,254,015	2,727,426
Equipment (Note 8)	20,913	27,231
Interest in Mineral Properties and Deferred Exploration Expenditures (Note 9 and Statement)	12,441,390	7,408,235
	16,716,318	10,162,892
LIABILITIES		
Current		
Accounts payable and accrued liabilities	209,391	346,732
Accounts payable exploration properties	539,859	91,854
Loan payable to director	—	231,200
	749,250	669,786
Future Income Tax Liability (Note 11)	—	—
Non-controlling Interest	36,125	36,125
	785,375	705,911
Going Concern (Note 1)		
Commitment (Note 13)		
Related Party Transactions (Note 12)		
Subsequent Events (Note 15)		
SHAREHOLDERS' EQUITY		
Capital Stock (Note 10)	14,614,869	10,231,833
Warrants (Note 10)	4,679,683	1,887,951
Contributed Surplus (Note 10)	5,634,516	3,742,307
Accumulated Other Comprehensive Income (Loss)	569,000	21,000
Accumulated Deficit	(9,567,125)	(6,426,110)
	(8,998,125)	(6,405,100)
	15,930,943	9,456,981
	16,716,318	10,162,892

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board:

ORIGINAL SIGNED BY EDWARD A. HARRIS, DIRECTOR

ORIGINAL SIGNED BY KIM F. HARRIS, DIRECTOR

CONSOLIDATED STATEMENTS of Operations and Deficit

For the years ended December 31 *(Expressed in Canadian dollars)*

	2010 $	2009 $
EXPENSES		
Management fees (Note 12 (b))	1,411,148	291,076
Office and administrative expense	851,578	386,748
Foreign exchange loss (gain)	(112,255)	(60,306)
Investor relations, shareholder information and promotion	422,228	456,630
Travel and automobile expense	176,488	24,363
Professional fees	197,816	118,888
Rent	67,876	66,553
Telephone	46,018	35,683
Transfer agent and filing fees	5,827	8,862
Bank charges and interest	24,582	43,812
Consulting fees	80,608	56,830
Amortization	6,318	8,366
Loss before other items	(3,178,232)	(1,437,505)
Interest income	37,217	1,997
Net Loss for the Year	(3,141,015)	(1,435,508)
Deficit, beginning of year	(6,426,110)	(4,990,602)
Deficit, end of year	(9,567,125)	(6,426,110)
Net Loss per Share – Basic and diluted	(0.03)	(0.03)
Weighted Average Number of Shares Outstanding	100,997,210	53,846,661

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS of Comprehensive Loss and Accumulated Other Comprehensive Income (Loss)

For the years ended December 31 *(Expressed in Canadian dollars)*

	2010 $	2009 $
Consolidated Statements of Comprehensive Loss		
Net Loss for the year	(3,141,015)	(1,435,508)
Unrealized gain on marketable securities	548,000	50,000
Comprehensive Loss for the year	(2,593,015)	(1,385,508)
Consolidated Statements of Accumulated Other Comprehensive Income (Loss)		
Accumulated Other Comprehensive Income (Loss), Beginning of the Year	21,000	(29,000)
Unrealized gain on marketable securities	548,000	50,000
Accumulated Other Comprehensive Income, End of Year	569,000	21,000

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS of Property Acquisition Costs and Deferred Exploration Expenditures

For the years ended December 31 *(Expressed in Canadian dollars)*

TANZANIA PROPERTIES	Itilima $	Vukene $	Lwenge $	Kishapu $	Lalago $	Tamota $	Others $	Total $
Property Acquisition Costs								
Balance, December 31, 2008	529,881	—	—	—	—	—	—	529,881
Additions During the Year	246	—	—	—	—	—	—	246
Balance, December 31, 2009	530,127	—	—	—	—	—	—	530,127
Additions During the Year	307	—	—	—	—	—	—	307
Balance, December 31, 201	530,434	—	—	—	—	—	—	530,434
Deferred Exploration Expenditures								
Balance, December 31, 2008	1,686,841	70,317	19,397	8,719	8,270	29,208	176,646	1,999,398
Additions During the Year	3,668	129	—	4,573	4,573	—	30,704	43,647
Adjustments to deferred exploration expenditures	(7,708)	—	—	—	—	—	(48,296)	(56,004)
Balance, December 31, 2009	1,682,801	70,446	19,397	13,292	12,843	29,208	159,054	1,987,041
Additions During the Year	22,227	4,285	1,176	32,601	44,570	12,232	108,952	226,043
Balance, December 31, 2010	1,705,028	74,731	20,573	45,893	57,413	41,440	268,006	2,213,084
Balance, December 31, 2010	2,235,462	74,731	20,573	45,893	57,413	41,440	268,006	2,743,518

GHANA PROPERTIES	Kwahu Praso $	Kaniago $	Sian $	Bonuama $	Others $	Total $
Property Acquisition Costs						
Balance, December 31, 2008	—	—	1,101,673	20,354	(39,527)	1,082,500
Additions During the Year	83,746	—	139,930	—	—	223,676
Balance, December 31, 2009	83,746	—	1,241,603	20,354	(39,527)	1,306,176
Additions During the Year	—	—	1,135,064	15,900	—	1,150,964
Balance, December 31, 2010	83,746	—	2,376,667	36,254	(39,527)	2,457,140
Deferred Exploration Expenditures						
Balance, December 31, 2008	480,136	119,553	2,612,367	6,603	233,541	3,452,200
Additions During the Year	40,257	11,586	54,354	88	128,212	234,497
Adjustments to deferred exploration expenditures	—	—	—	—	(101,806)	(101,806)
Balance, December 31, 2009	520,393	131,139	2,666,721	6,691	259,947	3,584,891
Additions During the Year	66,925	86,432	3,069,598	2,860	430,026	3,655,841
Balance, December 31, 2010	587,318	217,571	5,736,319	9,551	689,973	7,240,732
Balance, December 31, 2010	671,064	217,571	8,112,986	45,805	650,446	9,697,872
Total						12,441,390

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS of Cash Flows

For the years ended December 31 *(Expressed in Canadian dollars)*

	2010 $	2009 $
Cash Flows from Operating Activities		
Net loss for the year	(3,141,015)	(1,435,508)
Add items not requiring cash:		
Amortization	6,318	8,366
Stock-based compensation	1,892,209	679,638
Bonus shares issued	—	63,000
Future taxes	—	(157,810)
	(1,242,488)	(842,314)
Changes in non-cash working capital balances:		
Increase in prepaid expenses	(71,422)	10,446
(Increase) decrease in accounts payable	310,664	(197,071)
Increase in sundry receivable	(12,348)	(912)
Cash flows from operating activities	(1,015,594)	(1,029,851)
Cash Flows from Investing Activities		
Sale (purchase) of security investments	72,458	(2,244,425)
Interest in mineral properties and deferred exploration expenditures	(5,033,155)	(344,256)
Cash flows from investing activities	(4,960,697)	(2,588,681)
Cash Flows from Financing Activities		
Issuance of common shares for cash, net of costs	5,259,759	2,556,365
Issuance of warrants for cash, net of costs	2,172,839	1,041,521
Exercise of warrants	42,647	—
Increase (Decrease) in loan payable	(231,200)	231,200
Purchase of common shares for cancellation	(300,477)	—
Cash flows from financing activities	6,943,568	3,829,086
Increase in cash	967,277	210,554
Cash, beginning of year	297,601	87,047
Cash, end of year	1,264,878	297,601
Supplemental Information		
Interest paid	—	33,057
Taxes paid	—	—

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS of Shareholders' Equity

For the years ended December 31 *(Expressed in Canadian dollars)*

	Common Stock		Warrants	
	Number of Shares	Amount $	Number of Warrants $	Amount $
Balance December 31, 2008	53,046,458	8,098,340	3,122,500	360,558
Issue of bonus shares to a director and shareholder	693,307	63,000	—	—
Private placement of units (net of issuance costs)	27,155,999	2,070,493	16,293,600	1,527,393
Stock-based compensation	—	—	—	—
Unrealized gain on share investment	—	—	—	—
Net loss for the year	—	—	—	—
Balance December 31, 2009	80,895,764	10,231,833	19,416,100	1,887,951
Private placement of units (net of issuance costs)	23,054,027	4,592,380	13,332,224	2,840,218
Exercise of warrants	270,980	91,133	(270,980)	(48,486)
Cancellation of shares	(1,784,000)	(300,477)	—	—
Stock-based compensation	—	—	—	—
Unrealized gain on share investment	—	—	—	—
Net loss	—	—	—	—
Balance December 31, 2010	102,436,771	14,614,869	32,477,344	4,679,683

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS of Shareholders' Equity *(continued)*

	Contributed Surplus $	Accumulated Deficit Stage $	Accumulated Other Contributed Income $	Total Stockholders' Equity $
Balance December 31, 2008	3,062,669	(4,990,602)	(29,000)	6,501,965
Issue of bonus shares to a director and shareholder	—	—	—	63,000
Private placement of units (net of issuance costs)	—	—	—	3,597,886
Stock-based compensation	679,638	—	—	679,638
Unrealized gain on share investment	—	—	50,000	50,000
Net loss for the year	—	(1,435,508)	—	(1,435,508)
Balance December 31, 2009	3,742,307	(6,426,110)	21,000	9,456,981
Private placement of units (net of issuance costs)	—	—	—	7,432,598
Exercise of warrants	—	—	—	42,647
Cancellation of shares	—	—	—	(300,477)
Stock-based compensation	1,892,209	—	—	1,892,209
Unrealized gain on share investment	—	—	548,000	548,000
Net loss	—	(3,141,015)	—	(3,141,015)
Balance December 31, 2010	5,634,516	(9,567,125)	569,000	15,930,943

NOTES to the Consolidated Financial Statements

For the years ended December 31

1. Basis of Presentation and Going Concern

Midlands Minerals Corporation (the "Company") is an exploration stage company engaged principally in the acquisition, exploration and development of mineral properties. 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, 2010, the Company had a working capital surplus of $3,504,765 (2009: $2,057,640) and an accumulated deficit of $9,567,125 (2009: $6,426,110). 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 assurance 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 exploration 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.

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

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the accounts of the Company, its wholly owned subsidiaries, Midlands Minerals Ghana Limited, Midenka Resources Limited, Midlands Minerals (TZ) Limited, Harbour Capital Corporation, and its 75% owned subsidiary, Itilima Mining Company Limited, and its 65% owned

NOTES to the Consolidated Financial Statements

For the years ended December 31

subsidiary, Akroma Gold Company Limited. All material inter-company balances and transactions have been eliminated.

(b) Cash and Equivalents
Cash and equivalents consist of cash and short-term deposits with original maturities of ninety days or less from the date of acquisition are readily convertible into known amounts of cash.

(c) Short-term Investments
Short-term investments include equities and other deposits with original maturities greater than 90 days that are not readily convertible into known amounts of cash.

(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 and software	30% declining balance
Office equipment	20% declining balance
Field equipment	20% declining balance

(e) Mineral Properties and Deferred Expenditures
The Company capitalizes all costs related to interests in mineral properties on a property by property basis. The 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 to be impaired, 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.

(f) Stock-based Compensation
The Company has a stock-based compensation plan as described in note 10 to the consolidated financial statements. Any consideration received on the exercise of stock option or sale of stock is credited to share capital. The Company records compensation expense and credits contributed surplus for all stock options granted. Stock options granted during the year are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value for these options is estimated at the date of grant using the Black-Scholes option pricing model.

(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.

NOTES to the Consolidated Financial Statements

For the years ended December 31

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 rate, 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.

(k) Impairment of Long-lived Assets

The Company reviews and evaluates its long-lived assets for impairment when events 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, equipment and mine development. 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) Warrants

The Company has adopted the relative fair value approach in accounting for the value assigned to the common shares and the warrants which it has made available in a number of unit private placement financings.

(m) Asset Retirement Obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to operations in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. The Company has not recorded an ARO as at December 31, 2010 and 2009.

(n) Share Issuance Costs

Costs incurred in connection with the issuance of capital stock are netted against the proceeds received.

(o) Financial Instruments

CICA Handbook Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. 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 instruments are measured at fair value and changes in fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet.

NOTES to the Consolidated Financial Statements
For the years ended December 31

The Company has elected to apply the following classifications to each of its significant categories of financial instruments:

Asset/Liability	Category	Measurement
Cash	Held for trading	Fair value
Short-term investments	Held for trading	Fair value
Share Investment	Available for sale	Fair value
Sundry receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Loan payable	Other liabilities	Amortized cost

The company classifies derivative instruments, such as foreign exchange forward contracts and foreign exchange options contracts, as held-for-trading unless the instruments meet all the criteria of a hedge in accordance with Section 3865 which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. If the criteria are met, then any unrealized gains and losses will be reported in other comprehensive income.

(p) Comprehensive Income
Comprehensive income is the change in shareholders' equity during a period from transactions and other events from non-owner sources. Gains and losses that would otherwise be recorded as part of net income (loss) are presented in other "comprehensive income" until it is considered appropriate to recognize into net income (loss). The Company reports a consolidated statement of comprehensive loss and includes the account "accumulated other comprehensive income (loss)" in the shareholders' equity section of the consolidated balance sheet.

(q) Capital Disclosures
CICA Handbook Section 1535 requires the Company to disclose its objectives, policies and procedures for managing capital, and quantitative information about what the Company regards as capital, whether the Company has complied with any externally imposed capital requirements and, if the Company has not complied, any consequences of such non-compliance. This additional disclosures has been provided in Note 7 – Financial Instruments and Capital Management.

(r) 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. 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 additional disclosure has been provided in Note 7 – Financial Instruments and Capital Management.

In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The adoption of amended Section 3862 had no impact on the financial statements.

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.

(s) Goodwill and Intangible Assets
Effective January 1, 2009, the Company adopted the new CICA Handbook 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". This section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Adoption of this standard had no material impact on the consolidated financial statements.

NOTES to the Consolidated Financial Statements

For the years ended December 31

4. Recent Accounting Pronouncements

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 interim and annual financial statements beginning on or after January 1, 2011, which for this Company is January 1, 2011. The Company believes that the adoption of this standard will not have a material impact on its consolidated financial statements.

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, which for this Company is 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.

Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175 – "Multiple Deliverable Revenue Arrangements" replacing EIC 142 – "Revenue Arrangements with Multiple Deliverables". This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal periods beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal period, it must be applied retrospectively from the beginning of the Company's fiscal period of adoption. The Company expects to adopt EIC 175 effective January 1, 2011. The Company does not believe the standard will have a material impact on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the Company will transition from current Canadian GAAP reporting and commence reporting under IFRS no later than the first quarter of 2011, with restatement of comparative information presented. The Company has identified mineral property, and future income tax liability, as areas where the adoption of IFRS may have a material effect on the Company's financial reporting. In addition, the Company is currently assessing the elections available under IFRS to determine the effect of each election to the Company. The Company expects to report under IFRS in its first quarter ending March 31, 2011.

5. Short-term Investments

As at December 31, 2010, short-term investments consist of investments in marketable securities of $2,228,207 ($Nil – 2009) and guaranteed investment certificates of $60,180 ($2,360,845 – 2009), which bear interest at rates of 0.3% – 0.9% per annum.

NOTES to the Consolidated Financial Statements

For the years ended December 31

6. Marketable Securities

At December 31, 2010, the Company held "available for sale" shares as follows:

	Number of Common Shares	Accumulated Unrealized Gains (Losses)	Fair Value
Canaco Resources Inc.	100,000	569,000	601,000

At December 31, 2009, the Company held "available for sale" shares as follows:

	Number of Common Shares	Accumulated Unrealized Gains (Losses)	Fair Value
Canaco Resources Inc.	100,000	21,000	53,000

The investment in marketable securities consists of 100,000 common shares in Canaco Resources Inc., a public company which trades on the TSX Venture Exchange under the symbol "CAN". The shares were received as consideration for the sale of a resource property interest during 2007. During the year ended December 31, 2010, the Company recognized an unrealized gain of $548,000 (2009: unrealized gain of $50,000). No future income tax liability was recorded against the unrealized gain as the company has future income tax assets relating to accumulated non-capital losses carried forward as of December 31, 2010 which are in excess of the future tax liability, and against which the Company has provided a valuation allowance for future income taxes (see note 11).

7. Financial Instruments and Capital Management

The Company adopted the amendments to CICA Section 3862 for these annual financial statements. The amendments require the use of a fair value hierarchy in order to classify the fair value disclosures related to the Company's financial assets and financial liabilities that are recognized in the balance sheet at fair value.

The fair value hierarchy has the following levels:

- Level 1 – quoted market prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

Fair Value of Financial Instruments

The carrying values of cash, short-term investments, sundry receivable, accounts payable and accrued liabilities, accounts payable and exploration expenses and loan payable approximate their fair values due to the relatively short periods to maturity of these instruments.

At December 31, 2010, the Company held an investment in shares with a fair value of $601,000 (2009 - $53,000). The difference between fair value and cost at December 31, 2010 has been included in the statement of accumulated other comprehensive income (loss).

Cash and short-term investments and share investment are reflected on the balance sheet at fair value and both items are ranked using a level 1 hierarchy because measurements are determined using quoted prices in active markets for identical assets.

Fair value measurements of accounts payable and accrued liabilities are classified under Level 2 because inputs are generally unobservable and reflect management's estimates of assumptions that market participants would use in pricing the liability.

Credit Risk

The Company manages its credit risk through its counterparty ratings and credit limits. The Company is mainly exposed to credit risk on its bank accounts. Bank accounts are primarily with Canadian Schedule 1 banks and the Standard Chartered Bank in Ghana and Tanzania. The sundry receivable in 2010 and the 2009 relates to HST recoverable from the Canadian government. The total cash and short-term investments and sundry receivable represent the maximum credit exposure.

Liquidity Risk

The Company manages its liquidity risk by ensuring that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is primarily invested in business bank accounts and guaranteed investment certificates which are available on demand to fund the Company's operating costs and other financial demands.

Market Risk

The significant market risk exposures to which the Company is exposed are foreign currency risk, interest rate risk and equity price risk.

NOTES to the Consolidated Financial Statements

For the years ended December 31

Foreign Currency Risk

The Company maintains its accounts in Canadian dollars. The Company is exposed to foreign currency fluctuations to the extent mineral interests, exploration expenditures, and operating expenses incurred by the Company are not denominated in Canadian dollars. The Company does not use derivatives or other methods to manage the foreign currency risk. The Company's operations in Ghana and Tanzania make it subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. The Company's operating results and cash flows are affected to varying degrees by changes in the Canadian Dollar exchange rate vis-a-vis the Ghanaian cedis and Tanzanian shilling, and the US dollar. The Company purchases foreign currencies as the need arises in order to fund its exploration activities. Corporate expenditures are mainly incurred in Canadian and US dollars.

As at December 31, 2010, the Company's significant exposures to foreign currency risk, based on balance sheet values, were to the US Dollar. There was no material exposure to foreign currency risk, based on balance sheet values, to Ghanaian Cedi or Tanzanian shillings.

	$US
Cash	218,594
Accounts payable and accrued liabilities	(539,827)
	(321,233)

The following sensitivity analysis assumes all other variables remain constant and are based on above net exposures. A 10% appreciation or depreciation of the US Dollar vis-a-vis the Canadian Dollar would result in a $32,123 increase or decrease respectively, in net income and shareholders' equity.

Interest Rate Risk

The Company's bank accounts earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to changes in short-term rates.

Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or return capital to its shareholders. The Company is not subject to externally imposed capital requirements.

8. Equipment

	2010		
	Cost $	Accumulated Amortization $	Net $
Computer equipment and software	29,940	23,835	6,106
Office equipment	44,109	29,504	14,604
Field equipment	999	796	203
	75,048	54,135	20,913

	2009		
	Cost $	Accumulated Amortization $	Net $
Computer equipment	29,940	21,218	8,722
Office equipment	44,109	25,853	18,256
Field equipment	999	746	253
	75,048	47,817	27,231

Amortization for the year ended December 31, 2010 is $6,318 (2009 – $8,366).

NOTES to the Consolidated Financial Statements

For the years ended December 31

9. Interest in Mineral Properties and Deferred Exploration Expenditures

1. TANZANIA PROPERTIES

(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.

(b) Vukene

In 2010, the Company was granted prospecting licenses for the Vukene property in Tanzania.

(c) Lwenge

In 2007, the Company acquired the Lwenge property in Tanzania.The Company owns 90% of the prospecting license and the licence is in the process of renewal.

(d) Kishapu and Lalago Gold Projects

In 2008, the Company was granted two prospecting licences, PL 5482 (Kishapu) which is 38.26 square kilometres in size, and PL 5481 (Lalago) which is a 154.3 square kilometres in size. The licences are valid for the full year of 2011.

In 2010, the Company was granted one more prospecting licence, PL 6507/2010, which is 8.06 square kilometres in size and located in Kishapu district.

(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 174.95 square kilometers in size. The licence is in good standing and was transferred to Midlands on July 23, 2008.

(f) Sengerema and Geita

In 2010, the Company was granted two prospecting licenses. PL 6569/2010 (Sengrema) is 185.89 square kilometres in size and located in the Sengerema. PL 6571/2010 (Geita) is 34.13 square kilometres in size and is located in the Geita District.

(g) Mziha East and Ruanda

In 2010, two prospecting licenses in the Bagamoyo District were granted to the Company. PL6719/2010 (Mziha East) is 73.09 square kilometres in size and PL6703/2010 (Ruanda) is 157.87 square kilometres in size. Both licenses are in good standing.

(h) East Turian

In 2010, the Company was granted the prospecting license PL 6721/2010 (East Turian). The property is 194.51 square kilometres in size and is located in the Mvomero district. The license is in good standing.

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. The final payment to Sian was made on November 16, 2010.

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

NOTES to the Consolidated Financial Statements

For the years ended December 31

Ashanti gold belt of Ghana. Midenka is a Ghanaian registered company originally owned 80% by the Company and 20% by the Enkaakyiri Trading Company Limited ("Enkaakyiri").

On September 4, 2008, Enkaakyiri elected to sell its 20% interest, as per the joint venture agreement dated April 23, 2003 to Midlands for a total price of US$80,000 Midlands paid a non refundable deposit of US$10,000. On February 26, 2010 Midlands paid US$35,000 and the balance of US$35,000 was paid during the fourth quarter of 2010. Midland now holds a 100% rights interest.

The Kwahu Praso prospecting licence is in good standing.

(c) Kaniago Concession

The Company holds a 100% interest in the Kaniago Concession which is located on the Asankrangwa Gold Belt in Ghana. The mineral rights are owned by the Company through its subsidiary company, Midlands Minerals Ghana Limited. The Company has a prospecting license which is in good standing.

(d) Bonuama Property

The Company acquired an option on the Bonuama property in Ghana on June 7, 2008. Bonuama is 150 square kilometres in size and is located on the Asankrangwa Gold Belt. Midlands paid a non-refundable deposit of US$20,000 with the balance payable of US$45,000. On March 17, 2010 Midlands paid US$15,000.

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

10. Capital Stock

Authorized

Unlimited common shares without par value

Shares Issued and Outstanding:

	Number of Common Shares	Amount $
Balance, December 31, 2008	53,046,458	8,098,340
Bonus shares issued, January 12, 2009	153,846	10,000
Bonus shares issued, February 5, 2009	126,582	10,000
Bonus shares issued, March 13, 2009	109,091	12,000
Bonus shares issued, April 13, 2009	145,455	16,000
Bonus shares issued, May 15, 2009	125,000	10,000
Bonus shares issued, January 12, 2009	33,333	5,000
	693,307	63,000
Private placement, net of issue costs	21,275,000	1,980,186
Private placement, net of issue costs	4,814,999	469,920
Private placement, net of issue costs	1,066,000	106,259
Brokers and Finders warrants issued on private placement	—	(485,872)
	27,155,999	2,070,493
Balance, December 31, 2009	80,895,764	10,231,833
Private placement, net of share issuance costs – January 29, 2010 (a)	12,839,624	2,950,476
Private placement, net of share issuance costs – February 12, 2010 (b)	10,214,403	2,309,283
Brokers and Finders warrants issued on private placement	—	(667,379)
Proceeds on exercise of warrants	270,980	91,133
Cancellation of shares under share buy back (c)	(1,784,000)	(300,477)
Balance, December 31, 2010	102,436,771	14,614,869

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For the years ended December 31

(a) On January 29, 2010 the Company issued 12,839,624 units at $.35 per unit for gross proceeds of $4,493,868. Each unit is comprised of one Common Share ("Common Share") and one half of one Common Share purchase warrant (each such whole Common Share purchase warrant a "Warrant"). Each Warrant shall be exercisable into one additional Common Share of the Corporation ("Warrant Share") at an exercise price of $.50 per Common Share for a period of twenty-four months from the closing date provided, however, that if at any time that is 12 months after the closing date, the closing trading price of the Common Shares on the TSX Venture Exchange or other recognized exchange is greater than $1.00 for a period of 30 consecutive trading days, the Corporation shall have an option, exercisable in its sole discretion within 10 days of the end of the aforesaid 30 day period, to request that the subscribers exercise their Warrants by providing notice (the "Notice") advising the subscribers that they shall have 10 days from their receipt of such Notice to exercise their Warrants and any unexercised Warrants after the expiry of the 10th day following their receipt of such Notice shall expire with no further rights and privileges attached thereto. The warrants were valued at $1,216,188, net of share issue costs on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 1.41%, expected dividend yield of 0%, expected stock price volatility of 195%, and expected life of 2 years.

In connection with the private placement, the Company paid cash commissions of $327,205 to the agents and issued 1,016,067 broker warrants to acquire common shares at an exercise price of $0.35 per share for eighteen months from the date of issue under the same terms as the Private Placement. The fair value of the broker warrants issued on the private placement was $377,896 based on the fair value of proceeds received using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 1.41%, expected dividend yield of 0%, expected stock price volatility of 215%, and expected life of 18 months.

(b) On February 12, 2010, the Company issued 10,214,403 units at $.35 per unit for gross proceeds of $3,575,042. Each Unit is comprised of one Common Share ("Common Share") and one half of one Common Share purchase warrant (each such whole Common Share purchase warrant a "Warrant"). Each Warrant shall be exercisable into one additional Common Share of the Corporation ("Warrant Share") at an exercise price of $.50 per Common Share for a period of twenty-four months from the Closing Date provided, however, that if at any time that is 12 months after the Closing Date, the closing trading price of the Common Shares on the TSX Venture Exchange or other recognized exchange is greater than $1.00 for a period of 30 consecutive trading days, the Corporation shall have an option, exercisable in its sole discretion within 10 days of the end of the aforesaid 30 day period, to request that the subscribers exercise their Warrants by providing notice (the "Notice") advising the subscribers that they shall have 10 days from their receipt of such Notice to exercise their Warrants and any unexercised Warrants after the expiry of the 10th day following their receipt of such Notice shall expire with no further rights and privileges attached thereto. The warrants were valued at $956,651, net of share issue costs on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 1.21%, expected dividend yield of 0%, expected stock price volatility of 195%, and expected life of 2 years.

In connection with the private placement, the Company paid cash commissions of $233,459 to the agents, incurred cash expenses for $63,017 and issued 555,728 broker warrants for common shares ("Common Share Broker Warrants") and 107,235 broker warrants for units ("Unit Broker Warrants"). Each Common Share Broker Warrant is exercisable into a common share at a price of $0.35 per share for eighteen months from the date of issue under the same terms as the Private Placement. Each Unit Broker Warrant is exercisable into one Common share and one-half of one Common Share Purchase Warrant at a price of $0.50 per unit for eighteen months from the date of issuance.The Company also issued 126,187 finders warrants to aquire common shares at $.50 per share for two years from the date of issue under the same terms as the Private Placement. The fair value of the broker warrants issued on the private placement was $244,312 and finders warrants was $45,171 based on the fair value of the proceeds received using the Black-Scholes option pricing model with the following weighted average assumptions for broker Warrants: risk-free interest rate of 1.21%, expected dividend yield of 0%, expected stock price volatility of 216%, and expected life of 18 months. and for finders Warrants: risk-free interest rate of 1.21%, expected dividend yield of 0%, expected stock price volatility of 195%, and expected life of 2 years.

(c) During the year, the Company initiated a normal course issuer bid ("NCIB") to acquire a maximum of 5,212,489 shares of the Company. The bid resulted in the Company buying back 1,784,000 of its shares for cancellation at a weighted average price of $0.17 for a total consideration of $300,477.

NOTES to the Consolidated Financial Statements

For the years ended December 31

Warrants

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

	Number of Warrants #	Weighted Average Exercise Price $	Value $
Balance December 31, 2008	3,122,500	0.50	360,558
Issued as part of private placements	13,578,001	0.25	1,041,521
Issued as part of private placements – Broker warrants	1,211,266	0.15	286,083
Issued as part of private placements – Finder warrants	1,504,333	0.25	199,789
Balance December 31, 2009	19,416,100	0.28	1,887,951
Issued as part of private placements	11,527,007	0.50	2,172,839
Issued as part of private placements – Broker warrants	1,679,030	0.35	622,208
Issued as part of private placements – Finder warrants	126,187	0.50	45,171
Warrants exercised	(270,980)	(0.16)	(48,486)
Balance, December 31, 2010	32,477,344	0.36	4,679,683

As at December 31, 2010, the following warrants were outstanding:

Date Granted	Warrants Granted #	Exercise Price $	Expiry Date
June 14, 2007	3,122,500	0.50	June 14, 2012
November 9, 2009	11,788,501	0.25	November 9, 2011
November 9, 2009	705,520	0.15	November 9, 2011
December 4, 2009	2,740,833	0.25	December 4, 2011
December 4, 2009	148,166	0.15	December 4, 2011
December 7, 2009	533,000	0.25	December 7, 2011
December 7, 2009	106,600	0.15	December 7, 2011
January 29, 2010	6,419,811	0.50	January 29, 2012
January 29, 2010	1,016,067	0.35	July 29, 2011
February 12, 2010	5,233,383	0.50	February 12, 2012
February 12, 2010	662,963	0.35	August 12, 2011
	32,477,344	0.36	

Warrants

The following table summarizes information about warrants outstanding as at December 31, 2010 and December 31, 2009:

	2010			2009		
Range of Exercise Price	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
$0.15 to $0.50	32,477,344	$0.36	2.47	19,416,100	$0.28	1.97

NOTES to the Consolidated Financial Statements

For the years ended December 31

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. 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:

	Options Granted	Weighted Average Exercise Price
Balance, December 31, 2009	6,757,334	0.32
Granted February 16, 2010	3,755,156	0.33
Granted July 20, 2010	100,000	0.33
Granted December 23, 2010	2,030,000	0.25
Expired June 22, 2010	(2,073,025)	(0.23)
Cancelled September 30, 2010	(370,000)	(0.37)
Balance December 31, 2010	10,199,465	0.33

As at December 31, 2010, the following options were outstanding:

Date of Grant	Options Granted and Exercisable Number of Options	Exercise Exercise Price Canadian $	Expiry Date
August 17, 2006	648,000	0.45	August 9, 2011
April 4, 2007	666,019	0.45	April 4, 2012
July 10, 2008	100,000	0.40	July 10, 2013
February 2, 2009	1,230,290	0.40	February 2, 2014
June 24, 2009	150,000	0.40	June 24, 2014
June 30, 2009	100,000	0.40	June 30, 2014
December 14, 2009	1,570,000	0.25	December 14, 2014
February 16, 2010	3,605,156	0.33	February 16, 2015
July 20, 2010	100,000	0.33	July 20, 2015
December 23, 2010	2,030,000	0.25	December 23, 2015
	10,199,465	0.33	

(i) On February 16, 2010, the Company granted 3,755,156 stock options to directors, officers and consultants of the Company, exercisable at $0.33 per share until February 16, 2015. During the year ended December 31, 2010, 150,000 stock options granted to a director were cancelled as the director resigned from the Company. 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 2.21%, expected dividend yield of 0%, expected stock price volatility 157%, and expected option life of five years. The stock options which vest immediately upon grant, were assigned a value of $1,545,774.

(ii) On July 20, 2010, the Company granted 100,000 stock options to a consultant of the Company, exercisable at $0.33 per share until July 20, 2015. 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 2.20%, expected dividend yield of 0%, expected stock price volatility 155%, and expected option life of five years. The stock options which vest immediately upon grant, were assigned a value of $16,594.

(iii) On December 23, 2010, the Company granted 2,030,000 stock options to directors, officers and consultants of the Company, exercisable at $0.25 per share until December 23, 2015. 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 2.24%, expected dividend yield of 0%, expected stock price volatility 153% and expected option life of five years. The stock options which vest immediately upon grant, were assigned a value of $329,841.

Stock-based compensation expense was $1,892,209 in the year ended December 31, 2010 (2009 – $679,638), of which $118,961 (2009 – $34,575) was capitalized to interest in mineral properties.

NOTES to the Consolidated Financial Statements

For the years ended December 31

The following tables summarize information about stock options outstanding as at December 31, 2010 and December 31, 2009 (all of which are exercisable):

Range of Exercise Price	Number of Options	Weighted Average Remaining Life (Years)
December 31, 2010		
$0.25 – 0.45	10,199,465	3.71
December 31, 2009		
$0.20 – 0.45	6,757,334	2.73

Contributed Surplus	$
Balance, December 31, 2008	3,062,669
Stock-based compensation	679,638
Balance, December 31, 2009	3,742,307
Stock-based compensation	1,892,209
Balance, December 31, 2010	5,634,516

11. Income Taxes

Provision for Income Taxes

The provision for (recovery of) income taxes is as follows:

	2010 $	2009 $
Loss for the year:	(3,141,015)	(1,435,508)
Expected income tax benefit	(973,700)	(473,000)
Adjustments to benefit resulting from:		
Stock-based compensation	586,000	225,000
Share issue costs	(95,000)	(59,470)
Other	3,700	135,280
Change in valuation allowance	479,000	172,190
	—	—

Future Tax Balances

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

	2010 $	2009 $
Future income tax assets (liabilities):		
Non-capital losses carried forward	1,648,000	1,578,000
Share issue costs	267,000	160,000
Unrealized gain on share investment	(137,000)	—
Valuation allowance	(1,778,000)	(1,738,000)
Net Future Taxes	—	—

NOTES to the Consolidated Financial Statements

For the years ended December 31

Tax Loss Carry-forwards

The Company has accumulated non-capital losses for Canadian tax purposes of approximately $6,593,000 that expire in various years to 2030 as follows:

Year of Expiry	Canada $
2012	90,600
2014	302,700
2015	830,300
2026	900,400
2027	996,000
2028	1,182,000
2029	746,000
2030	1,545,000
	6,593,000

12. Related Party Transactions

(a) Included in accounts payable and accrued liabilities as of December 31, 2010 was $84,053 (2009 - $66,662) owing to directors and officers, which includes accrued management compensation.

(b) During the period ended December 31, 2010, $1,411,148 (2009 – $291,076) was paid or payable to an officer for management salaries, including non cash stock based compensation of $1,157,420 (2009 – $66,296) and cash compensation for $253,728 (2009 – $224,780).

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.

13. Commitment

(a) The Company is committed to a minimum amount of rental payments under a long-term lease for their premises in Ontario, Canada which expires June 30, 2013. Future minimum lease payments under operating leases for the premises at December 31, 2010 are payable as follows:

2011	$ 27,704
2012	28,908
2013	14,454
	$ 97,565

(b) The Company is committed to a minimum amount of rental payments under a long-term lease for their premises in Ghana which expires February 28, 2012. Future minimum lease payments under operating leases for the premises at December 31, 2010 are payable as follows:

2011	$ 12,000
2012	2,000
	$ 14,000

NOTES to the Consolidated Financial Statements

For the years ended December 31

14. Segmented Information

The Company's principal operations are the acquisition, exploration and development of mineral properties.
The location of assets is as follows:

Assets	2010				2009			
	Canada	Tanzania	Ghana	Total	Canada	Tanzania	Ghana	Total
	$	$	$	$	$	$	$	$
Cash	1,180,960	5,550	78,368	1,264,878	291,856	250	5,495	297,601
Short-term Investments	2,288,387	—	—	2,288,387	2,360,845	—	—	2,360,845
Marketable securities	601,000	—	—	601,000	53,000	—	—	53,000
Prepaid expenses and deposits	65,494	—	13,780	79,274	7,852	—	—	7,852
Sundry receivables	20,476	—	—	20,476	8,128	—	—	8,128
Equipment	20,913	—	—	20,913	27,231	—	—	27,231
Interest in mineral properties and deferred exploration expenses	—	2,743,518	9,697,872	12,441,390	—	2,517,168	4,891,067	7,408,235
Total	4,177,230	2,749,068	9,790,020	16,716,318	2,748,912	2,517,418	4,896,562	10,162,892

Substantially all operating expenses are incurred in Canada.

15. Subsequent Events

Subsequent to the year ended December 31, 2010, the Company applied for listing with the OTCQX and has been trading since January 24, 2011.

Subsequent to the year ended December 31, 2010, the Company received consideration of $79,374 for the exercise of 529,160 broker warrants.

CORPORATE INFORMATION

MANAGEMENT

President & CEO
Kim F. Harris, M.A.

Vice President, Exploration
Thomas J. Neelands, P.Geo.

Chief Financial Officer
Paul E. Singer, C.A.

Vice President, Finance
Rakesh Malhotra, C.A., C.P.A.

Controller & Assistant Vice President, Administration
Naomi Kassabian-Benedikt

BOARD OF DIRECTORS

Chair
R. John Carruthers (Independent)

Vice Chair
Kim F. Harris, M.A.

Vice Chair
Edward A. Harris

Directors
Keith Baptist, F.C.C.A. (Independent)
Mark Keatley, M.B.A., M.A., M.Phil. (Independent)
Karl Schmed (Independent)

Technical Advisor to the Board
David Groves, Ph.D., M.Sc. (Independent)

HEAD OFFICE

1210 Sheppard Avenue East, Suite 302
Toronto, Ontario, Canada M2K 1E3
Tel: +1 416 492 6992
Fax: + 1 416 492 6993
Email: info@midlandsminerals.com
Website: www.midlandsminerals.com

REGIONAL OFFICES

Ghana
Christman House, Suite 203
P.O. Box 30679 K.I.A.
Accra
Ghana
Tel: + 233 (0) 302 772 441

Tanzania
P.O. Box 1175
Shinyanga
Tanzania
Tel: + 255 282 763 931

CORPORATE SERVICES

Corporate Secretary
DSA Corporate Services Inc.

Bankers
Royal Bank of Canada

Auditors
Schwartz, Levitsky, Feldman, LLP

Transfer Agent
Equity Transfer & Trust Company

CAPITAL STRUCTURE

Ticker Symbols: TSX-V: MEX, OTCQX: MDLXF
Issued and Outstanding Shares: 102,436,771
(At December 31, 2010)

Midlands Minerals
TSX-V:MEX OTCQX:MDLXF

1210 Sheppard Avenue East, Suite 302
Toronto, Ontario, Canada M2K 1E3
Tel: +1 416 492 6992 | Fax: +1 416 492 6993

www.midlandsminerals.com