



MIDNIGHT

Oil Exploration Ltd.

ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON THURSDAY, MAY 14, 2009

NOTICE OF MEETING

AND

INFORMATION CIRCULAR

April 14, 2009



NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting (the "Meeting") of the holders ("Shareholders") of common shares ("Common Shares") of Midnight Oil Exploration Ltd. ("Midnight" or the "Corporation") will be held at the Sun Life Plaza Conference Centre, Sun Life Plaza, Second Floor, 140 – 4th Avenue S.W., Calgary, Alberta, on Thursday, the 14th day of May, 2009 at 10:00 a.m. (Calgary time). The purpose of the Meeting is to:

1. receive and consider the audited consolidated financial statements of the Corporation for the year ended December 31, 2008, together with the auditors' report thereon;
2. to fix the number of Directors of the Corporation to be elected at the Meeting at five (5) members;
3. elect directors of the Corporation for the ensuing year;
4. appoint auditors of the Corporation for the ensuing year at a remuneration to be determined by the board of directors of the Corporation;
5. transact such other business as may properly be brought before the Meeting.

Shareholders are referred to the accompanying Information Circular dated April 14, 2009 (the "Information Circular") for more detailed information concerning the matters to be considered at the Meeting.

The management and board of directors ("**Board**" or "**board of directors**") of Midnight encourage you to participate by ensuring that your shareholdings are represented and that your wishes are made known at the Meeting. If you are unable to attend the Meeting in person, we request that you date and sign the enclosed form of proxy and mail it to or deposit it with the President of the Corporation c/o Valiant Trust Company 310, 606 – 4th Street S.W., Calgary, Alberta T2P 1T1, Fax No. (403) 233-2857. In order to be valid and acted upon at the Meeting, forms of proxy must be returned to the aforesaid address not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time for holding the Meeting or any adjournment thereof. Shareholders are cautioned that the use of the mails to transmit proxies is at each Shareholder's risk.

The record date for the determination of Shareholders entitled to receive notice of and to vote at the Meeting is the close of business on March 31, 2009 (the "Record Date"). Shareholders of record will be entitled to vote those shares included on the list of Shareholders entitled to vote at the Meeting prepared as at the Record Date, unless any such Shareholder transfers his shares after the Record Date and the transferee of those shares establishes that he owns the shares and demands, not later than 10 days before the Meeting, that the transferee's name be included on the list of Shareholders entitled to vote at the Meeting, in which case such transferee shall be entitled to vote such shares at the Meeting.

DATED at Calgary, Alberta, this 14th day of April 2009.

**BY ORDER OF THE BOARD OF DIRECTORS OF
MIDNIGHT OIL EXPLORATION LTD.**

(signed) "*Fred Woods*"
Fred Woods
President and Chief Executive Officer

TABLE OF CONTENTS

| | |
|--|----|
| GENERAL PROXY INFORMATION | 1 |
| Solicitation of Proxies | 1 |
| Revocability of Proxies | 1 |
| Advice to Beneficial Shareholders | 1 |
| Exercise of Discretion by Proxyholders | 3 |
| Record Date | 3 |
| Voting Securities and Principal Holders Thereof | 3 |
| BUSINESS TO BE ACTED UPON AT THE MEETING | 3 |
| Financial Statements and Auditors' Report | 3 |
| Election of Directors | 4 |
| Appointment of Auditors | 7 |
| STATEMENT OF EXECUTIVE COMPENSATION | 7 |
| Compensation Discussion and Analysis (CD&A) | 7 |
| Compensation Philosophy | 7 |
| Compensation and Market Position | 8 |
| Compensation Elements and Compensation Decisions | 8 |
| Base Salary | 9 |
| Bonuses | 9 |
| Long-term Incentives | 9 |
| Option Based Awards | 10 |
| Share Awards | 10 |
| Employee Stock Savings Plan | 11 |
| Perquisites | 11 |
| Performance Graphs | 11 |
| Summary Compensation Table | 14 |
| Summary Compensation Table | 14 |
| Incentive Plan Awards | 15 |
| Outstanding Share-Based Awards and Options-Based Awards | 15 |
| Stock Options | 16 |
| Retirement Plan Benefits | 16 |
| Termination and Change of Control | 16 |
| Director Compensation | 17 |
| Director Compensation Table | 17 |
| Incentive Plan Awards | 17 |
| Outstanding Share-Based Awards and Option-Based Awards | 17 |
| Indebtedness of Directors and Senior Officers | 18 |
| Shared Services and Transactions with Daylight Energy Ltd. | 18 |
| CORPORATE GOVERNANCE POLICIES AND PRACTICES | 19 |
| Board of Directors | 19 |
| Board and Committee Meetings and Meeting Attendance | 20 |
| Board Mandate | 20 |
| Board Committees | 20 |
| Orientation and Continuing Education | 22 |
| Ethical Business Conduct | 22 |
| Nomination of Directors | 22 |
| Assessments | 23 |
| Position Descriptions | 23 |
| INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS | 23 |
| INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON | 23 |
| ADDITIONAL INFORMATION | 23 |
| OTHER MATTERS | 23 |

SCHEDULE "A" – Mandate of the Board of Directors

SCHEDULE "B" – Midnight Oil Exploration Ltd. – Stock Option Plan (Amended and Restated Effective May 11, 2007)

INFORMATION CIRCULAR

**For the Annual Meeting of Shareholders
to be held at 10:00 a.m. (Calgary time) on Thursday, May 14, 2009 at
the Sun Life Plaza Conference Centre, Sun Life Plaza, Second Floor, 140 – 4th Avenue S.W. Calgary,
Alberta, Canada**

GENERAL PROXY INFORMATION

This Information Circular dated April 14, 2009 is furnished to holders ("Shareholders") of common shares ("Common Shares") of Midnight Oil Exploration Ltd. ("Midnight" or the "Corporation") by management of Midnight, in connection with the solicitation by management of proxies to be used at the Annual Meeting of Shareholders (the "Meeting") to be held at 10:00 a.m. (Calgary time) on Thursday, May 14, 2009 at the Sun Life Plaza Conference Centre, Sun Life Plaza, Second Floor, 140 – 4th Avenue S.W., Calgary, Alberta, Canada, and at any adjournment thereof, for the purposes set forth in the accompanying Notice of Meeting.

Solicitation of Proxies

The enclosed proxy is solicited by and on behalf of the management of Midnight. The persons named in the enclosed proxy form are executive officers of Midnight. A Shareholder entitled to vote at the Meeting that wishes to appoint some other person (who need not be a Shareholder) to represent them at the Meeting may do so either by inserting such other person's name in the blank space provided in the enclosed proxy form or by completing another proper instrument of proxy.

The proxy must be dated and signed by the registered Shareholder or by his attorney authorized in writing or by the intermediary. If the proxy is not dated it will be deemed to bear the date on which it was received by our management. In the case of a corporation, the proxy must be executed under its corporate seal or signed by a duly authorized officer or attorney for the corporation with proof of authority accompanying the proxy.

In order to be valid and acted upon at the Meeting, the completed proxy form or other proper instrument of proxy must be deposited with Valiant Trust Company (Attention: Proxy Department) at Suite 310, 606 - 4th Street S.W., Calgary, Alberta T2P 1T1 (Fax No: (403) 233-2857) at least 48 hours (excluding Saturdays, Sundays and holidays) before the Meeting or any adjournment thereof, or delivered to the chair of the Meeting on the day thereof prior to commencement of the Meeting.

Solicitation of proxies will be primarily by mail, but some proxies may be solicited personally or by telephone, facsimile transmission or other electronic means by officers, directors, or employees of Midnight at a nominal cost. The cost of solicitation will be borne by the Corporation.

Revocability of Proxies

A Shareholder who has given a proxy may revoke it either by: (a) depositing an instrument in writing executed by the Shareholder or by the Shareholder's attorney authorized in writing (i) at the registered office of Midnight located at Suite 2500, 144 – 4th Avenue S.W. Calgary, Alberta T2P 3N4, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or (ii) with the chair of the Meeting on the day of the Meeting or any adjournment thereof, or (b) in any other manner permitted by law, including by attending the Meeting in person and registering with the scrutineers as a Shareholder personally present.

Advice to Beneficial Shareholders

The foregoing information regarding the appointment and revocation of proxies is generally applicable only to registered Shareholders, being persons who are recorded as holders of Common Shares in the securities register maintained by or on behalf of Midnight by its registrar and transfer agent.

The information in this section is of significant importance to many Shareholders, as a substantial number do not hold their Common Shares in their own name. Shareholders who beneficially own Common Shares but do not appear on the records of Midnight as the registered holder of such shares are referred to in this section as "Beneficial Shareholders". Common Shares owned by Beneficial Shareholders are typically registered in the name of a broker or other intermediary (including trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans) or in the name of a depository of which the intermediary is a participant.

Beneficial Shareholders should note that only proxies deposited by a person whose name appears on the records of Midnight as the *registered* holder of Common Shares will be recognized and acted upon at the Meeting. Common Shares listed in an account statement provided by a broker will, in most cases, *not* be registered in the person's own name in the securities register maintained by or on behalf of the Corporation. Such Common Shares will more likely be registered under the name of the person's broker or an agent of that broker. In Canada, the vast majority of such shares are registered under the name of CDS & Co. (the registration name for The Canadian Depository for Securities, which acts as nominee for many Canadian brokerage firms).

Shares held by brokers or their agents or nominees can only be voted (for or against resolutions) upon the instructions of the Beneficial Shareholder. Without specific instructions, a broker and its agents and nominees are prohibited from voting such Common Shares for the broker's clients. Beneficial Shareholders should therefore ensure that instructions regarding the voting of their Common Shares are properly communicated to the appropriate person well in advance of the Meeting.

Applicable Canadian regulatory policy requires brokers and other intermediaries holding Common Shares on behalf of others to seek voting instructions from Beneficial Shareholders in advance of shareholders' meetings. The various brokers and other intermediaries have different mailing and delivery procedures and provide their own return instructions to clients, which should be carefully followed by Beneficial Shareholders in order to ensure that their Common Shares are voted at the Meeting. In some cases, the instrument of proxy supplied to a Beneficial Shareholder by its broker (or the broker's agent or nominee) is very similar or even identical to the proxy form provided to registered Shareholders by the Corporation. Its purpose, however, is limited to instructing the registered Shareholder (the broker or its agent or nominee) how to vote on behalf of the Beneficial Shareholder.

In Canada, most brokers now delegate responsibility for obtaining instructions from their clients to Broadridge Financial Solutions, Inc. ("Broadridge"). Broadridge typically sends to Beneficial Shareholders a machine-readable voting instruction form in lieu of the proxy form provided by the Corporation, and asks Beneficial Shareholders to return the voting instruction form to, or otherwise communicate their voting instructions to, Broadridge by following specified telephone or internet-based voting procedures. Broadridge then tabulates the results of all instructions received and provides appropriate instructions regarding the voting of Common Shares to be represented at the Meeting. A Beneficial Shareholder who receives a voting instruction form from Broadridge cannot use that form to vote Common Shares directly at the Meeting. The voting instruction form must instead be returned to Broadridge well in advance of the Meeting in order to have the Common Shares to which the instructions relate voted at the Meeting.

Although a Beneficial Shareholder may not be recognized directly at the Meeting for the purposes of voting Common Shares that are registered in the name of their broker or other intermediary (or an agent or nominee thereof), a Beneficial Shareholder may attend the Meeting as proxyholder for the registered Shareholder and vote their Common Shares in that capacity. Beneficial Shareholders who wish to attend the Meeting and indirectly vote their Common Shares as proxyholder for the registered Shareholder, should enter their own names in the blank space on the voting instruction form or form of proxy provided to them and return the document to their broker or other intermediary (or its agent) in accordance with the instructions provided by such broker or other intermediary (or agent) well in advance of the Meeting.

Beneficial Shareholders should contact their broker or other intermediary through which they hold Common Shares if they have any questions regarding the voting of such Common Shares.

Exercise of Discretion by Proxyholders

On any vote of ballot that may be called for at the Meeting or any adjournment thereof, the persons named in the enclosed proxy form will vote or withhold from voting the Common Shares in respect of which they are appointed proxyholder in accordance with the instructions of the Shareholder appointing them. In the absence of any such direction, the Common Shares to which the proxy relates will be voted FOR each of the matters referred to in the Notice of Meeting and in this Information Circular.

The enclosed proxy form confers discretionary authority on the persons named therein to vote Common Shares and otherwise act in the proxyholder's discretion with respect to any amendments or variations to matters identified in the Notice of Meeting and with respect to any other matters that may properly come before the Meeting or any adjournment thereof.

At the time of printing this Information Circular, Midnight's management knows of no amendments, variations or other matters to come before the Meeting other than the matters referred to in the Notice of Meeting and in this Information Circular. If any such amendment, variation or other matter properly comes before the Meeting, the Common Shares represented by proxies in favour of management will be voted in accordance with the proxyholder's best judgment.

Record Date

The record date ("Record Date") for the determination of Shareholders entitled to receive notice of and to vote at the Meeting or at any adjournment thereof is March 31, 2009.

In accordance with the provisions of the *Business Corporation Act* (Alberta), the Corporation will prepare a list of the Shareholders recorded as holders of Common Shares on its register of Shareholders as of the close of business on the Record Date, each of whom shall be entitled to vote the Common Shares shown opposite their name on the list at the Meeting or any adjournment thereof, except to the extent that: (a) any such Shareholder has transferred ownership of any of their Common Shares subsequent to the Record Date; and (b) the transferee produces properly endorsed share certificates evidencing the transfer or otherwise establishes that the transferee owns the transferred Common Shares and demands, not later than 10 days before the Meeting, that they be included on the list of Shareholders entitled to vote at the Meeting, in which case the transferee will be entitled to vote the transferred Common Shares at the Meeting or any adjournment thereof.

In addition, persons who are Beneficial Shareholders as of the Record Date will be entitled to exercise their voting rights in accordance with the procedures established under National Instrument 54-101 *Communications with Beneficial Owners of Securities of a Reporting Issuer*.

Voting Securities and Principal Holders Thereof

As at the date hereof, there are 57,885,129 Common Shares outstanding, each carrying the right of one vote on any matter properly coming before the Meeting or any adjournment thereof.

To the knowledge of the directors and executive officers of Midnight, as at the date hereof, no person or company beneficially owns, or controls or directs, directly or indirectly, securities carrying more than 10% of the voting rights attached to all issued and outstanding voting securities of the Corporation.

BUSINESS TO BE ACTED UPON AT THE MEETING

Financial Statements and Auditors' Report

The audited consolidated financial statements of Midnight for the year ended December 31, 2008, together with the auditors' report thereon have been mailed and will be placed before the Shareholders at the Meeting. The financial statements are also available through the internet via the System for Electronic Document Analysis and Retrieval ("SEDAR") maintained by the Canadian Securities Administrators at

www.sedar.com. No formal action will be taken at the Meeting to approve the financial statements, which have been approved by the board of directors of the Corporation in accordance with applicable corporate and securities legislation. Any question regarding the financial statements may be brought forward at the Meeting.

Election of Directors

At the Meeting, the Shareholders will be asked to fix the number of directors of the Corporation to be elected at five (5) members. The Corporation currently has six (6) directors:

Fred Woods
Anthony Lambert
Jay Squiers
Tom Medvedic
Peter Harrison
Robert Zakresky

Each of the current directors is proposed to be nominated for re-election at the Meeting except for Tom Medvedic, who will not be standing for re-election. Mr. Zakresky was appointed to the Midnight board on April 6, 2009. Management does not propose to nominate any other person for election as a director at this time. Each person elected as a director of the Corporation will hold office until the next Annual Meeting of the Shareholders or until his successor is duly elected or appointed or his office is vacated earlier in accordance with the *Business Corporations Act* (Alberta) and the articles and by-laws of the Corporation.

Management of Midnight expects that each of the nominees will be willing and able to serve as a director of the Corporation. However, if any vacancies occur in the nominee slate, because any nominee does not stand for re-election at the Meeting or is unable, or not willing to serve, or for any other reason, proxies will be voted for another nominee at the proxyholder's discretion unless the Shareholder giving the proxy has specified that their Common Shares are to be withheld from voting on the election of directors or has withheld discretionary authority.

At the Meeting, management of the Corporation proposes to nominate for election as directors of the Corporation the nominees identified below. Unless otherwise directed by the Shareholders appointing them as proxyholder, the persons named in the enclosed proxy form intend to vote FOR the election of such persons as directors of the Corporation.

The following table sets forth the name and jurisdiction of residence of each person proposed to be nominated for election as a director, their principal occupation, business or employment currently and during the past five years, the date each first became a director of the Corporation, and the number of Common Shares beneficially owned, or controlled or directed, directly or indirectly, by each of them as at April 14, 2009:

| Name and Jurisdiction of Residence | Principal Occupation | Director Since | Common Shares Held⁽¹⁾ | Options Held |
|---|--|---------------------------|---|---------------------|
| Fred Woods Calgary, Alberta, Canada | Mr. Woods has over 30 years of experience in the petroleum industry. Mr. Woods is the President, Chief Executive Officer and Chairman of Midnight or its predecessor since May 2000. From March 1997 to May 2000, Mr. Woods was President and Chief Operating Officer of Ulster Petroleum Ltd. (an intermediate oil and gas company). Mr. Woods served on the Board of Governors of the Canadian Association of Petroleum Producers (CAPP). Mr. Woods serves as the Chairman of the Board of Daylight Energy Ltd., administrator of Daylight Resources Trust. | October 1, 2004 | 2,606,191 | 675,000 |
| Anthony Lambert ⁽³⁾⁽⁴⁾⁽⁵⁾ Calgary, Alberta, Canada | Mr. Lambert has been President, Chief Executive Officer and a Director of Daylight Energy Ltd. or its predecessors since November 2004. On August 3, 2005 he resigned as Vice-President, Operations, and Chief Operating Officer of Midnight. Mr. Lambert has been a Director of Midnight or its predecessor since July 2000. Mr. Lambert also sits on the Board of Daylight Energy Ltd., administrator of Daylight Resources Trust. | November 30, 2004 | 941,464 | 62,500 |
| Jay Squiers ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾ Dallas, Texas, United States of America | Mr. Squiers has been Senior Vice-President of CSG Investments, an investment arm of Beal Bank since January 2009. Prior thereto, Mr. Squiers was a Principal of American Capital in the Dallas based Energy Group starting in October 2007. Prior thereto Mr. Squiers was a Managing Director of Fortress Investment Group, LLC, an investment and asset management firm starting in August 2005. From August 2002 until July 2005, he was a Senior Vice-President of Prudential Capital Group, a private capital lender. Mr. Squiers began his career at Prudential Capital Group in 1991. Mr. Squiers holds a Bachelor of Economics from Princeton University and a law degree from the University of Texas, and he is also a Chartered Financial Analyst. | November 30, 2004 | 60,195 | 62,500 |
| Peter Harrison ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾ Brossard, Québec Canada | Mr. Harrison is a Senior Vice-President of Montrusco Bolton Investments Inc. (Montreal) since December 1997. Mr. Harrison has significant financial experience, he holds a Bachelor of Commerce degree from McGill University, and an MBA from the University of Western Ontario, and is a Chartered Financial Analyst. Mr. Harrison serves on the Board of Freehold Resources Ltd., administrator of Freehold Royalty Trust. | April 9, 2007 | 56,557 | 62,500 |

| Name and Jurisdiction of Residence | Principal Occupation | Director Since | Common Shares Held ⁽¹⁾ | Options Held |
|--|--|-------------------|---|--------------|
| Robert Zakresky ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾ | Mr. Zakresky is President and CEO of Crocotta Energy Inc. since November 2006. Mr. Zakresky obtained his Bachelor of Commerce from the University of Saskatchewan in 1988. He obtained his Chartered Accountant designation with Price Waterhouse Coopers LLP in 1990. From 1993 to October 2006, Mr. Zakresky has sequentially held the position of President, CEO and a director of Bellator Exploration Inc., Viracocha Energy Inc., Chamaelo Energy Inc. and Chamaelo Exploration Ltd. | April 6, 2009 | 816,500 | None |

Notes:

- (1) Information as to common shares beneficially owned, or controlled or directed, directly or indirectly as at April 14, 2009, is based on data furnished to Midnight by the nominee directors and may include shares held by spouses, family trusts and related corporations of the respective nominee directors.
- (2) Member of the Audit Committee, which committee is required pursuant to the *Business Corporations Act* (Alberta).
- (3) Member of the Compensation Committee.
- (4) Member of the Reserves Committee.
- (5) Member of the Corporate Governance Committee.

Corporate Cease Trade Orders or Bankruptcies

No director, officer or promoter of Midnight has, within the last ten (10) years, been a director, officer or promoter of any reporting issuer that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the company access to any statutory exemption for a period of more than 30 consecutive days or was declared a bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold the assets of that person.

Penalties or Sanctions

No director, officer or promoter of Midnight, within the last ten (10) years, has been subject to any penalties or sanctions imposed by a court or securities regulatory authority relating to trading in securities, promotion or management of a publicly traded issuer or theft or fraud.

Personal Bankruptcies

No director, officer or promoter of Midnight, or, to the knowledge of Midnight, a Shareholder holding sufficient securities of Midnight to affect materially the control of Midnight, or a personal holding company of any such persons, has, within the last ten (10) years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold the assets of the individual.

Conflicts of Interest

The directors and officers of Midnight may, from time to time, be involved with the business and operations of other oil and gas issuers, in which case a conflict of interest may arise between their duties as officers and directors of Midnight and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such procedures and remedies, as applicable, under the *Business Corporations Act* (Alberta).

Appointment of Auditors

Unless otherwise directed, it is management's intention to vote the proxies in favour of an ordinary resolution to re-appoint the firm of KPMG LLP, as auditors of Midnight until the next Annual Meeting of the Shareholders and to authorize the directors to fix their remuneration as such. KPMG LLP has been Midnight's auditors since October 28, 2004.

Fees paid or payable to Midnight's auditors for professional services rendered to Midnight in 2008 are described in the adjacent table.

| | |
|--|------------|
| Audit Related Services rendered in connection with the audit of Midnight's financial statements for the period ended December 31, 2008 and for services provided in connection with statutory and regulatory filings | \$ 127,500 |
| Audit Related Services | Nil |
| Tax Related Services | 8,100 |
| Total | \$ 135,600 |

STATEMENT OF EXECUTIVE COMPENSATION

For the year ended December 31, 2008 the Named Executive Officers ("NEOs") and their principal position in accordance with National Instrument 51-102 were:

Fred Woods, President and Chief Executive Officer
Judy Stripling, Executive Vice President and Chief Financial Officer
Thomas Moslow, Senior Vice President, Exploration
Andrew Weldon, Vice President, Business Development; and
Martin Saizew, Vice President, Engineering

Compensation Discussion and Analysis (CD&A)

Compensation Philosophy

Midnight's compensation philosophy provides a framework for the Corporation to attract and retain a staffing complement consistent with the primary elements of our business strategy while balancing the short and long-term requirements of the Corporation, individual employees and Shareholders in a mutually beneficial fashion.

For Midnight, this means a competitive compensation package including base pay, performance based pay/incentives, equity based pay/incentives and competitive benefits. Midnight's compensation programs reward outstanding business performance and execution of our business strategy and will consider the short-term and long-term requirements of the Corporation, individual employees and Shareholders.

Midnight's compensation philosophy is founded on the following principles:

1. The value-add from the results delivered by a strong, highly skilled multi-disciplinary team significantly exceeds the cost.
2. Within a relatively flat organization structure compensation levels will be internally equitable and team goal achievement will be balanced with individual achievement.
3. A stratified system of compensation that matches the various categories (levels of responsibility and opportunity) of individuals with correspondingly appropriate compensation components.

4. As seniority of position within the organization increases there is an accelerating performance expectation standard with a corresponding acceleration of rewards potential through performance driven compensation programs.

Based on the general guidance provided by these principal elements, Midnight's compensation plans and programs will be periodically modified to recognize the dynamic talent resource environment and competitive environment within which we operate.

Compensation and Market Position

Over the past year the junior oil and gas sector has experienced its share of challenges and Midnight has participated in those industry challenges. However, the market for talented staff was still extremely competitive and market competitive salaries and recognition of effort and contribution was required through salary adjustments and bonuses.

The Mercer Petroleum Industry Survey ("Mercer") was used to assist the Corporation in its evaluation of compensation. Midnight considered compensation data from two groups; first a grouping from industry peers based on the measure of company size and second the group comprising the entire energy sector being the group the Corporation generally competes with to attract and retain talent.

Compensation Elements and Compensation Decisions

The NEOs compensation package provides a balanced set of elements designed to deliver the objectives of the compensation philosophy. The fixed elements, salary, perquisites and share ownership plan, provide a competitive base of secure compensation necessary to attract and retain executive talent. The variable elements, comprised of bonuses and long-term incentives, are designed to balance short-term gains with the long-term interests of Midnight and motivate the superior performance of both. The long-term incentive plan also aligns NEOs with Shareholders and helps retain executive talent. The Employee Stock Savings Plan further aligns NEOs with Shareholders and allows NEOs to accumulate wealth for retirement or other purposes. The combination of the fixed elements and the variable incentive opportunities delivers a competitive compensation package as compared to the peers of Midnight.

The CEO presents recommendations and rationale to the Compensation Committee regarding salary adjustments, bonuses and long-term incentives for all staff. The focus of the discussion is on the executive salaries with a lower level of review for the balance of the staff. The Compensation Committee discusses these recommendations with the CEO and prepares their recommendation to the board of directors. Midnight's compensation year under review was July 1, 2007 to July 1, 2008 with compensation awards approved at the board of director's meeting on August 11, 2008. During the last nine months of this period, Midnight re-focused and re-vitalized the Corporation with a renewed and exciting focus on the Deep Basin. The Corporation's stock price increased through this same period compared to its peer group and to the TSX Composite Index and Capped Energy Index.

In determining annual bonuses, raises and other compensation, the Compensation Committee considers financial performance as well as performance across a number of operating measures to assess the operational effectiveness of existing assets and the execution of the Corporation's business strategy. Recognizing the Corporation's performance and understanding the need to attract and retain quality personnel, minimal salary increases and bonuses were proposed with an additional long-term incentive payment being made in the form of Midnight Common Shares. Midnight Common Shares were purchased in the open market and given to employees as a means to compensate staff and align employees with Shareholders as well as to increase Midnight's long-term compensation, which lagged behind the peer group.

At the proposed compensation levels, Midnight would essentially be at the 50th percentile of companies its size for cash compensation and approximately 70% of the 50th percentile for the entire energy sector. The share payments made during the year increased total compensation to approximately the 50th percentile. The following presents the purpose for each element, the Board's compensation decisions and associated rationale for each of the NEOs.

Base Salary

Base Salary provides a competitive salary to attract and retain capable individuals. Salaries reflect market conditions and levels of responsibility.

Salaries are presented as at December 31, 2007 and December 31, 2008.

| | <u>2007 Base Salary</u> | <u>2008 Base Salary</u> |
|---------------------|-------------------------|-------------------------|
| Fred Woods; CEO | \$250,000 | \$257,500 |
| Judy Stripling; CFO | \$200,000 | \$207,500 |
| Thomas Moslow | \$180,000 | \$192,500 |
| Andrew Weldon | \$180,000 | \$192,500 |
| Martin Saizew | \$170,000 | \$187,500 |

For 2008, Mercer had forecast annual base salary increases of between 5% and 7%. The overall corporate salary increase was 5%. Midnight was on the low end of this range on salaries. With the salary increase, the NEOs base salaries reached the 50th percentile for the entire energy sector and approached the 75th percentile for the peer group of similar sized companies.

Bonuses

Bonuses provide a competitive performance-based reward based on the Compensation Committee's assessment of Midnight's annual financial and operating performance. An individual's specific contribution and performance is also taken into consideration.

Bonuses are awarded at the discretion of the Board based on recommendations of the Compensation Committee. The Compensation Committee recommends to the Board, the bonuses for the CEO and CFO and all executives. The Compensation Committee reviews and discusses recent business performance, execution of the long-term business strategy and advancement of the Corporation's competitive position to determine bonus amounts. The metrics and the target levels of performance are not predetermined. In addition to these factors, individual performance is considered in establishing the bonus recommendation for all staff.

| | <u>July 1, 2007 Bonus</u> | <u>July 1, 2008 Bonus</u> | <u>2008 Bonus as a % of 2007 Base Salary</u> |
|---------------------|-------------------------------|-------------------------------|--|
| Fred Woods; CEO | Nil | \$50,000 | 20% |
| Judy Stripling; CFO | \$25,000 | \$40,000 | 20% |
| Thomas Moslow | \$15,000 | \$30,000 | 17% |
| Andrew Weldon | \$15,000 | \$40,000 | 22% |
| Martin Saizew | \$15,000 | \$35,000 | 21% |

The bonuses are typically paid in cash. For 2008 Mercer had forecast bonuses in the range of 15% to 25% of base salary. Midnight's payment of bonuses totalled 13% of eligible annualized base salaries.

Long-term Incentives

Long-term Incentives ("LTI") recognizes employees' long-term contribution to Midnight; provides a competitive, performance-based component of compensation; facilitates the attraction, retention and engagement of key employees; and aligns long-term compensation with Shareholders value creation.

Option Based Awards

Individual stock options ("**Options**") are granted by the Board on the recommendation of senior management, in the case of employees, and by the Compensation Committee, in the case of executive officers including the CEO. Options are intended to align executive and Shareholder interests by attempting to create a direct link between compensation and Shareholder return. Participation in Midnight's stock option plan as described below, rewards overall corporate performance, as measured through the underlying value of Midnight's Common Shares.

Options are normally awarded by the Board upon the commencement of employment with Midnight based on the level of responsibility within Midnight. Additional grants may be made periodically to ensure that the number of Options granted to a particular individual is commensurate with the individual's level of ongoing responsibility within Midnight.

Midnight's amended and restated stock option plan which was approved by the Shareholders of Midnight at Midnight's Annual and Special Meeting held on May 11, 2007 and a copy of which is attached hereto as Schedule "B" (the "Stock Option Plan") limits the number of Common Shares granted at any time to 10% of the number of outstanding Midnight Common Shares from time to time. Based on the number of issued and outstanding Common Shares as at April 14, 2009 of 57,885,129 Common Shares, the number of Options which may be issued under the Stock Option Plan is currently limited to 5,786,512 Common Shares of which Options to purchase 4,177,500 Common Shares (7.2% of the outstanding Common Shares) are outstanding and 1,611,012 Options are available for future grants (2.8% of the outstanding Common Shares).

No Common Shares have been issued to date on exercise of any Options. No Options were granted to the NEOs in 2007. The following table outlines Options granted to the NEOs on April 15, 2008 and the fair value of the holdings using the Black Scholes model at the date of the grant and at December 31, 2008.

| | # of Options granted in 2008 at \$1.28 | Fair Value at Date of Grant | Fair Value at December 31, 2008 |
|---------------------|---|--|--|
| Fred Woods; CEO | 175,000 | \$79,433 | \$45,163 |
| Judy Stripling; CFO | 125,000 | \$56,738 | \$32,259 |
| Thomas Moslow | 90,000 | \$40,851 | \$23,227 |
| Andrew Weldon | 90,000 | \$40,851 | \$23,227 |
| Martin Saizew | 90,000 | \$40,851 | \$23,227 |

The Mercer data for long-term incentives involves many estimates including the Black Scholes modeled value for stock options. This data is somewhat variable and subjective. Midnight does not rely heavily on this data for granting Options but it does provide a useful reference point.

Share Awards

Midnight did not have any significant capacity for additional Option grants at the time of the compensation review and lagged dramatically behind on the LTI component versus the Mercer survey. In lieu of available Options, it was decided the LTI would be satisfied by the purchase of Midnight Common Shares in the open market. No Options have been exercised since the inception of Midnight and no vested Options are in-the-money. The performance warrants that were issued upon formation of Midnight, which had met the initial performance criteria, expired on November 29, 2008 with no warrants being exercised.

| | # of Shares Purchased | Value of Shares at Date of Issue | Value of Shares at December 31, 2008 |
|---------------------|------------------------------|---|---|
| Fred Woods; CEO | 46,808 | \$65,063 | \$35,106 |
| Judy Stripling; CFO | 38,297 | \$53,233 | \$28,723 |
| Thomas Moslow | 21,276 | \$29,574 | \$15,957 |

| | <u># of Shares Purchased</u> | <u>Value of Shares at Date of Issue</u> | <u>Value of Shares at December 31, 2008</u> |
|---------------|------------------------------|---|---|
| Andrew Weldon | 27,660 | \$38,447 | \$20,745 |
| Martin Saizew | 27,660 | \$38,447 | \$20,745 |

The Board provided this grant as a one-time measure to maintain competitiveness with the NEOs and staff considering that no current Options were in-the-money at the time of the salary review. The Common Shares were issued to employees when the Midnight share price was \$1.39 per share. At December 31, 2008 the share price has fallen to \$0.75. The NEOs currently hold all the Common Shares that were issued to them pursuant to this award.

Employee Stock Savings Plan

Midnight has an employee stock savings plan ("**ESSP**") whereby all employees, including Midnight's executive officers, are encouraged to contribute up to a maximum of 9% of their salary to the ESSP. The contributions by employees are matched by the Corporation 100%. The funds are used to purchase Midnight Common Shares on the open market. Since the ESSP is available to all employees it has been successful in encouraging employees to become Shareholders of Midnight and promoting the principle of alignment with Shareholders. The Compensation Committee considers this program to be competitive. There is no other form of retirement or savings program.

All NEOs participated in the ESSP at the maximum levels except for Tom Moslow who did not participate in 2008. The amounts are included in Other Compensation (column h) on the Summary Compensation Table.

Perquisites

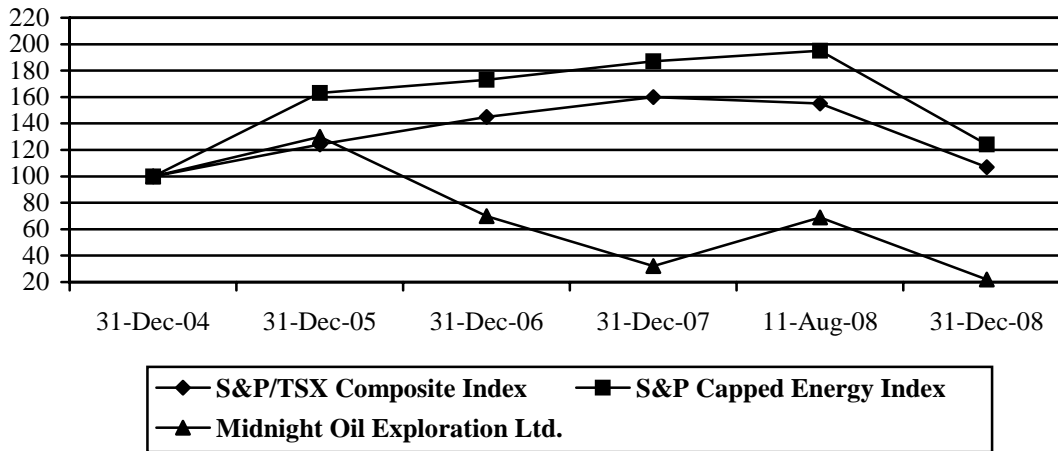
Midnight's perquisites program is very modest consisting of: company paid parking, a minimal fitness allowance and a medical reimbursement plan. Midnight also has a scholarship program where family members of officers, directors and employees of the Corporation are in full-time attendance at accredited degree granting post-secondary institutions, can apply to receive reimbursement of tuition and/or books to a maximum of \$2,500 per semester (\$5,000 per year).

While limited, these programs help enhance the fixed elements of the compensation package in order to attract and retain executives.

Performance Graphs

Midnight Oil Exploration began trading on the Toronto Stock Exchange on December 2, 2004. The following graph compares the cumulative total shareholder return of Midnight's Common Shares (see Notes (1) and (2) below) with the cumulative shareholder return of the S&P/TSX Composite Index and the S&P/TSX Capped Energy Index for the period commencing December 31, 2004 and ending December 31, 2008.

**Midnight Oil Exploration Ltd. Shareholder Return Performance Graph
Comparison of Cumulative Return on Common Shares of the Corporation with
S&P/TSX Composite and S&P/TSX Capped Energy Index
Four-Year Return**



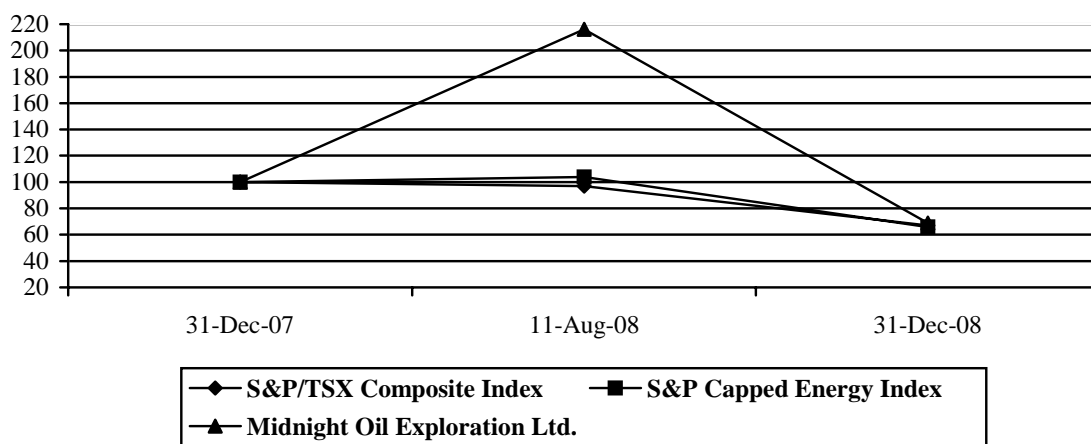
Notes:

- (1) Assumes that the initial value of the investment in Midnight's Common Shares, in the S&P/TSX Composite Index and the S&P/TSX Capped Energy Index was \$100 on December 31, 2004.
- (2) Midnight's Common Shares began trading on the TSX on December 2, 2004 and the closing price of the Common Shares on that day was \$3.40. The closing trading price of Midnight Common Shares on the TSX on December 31, 2004 was \$3.40, on December 31, 2005 was \$4.42, on December 31, 2006 was \$2.37, on December 31, 2007 was \$1.08, on August 11, 2008 was \$2.33 and on December 31, 2008 was \$0.75.

| | December 31, 2004 | December 31, 2005 | December 31, 2006 | December 31, 2007 | August 11, 2008 | December 31, 2008 |
|-------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------|----------------------------------|
| S&P/TSX Composite Index | 100 | 124 | 145 | 160 | 155 | 107 |
| S&P/TSX Capped Energy Index | 100 | 163 | 173 | 187 | 195 | 124 |
| Midnight Oil Exploration Ltd. | 100 | 130 | 70 | 32 | 69 | 22 |

The following graph compares the one year total Shareholder return of Midnight's Common Shares with the cumulative shareholder return of the S&P/TSX Composite Index and the S&P/TSX Capped Energy Index for the period commencing December 31, 2007 and ending December 31, 2008 with the August 11, 2008 mid-point being the date of the annual compensation review.

**Midnight Oil Exploration Ltd. Shareholder Return Performance Graph
Comparison of Cumulative Return on Common Shares of the Corporation with
S&P/TSX Composite and S&P/TSX Capped Energy Index
One-Year Return**



Notes:

- (1) Assumes that the initial value of the investment in Midnight's Common Shares, in the S&P/TSX Composite Index and the S&P/TSX Capped Energy Index was \$100 on December 31, 2007.
- (2) The closing trading price of Midnight's Common Shares on the TSX on December 31, 2007 was \$1.08, on August 11, 2008 was \$2.33 and on December 31, 2008 was \$0.75.

| | <u>December 31, 2007</u> | <u>August 11, 2008</u> | <u>December 31, 2008</u> |
|-------------------------------|------------------------------|----------------------------|------------------------------|
| S&P/TSX Composite Index | 100 | 97 | 67 |
| S&P/TSX Capped Energy Index | 100 | 104 | 66 |
| Midnight Oil Exploration Ltd. | 100 | 216 | 69 |

The following table illustrates how total compensation received, as measured by salary, bonus and stock option grants, corresponds to fluctuation in the relative common share return of the Corporation. The compensation for the CEO is used to demonstrate this relationship; however the pattern is the same for other NEOs.

| <u>Year</u> | <u>Total Compensation Received</u> | <u>Performance Period</u> | <u>Explanation</u> |
|-------------|--|--|--|
| 2005 | \$683,340 | November 30, 2004 to end of 2005 | During the period 2004 to 2005, Midnight matched the performance of the S&P TSX Composite Index. During this time, Midnight was being managed under the Administrative and Technical Services Agreement with Daylight Energy Ltd. Mr. Woods' compensation is a reflection of his performance and his duties of both entities. Mr. Woods was awarded a \$300,000 bonus from Daylight which is included in his compensation. |

| Year | Total Compensation Received | Performance Period | Explanation |
|------|-----------------------------|--------------------------------------|---|
| 2006 | \$698,547 | 2005 to September 30, 2006 | During the 2005 to 2006 performance period, Midnight underperformed relative to its peers but for the majority of this time Midnight continued to be managed under the Administrative and Technical Services Agreement and compensation was a reflection of both entities. Included in compensation to September 30, 2006 is \$412,422 for the vesting of Daylight restricted trust units. No bonuses were awarded |
| 2006 | \$495,379 | October 1, 2006 to December 31, 2006 | The process to separate operations between Daylight Energy Ltd. and Midnight and to dissolve the Administrative and Technical Services Agreement with Daylight Energy Ltd. commenced on October 1, 2006. The Midnight Compensation Committee reduced the CEO's base annual salary from \$350,000 to \$250,000. First time option grants were awarded for 500,000 options with a fair market value of \$427,254 at the time of the grant, which is reflected in total compensation. No bonuses were awarded. |
| 2007 | \$297,500 | 2006 to 2007 | The 2006 to 2007 performance period reflects sub-standard performance relative to industry peer companies; as a consequence compensation was significantly reduced with no raises or bonuses granted. |
| 2008 | \$486,862 | 2007 to 2008 | The 2007 to 2008 performance period reflects an increased improvement relative to industry peer companies to the time of the review in August 2008. As a result, a modest salary increase was granted with a modest bonus payment, with the largest component directed at the LTI portion, which aligns compensation with Shareholders value creation. |

Summary Compensation Table

The following table sets forth the compensation elements and total compensation paid or granted by the Corporation for the financial year ending December 31, 2008.

Summary Compensation Table

| Name and Principal Position (a) | Year (b) | Salary (\$) (c) | Share Awards (\$) (d) ⁽¹⁾ | Option Awards (\$) (d) ⁽²⁾ | Non-Equity Incentive Plan Compensation (\$) ^(f) | | Pension Value (\$) (g) | All Other Compensation (\$) (h) ⁽⁴⁾ | Total (\$) (i) |
|---|-------------|-----------------------|--|---|---|-----------------------------|------------------------------|---|----------------------|
| | | | | | Annual Incentive (f1) ⁽³⁾ | Long-Term Incentive (f2) | | | |
| Fred Woods, President and CEO | 2008 | 257,500 | 65,063 | 79,433 | 50,000 | Nil | Nil | 34,866 | 486,862 |
| Judy Stripling, Executive Vice- President and CFO | 2008 | 207,500 | 53,233 | 56,738 | 40,000 | Nil | Nil | 25,563 | 383,034 |
| Thomas Moslow, Senior Vice- President, Exploration | 2008 | 192,500 | 29,574 | 40,851 | 30,000 | Nil | Nil | 16,822 | 309,747 |
| Andrew Weldon, Vice-President, | 2008 | 192,500 | 38,447 | 40,851 | 40,000 | Nil | Nil | 28,378 | 340,176 |

| Name and Principal Position (a) | Year (b) | Salary (\$) (c) | Share Awards (\$) (d) ⁽¹⁾ | Option Awards (\$) (d) ⁽²⁾ | Non-Equity Incentive Plan Compensation (\$) (f) | | Pension Value (\$) (g) | All Other Compensation (\$) (h) ⁽⁴⁾ | Total (\$) (i) |
|--|----------|-----------------|--------------------------------------|---------------------------------------|---|--------------------------|------------------------|--|----------------|
| | | | | | Annual Incentive (f1) ⁽³⁾ | Long-Term Incentive (f2) | | | |
| Business Development Martin Saizew, Vice-President, Engineering | 2008 | 187,500 | 38,447 | 40,851 | 35,000 | Nil | Nil | 31,237 | 333,035 |

Notes:

- (1) This is the fair market value on the date of issuance of the 2008 share awards calculated by multiplying the number of Common Shares issued by the current market price of \$1.39 per Common Share. See "Compensation Discussion and Analysis - Share Awards".
- (2) This is the fair market value on the date of the grant of the stock options using the Black Scholes model. See "Compensation Discussion and Analysis - Option Based Awards".
- (3) This is the cash bonus paid in August 2008. See "Compensation Discussion and Analysis - Bonuses".
- (4) Other compensation is the matching portion of the ESSP, which is available to all employees. See "Compensation Discussion and Analysis - Employee Stock Savings Plan". The other perquisites as discussed under "Compensation Discussion and Analysis - Perquisites" are also included in this total.

Incentive Plan Awards

Outstanding Share-Based Awards and Options-Based Awards

The following table sets forth the information regarding the Options outstanding as at December 31, 2008.

Outstanding Stock Options

| Name (a) | Option-Based Awards | | | Share-Based Awards | | |
|----------------|---|--------------------------------|----------------------------|--|---|--|
| | Number of Securities Underlying Unexercised Options (#) (b) | Option Exercise Price (\$) (c) | Option Expiration Date (d) | Value of Unexercised in-the-money Options (\$) (e) | Number of Shares That Have Not Vested (#) (f) | Market or Payout Value of Share Awards That Have Not Vested (\$) (g) |
| Fred Woods | 175,000 | 1.28 | Apr. 15, 2013 | Nil | n/a | n/a |
| | 500,000 | 2.35 | Dec. 4, 2011 | Nil | n/a | n/a |
| Judy Stripling | 125,000 | 1.28 | Apr. 15, 2013 | Nil | n/a | n/a |
| | 350,000 | 2.35 | Dec. 4, 2011 | Nil | n/a | n/a |
| Thomas Moslow | 90,000 | 1.28 | Apr. 15, 2013 | Nil | n/a | n/a |
| | 225,000 | 2.35 | Dec. 4, 2011 | Nil | n/a | n/a |
| Andrew Weldon | 90,000 | 1.28 | Apr. 15, 2013 | Nil | n/a | n/a |
| | 225,000 | 2.35 | Dec. 4, 2011 | Nil | n/a | n/a |
| Martin Saizew | 90,000 | 1.28 | Apr. 15, 2013 | Nil | n/a | n/a |
| | 50,000 | 1.87 | Apr. 18, 2012 | Nil | n/a | n/a |
| | 50,000 | 2.35 | Dec. 4, 2011 | Nil | n/a | n/a |
| | 50,000 | 3.50 | June 9, 2011 | Nil | n/a | n/a |
| | 75,000 | 3.75 | Feb. 14, 2010 | Nil | n/a | n/a |

The market value of the stock Options is based on \$0.75, the closing price on the TSX of the Common Shares on December 31, 2008.

Incentive Plan Awards – Value Vested or Earned During the Year

The following table sets forth the information regarding the value of Options granted that vested during the financial year ended December 31, 2008. Midnight's Options vest as to one-third of the total Options granted on the first, second and third anniversaries of the date of the grant. All Options were out-of-the-money on their vesting date pursuant to the following table.

Value Vested or Earned During the Year

Stock Options

| Name (a) | Stock Price on Date of Vesting of Each Option Grant | Exercise price of Vested Options (\$) | Option-Base Awards—Value During the Year on Vesting (\$) (b) |
|----------------|---|--|---|
| Fred Woods | Dec. 4 \$0.83 | 2.35 | Nil |
| Judy Stripling | Dec. 4 \$0.83 | 2.35 | Nil |
| Thomas Moslow | Dec. 4 \$0.83 | 2.35 | Nil |
| Andrew Weldon | Dec. 4 \$0.83 | 2.35 | Nil |
| Martin Saizew | Apr. 18 \$ 1.30 | 1.87 | Nil |
| | Dec. 4 \$0.83 | 2.35 | Nil |
| | June 9 \$1.75 | 3.50 | Nil |
| | Feb. 14 \$1.04 | 3.75 | Nil |

Securities Used for Purposes of Equity Compensation

The following table sets forth information in respect of securities authorized for issuance under Midnight's equity compensation plans as at December 31, 2008. As at April 14, 2009, Midnight had 4,177,500 Options outstanding and 1,611,012 Options available for future issuance. Midnight's only equity compensation plan is the Stock Option Plan. The Options vest as to one-third of the total Options granted on the first, second and third anniversaries of the date of the grant and expire on the fifth anniversary of the date of the grant.

| Plan Category | Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans [excluding securities reflected in column (a)] (c) |
|-------------------|---|---|--|
| Stock Option Plan | 4,142,500 | \$2.21 | 475,012 |

Retirement Plan Benefits

Midnight does not have any formal retirement programs. However, Midnight provides NEOs and other employees the opportunity to save and invest in the Corporation, through the ESSP. Participation in the plan is voluntary and is open to all employees. Employees may contribute a minimum of 2% of their base salary and the Corporation will match contributions to a maximum of 9% of the employee's salary to purchase Midnight Common Shares on the open market on behalf of participants. Contribution to the ESSP can be directed to RRSP or non-RRSP accounts. After one year, the ESSP participant may sell 50% of the Common Shares acquired the previous year; and the balance may be sold the subsequent year, without penalty.

Termination and Change of Control

There are no employment contracts or other compensation plans or arrangements with regard to any of the executive officers which provide for specific compensation in the event of resignation, retirement, other termination of employment or from a change of control of Midnight or from a change in an executive officer's responsibilities

following a change of control. The Stock Option Plan allows the board of directors to administer the plan and allows the Board to accelerate vesting if deemed proper and in the best interests of the Corporation.

If the Board had vested all Options on December 31, 2008, no incremental value would have been received by any NEO as all Options were out-of-the-money.

In the event of termination not for cause, NEOs have 90 days to exercise options following the last day of active employment, after which all Options are forfeited. These periods reflect statutory notice periods; therefore no incremental benefit is considered to be awarded.

Director Compensation

The following table sets forth the compensation elements and total compensation paid or granted by the Corporation and its subsidiaries to Directors for the financial year ending December 31, 2008.

Director Compensation Table

| Name (a) | Fees Earned (\$) (b) | Share- Based Awards (\$) (c) | Option- Based Awards (\$) (d) | Non-Equity Incentive Plan Compensation (\$) (e) | Pension Value (\$) (f) | All Other Compens ation (\$) (g)⁽¹⁾ | Total (\$) (h) |
|---------------------------|---|---|--|--|---|---|---|
| Anthony Lambert | 28,500 | Nil | Nil | Nil | Nil | Nil | 28,500 |
| Tom Medvedic | 28,500 | Nil | Nil | Nil | Nil | Nil | 28,500 |
| Jay Squiers | 28,500 | Nil | Nil | Nil | Nil | 2,500 | 31,000 |
| Peter Harrison | 28,500 | Nil | Nil | Nil | Nil | Nil | 28,500 |

Note:

(1) Participation in the Scholarship program. See "*Compensation Discussion and Analysis – Perquisites*".

Fred Woods, the President and CEO of Midnight does not receive compensation for acting as a Director of the Corporation.

The Board, through the Compensation Committee is responsible for developing and implementing the Directors' compensation. Unlike NEO compensation, the Directors' compensation plan is not designed to pay for performance. Rather, Directors receive retainers for their services in order to help ensure unbiased decision-making. The Compensation Committee reviewed a peer group of Companies to aid in setting the compensation policy for Directors.

Directors of the Corporation, other than Fred Woods, are compensated with an annual retainer fee of \$20,000 plus \$500 per meeting for regular meetings of the Board or any committee meetings attended and are entitled to be reimbursed for traveling and other expenses properly incurred in the performance of their duties as directors of Midnight. In addition, if a need arises for a Special Committee, the Special Committee Chairman receives a retainer of \$15,000 and Special Committee members receive a retainer of \$10,000 plus a \$1,000 per Special Committee meeting fee. No Special Committees were appointed in 2008. The Directors may be paid in cash or Common Shares purchased on the open market by the Corporation. In 2008, all the Directors chose to take their compensation in the form of Common Shares purchased on the open market.

Incentive Plan Awards

Outstanding Share-Based Awards and Option-Based Awards

The following table sets forth the information regarding the Options outstanding to the Directors as at December 31, 2008.

Outstanding Stock Options

| Name (a) | Option-Based Awards | | | | Share-Based Awards | |
|-----------------|--|-----------------------------------|-------------------------------|---|---|---|
| | Number of Securities Underlying Unexercised Options (#) (b) | Option Exercise Price (\$) (c) | Option Expiration Date (d) | Value of Unexercised in-the-money Options (\$) (e) | Number of Shares or Units of Shares That Have Not Vested (#) (f) | Market or Payout Value of Share Awards That Have Not Vested (\$) (g) |
| Anthony Lambert | 62,500 | 2.35 | Dec. 4, 2011 | Nil | n/a | n/a |
| Tom Medvedic | 62,500 | 2.35 | Dec. 4, 2011 | Nil | n/a | n/a |
| Jay Squiers | 62,500 | 2.35 | Dec. 4, 2011 | Nil | n/a | n/a |
| Peter Harrison | 62,500 | 1.87 | Apr 18, 2012 | Nil | n/a | n/a |

The market value of the Options is based on \$0.75, the closing price on the TSX of the Common Shares on December 31, 2008.

The following table presents the value of Options that vested at the time of grant during the current year.

Value Vested or Earned During the Year

| Name (a) | Stock Price on Date of Vesting of Each Option Grant | Exercise price of Vested Options (\$) | Option-Based Awards—Value Vested During the Year (\$) (b) |
|-----------------|---|---------------------------------------|--|
| Anthony Lambert | Dec. 4 \$0.83 | 2.35 | Nil |
| Tom Medvedic | Dec. 4 \$0.83 | 2.35 | Nil |
| Jay Squiers | Dec. 4 \$0.83 | 2.35 | Nil |
| Peter Harrison | Apr. 18 \$1.30 | 1.87 | Nil |

All options were out-of-the-money at their vesting dates.

Indebtedness of Directors and Senior Officers

Management of Midnight is not aware of any indebtedness outstanding by directors or senior officers of Midnight to Midnight or its subsidiaries at any time since the commencement of the last completed financial year of Midnight.

Shared Services and Transactions with Daylight Energy Ltd.

Prior to December 31, 2006, Midnight and Daylight Energy Ltd. ("Daylight") established and operated under an Administrative and Technical Services Agreement, which provided for the shared services required to manage the activities of Midnight and Daylight and governed the allocation of general and administrative expenses between the entities. Under this agreement, Daylight was the employer on behalf of the parties and received payment for certain technical and administrative services provided to Midnight. The Administrative and Technical Services Agreement was terminated effective December 31, 2006. Certain administrative services which provide reasonable economy and do not involve competitive issues continue to be provided to Midnight by Daylight on a negotiated fixed fee basis, which is considered comparable to the fee an independent third party would charge for the services, and which arrangement may be cancelled by either party.

Although the Administrative and Technical Services Agreement has been terminated, Midnight and Daylight continue to be considered related, as Daylight's Chairman of the Board is the President, Chief Executive Officer and a Director of Midnight. In addition, Daylight's President, Chief Executive Officer and a director is also a Director of Midnight. Although this relationship exists, Midnight operates independently from Daylight. Operating, financing and investing decisions are conducted independently without the advice or influence of the other party and each company's strategic direction is set by their respective Boards, both of which have a majority of independent directors. Midnight and Daylight remain joint venture partners in certain properties, and as a result revenues and costs related to these properties are allocated to each partner under standard joint venture billing arrangements. Each partner's costs and revenues are based on the exchange amounts, which reflect actual third party costs incurred and revenue received. All transactions are conducted under standard business terms and are considered within the normal course of Midnight's business activities and operations.

For the year ended December 31, 2008, Daylight charged Midnight \$1.1 million (2007 - \$1.4 million) for administrative services and premises costs with a receivable balance, which included joint venture and commodity marketing amounts, of approximately \$2.8 million from Daylight as at December 31, 2008 (2007 - \$4.7 million). At December 31, 2008, Midnight held an advance capital deposit of \$3.9 million (2007 - \$nil) in conjunction with normal course oil and gas drilling activities.

On October 31, 2008, Midnight sold its West Central assets to Daylight and entered into a farmout arrangement on over 40 gross sections of land in the Elmworth and Peace River Arch areas in exchange for 3.75 million Daylight units and \$2.0 million cash. This transaction was valued at the exchange amount as determined and agreed to by the related parties.

CORPORATE GOVERNANCE POLICIES AND PRACTICES

Board of Directors

The majority of the board of directors is independent. Our board of directors has determined that each of Jay Squiers, Tom Medvedic, Peter Harrison and Robert Zakresky are independent. Anthony Lambert is also now considered to be independent as he resigned from the position of Chief Operating Officer of the Corporation in August 2005. Fred Woods is not considered independent in that Mr. Woods is the President and Chief Executive Officer of Midnight. On October 1, 2006, the process to separate operations between Daylight Energy Ltd. and Midnight and to dissolve the Administration and Technical Services Agreement commenced with compensation being directly paid by Midnight to Fred Woods. Effective December 31, 2006, the Administrative and Technical Services Agreement was terminated.

Although our independent directors do not hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance, in accordance with the mandate of the board of directors, at the end of, or during each regularly scheduled meeting of our board of directors, the members of management who are present at such meeting leave the meeting in order that the independent directors can discuss any necessary matters without management being present. In addition, in camera sessions comprising only independent directors are held at the end of each Audit Committee meeting with the external auditors of Midnight and at the Reserve Committee meetings when Midnight's independent qualified reserves evaluator attends.

Our board of directors has determined that Fred Woods our Chairman is not independent. Mr. Woods became Chairman of the Board on May 11, 2007. The Board does not have a lead director. As our Chairman, Mr. Woods provides overall leadership to our Board. Among other things, our Chairman maintains a liaison and communication with all of our directors and the committee chairs to co-ordinate input from directors and optimizes the effectiveness of our Board and its committees and provides updates on all issues important to the welfare and future of the Corporation. The Chairman is also responsible for assisting the Board to function independently of management and arranges for the independent directors to meet without non-independent directors or management present. The Board relies upon the strength of its members to provide leadership to its independent members, each of the Board committees and to the entire Board.

The following directors are presently directors of other reporting issuers (or the equivalent). Fred Woods and Anthony Lambert are each directors of Daylight Energy Ltd., administrator of Daylight Resources Trust and Peter

Harrison is a director of Freehold Resources Ltd., administrator of Freehold Royalty Trust and Robert Zakresky is a director of Crocotta Energy Ltd.

Board and Committee Meetings and Meeting Attendance

The following is a summary of attendance of our directors at meetings of our Board and its committees for 2008:

| Name | Board Meetings Attended | Audit Committee Meetings Attended | Reserve Committee Meetings Attended | Compensation Committee Meetings Attended | Governance Committee Meetings Attended |
|-----------------|--------------------------------|--|--|---|---|
| Tom Medvedic | 6/6 | 4/4 | 4/4 | 1/1 | 1/1 |
| Jay Squiers | 6/6 | 4/4 | 4/4 | 1/1 | 1/1 |
| Peter Harrison | 6/6 | 4/4 | 4/4 | 1/1 | 1/1 |
| Fred Woods | 6/6 | n/a | n/a | n/a | n/a |
| Anthony Lambert | 6/6 | n/a | 4/4 | 1/1 | 1/1 |

Note:

- (1) Mr. Zakresky was first appointed to the Midnight Board on April 6, 2009 and although Mr. Zakresky has been appointed to each of the four committees of the Board he did not serve on any such committees during 2008. The Board Committees will be re-constituted immediately following the Meeting.

Board Mandate

The mandate of our board of directors is attached as Schedule "A" hereto.

Board Committees

Our Board has four (4) committees; the Audit Committee, the Compensation Committee, the Reserves Committee and the Corporate Governance Committee, all members of which are comprised of independent directors. The Board has accepted overall responsibility for health, safety and environment matters and no separate committee has been established to deal with these issues.

Audit Committee

The members of our Audit Committee are Tom Medvedic (Chairman), Peter Harrison and Jay Squiers, all of whom are independent and financially literate. Our Audit Committee's mandate includes:

- reviewing and approving the annual audited consolidated financial statements and the Auditors' Report thereon prior to submission to the Board for approval;
- reviewing and approving the quarterly consolidated financial statements prior to submission to the Board for approval;
- reviewing and approving of all other financial information that is publicly disseminated prior to its release;
- reviewing and approving all bank credit facilities and other borrowing strategies presented by senior management including hedging and foreign currency risk strategies;
- reviewing the scope of external audits;
- reviewing, discussing and approving accounting and reporting policies and all changes in accounting principles and policies;

- reviewing internal control systems and procedures; and
- meeting with the external auditors independently of management.

See "*Mandate and Terms of Reference of the Audit Committee*" attached as Schedule "C" to our Annual Information Form for the period ended December 31, 2008 dated March 18, 2009 for the complete text of the Audit Committee's mandate.

Compensation Committee

The members of our Compensation Committee are Jay Squiers (Chairman), Peter Harrison, Anthony Lambert and Tom Medvedic. The Compensation Committee meets to review and discuss the compensation for the senior management and staff of Midnight. The Compensation Committee's mandate includes:

- formulating and making recommendations to the Board in respect of compensation issues relating to directors, senior management and staff of Midnight;
- reviewing and monitoring the compensation practices of the Corporation to ensure that the compensation practice in respect of the employees and executive officers of Midnight both in terms of salaries and bonus payments facilitates the attraction and retention of a strong executive and management team and employees;
- reviewing and recommending to the Board the retainer and fees to be paid to members of our Board;
- reviewing the performance objectives and compensation and benefits package for our CEO and CFO and reviewing, on the direction of our CEO, the compensation and benefits package for other senior management positions; and
- administering the stock option plan in accordance with its terms including the grant of stock options in accordance with the terms thereof and reviewing other incentive plans of the Corporation.

Reserves Committee

The members of our Reserves Committee are Anthony Lambert (Chairman), Tom Medvedic, Peter Harrison and Jay Squiers. Our Reserves Committee's mandate includes:

- reviewing management's recommendations for the appointment of our independent reserves evaluator;
- meeting with our independent reserves evaluator for the purposes of the Reserves Committee satisfying itself that the independent engineers act independently and are not unduly influenced by management;
- reviewing the terms of the engagement of our independent reserves evaluators;
- reviewing the Corporation's procedures relating to the disclosure of information with respect to oil and gas activities including reviewing its procedures for complying with its disclosure requirements and restrictions set forth under applicable securities law requirements;
- reviewing the Corporation's procedures for providing information to the independent reserves evaluator;
- reviewing the scope and methodology of the independent reserve evaluators' valuation;
- reviewing any significant new discoveries, additions, revisions and acquisitions;
- reviewing assumptions and consistency with prior years; and

- reviewing any problems experienced by our independent reserves evaluator preparing the reserve report, including any restrictions imposed by management or significant issues on which there was a disagreement with management.

Corporate Governance Committee

The members of our Corporate Governance Committee are Peter Harrison (Chairman), Tom Medvedic, Anthony Lambert and Jay Squiers. Our Corporate Governance Committee's mandate includes:

- formulating and making recommendations to the Board in respect of governance issues and assessing and updating the Corporation's corporate governance practices to protect the interests of Shareholders;
- reviewing on at least an annual basis, the mandates of the Board and its committees and recommending to the Board such amendments to those mandates as the committee believes are necessary or desirable;
- assisting in identifying individuals qualified to become Board members as well as reviewing the effectiveness of the Board, its committees and its individual members.

Orientation and Continuing Education

Due to the size of the Corporation, no formal education program currently exists for the orientation of new directors. Existing directors provide orientation and education to new members on an informal and ad hoc basis. In addition, new directors of the Corporation are given the following: a copy of the mandate of the board of directors, a copy of the mandate of each of our committees, a manual of our corporate policies, our by-laws as well as agendas and minutes for Board and committee meetings for a preceding period of time considered relevant. In addition, each new director receives a presentation by management respecting the nature and operations of our business.

Each of our directors has the responsibility for ensuring that they maintain the skill and knowledge necessary to meet their obligations as a director.

Ethical Business Conduct

Our Board has adopted a code of ethics (the "Code") applicable to all members of the Corporation, including directors, officers and employees, a copy of which is available for review at www.sedar.com. Each employee, officer and director is required to confirm annually that he or she has read, understood and complied with the Code. Any reports of variance from the Code will be reported to the board of directors. There have been no material change reports filed since the beginning of the year ended December 31, 2008, that pertain to any conduct of a director or executive officer that constitutes a departure from our Code.

Our Board has also adopted a whistleblower policy which provides employees with the ability to report, on a confidential and anonymous basis, any violations within our organization including (but not limited to), falsification of financial records, unethical conduct, harassment or theft. The Board believes that providing a forum for employees, officers and directors to raise concerns about ethical conduct and treating all complaints with the appropriate level of seriousness fosters a culture of ethical conduct.

In accordance with the *Business Corporations Act* (Alberta), directors who are a party to or are a director or an officer of a person who is a party to a material contract or material transaction or a proposed material contract or proposed material transaction are required to disclose the nature and extent of their interest and not to vote on any resolution to approve the contract or transaction.

Nomination of Directors

Our Corporate Governance Committee, which is comprised by a majority of independent directors, has, as part of its mandate, the responsibility for selecting nominees for election to the Board. At present, the Corporate Governance

Committee does not have a process by which it identifies new candidates for Board nomination but rather the identification of new candidates is done on an informal basis.

Assessments

We have not commenced a formal process of assessing the Board and its committees or the individual directors. To date, our Board as a whole has satisfied itself that the Board, its committees and individual directors are performing effectively through informal discussions.

Position Descriptions

Our Board has developed written positions descriptions for our Chief Executive Officer, our Chairman of the Board and the Chairman of each of our committees.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of directors and senior officers of Midnight, nominees for director, any Shareholder who beneficially owns, or controls or directs, directly or indirectly, over more than 10% of the outstanding Common Shares, or any other Informed Person (as defined in National Instrument 51-102), or any known associate or affiliate of such persons in any transaction since the commencement of Midnight's last completed financial year or in any proposed transaction which has materially affected or would materially affect Midnight or any of its subsidiaries, which has not been previously disclosed herein or otherwise in an information circular of Midnight.

INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

Management of Midnight is not aware of any material interest of any director or nominee for director, or senior officer or any one who has held office as such since the beginning of Midnight's last financial year or of any associate or affiliate of any of the foregoing, in any matter to be acted on at the Meeting other than the election of directors and other than as disclosed herein.

ADDITIONAL INFORMATION

Additional information relating to Midnight is available on SEDAR at www.sedar.com. Financial information in respect of Midnight and its affairs is provided in Midnight's annual audited consolidated financial statements for the years ended December 31, 2008 and 2007 and the related management's discussion and analysis. Copies of Midnight's financial statements and related management discussion and analysis are available upon request from Midnight at Midnight Oil Exploration Ltd., 2500, 144 – 4th Avenue S.W., Calgary, Alberta, T2P 3N4 Attention: Judy Stripling, Executive Vice-President and Chief Financial Officer by telephone at (403) 303-8500 or by email at jstripling@midnightoil.ca. This information is also accessible on our website www.midnightoil.ca.

OTHER MATTERS

Management knows of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Annual Meeting. However, if any other matter properly comes before the Meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person or persons voting the proxy.

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| SCHEDULE "A" | MANDATE OF THE BOARD OF DIRECTORS |
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To the Information Circular - Proxy Statement of Midnight Oil Exploration Ltd. dated April 14, 2009

The board of directors (the "Board") of Midnight Oil Exploration Ltd. (the "Corporation") is responsible for the stewardship of the Corporation, the other subsidiaries, and partnerships of the Corporation to the extent delegated to the Corporation. In discharging its responsibility, the Board will exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances and will act honestly and in good faith with a view to the best interests of the Corporation. In general terms, the Board will:

- in consultation with the chief executive officer of the Corporation (the "CEO"), define the principal objectives of the Corporation;
- supervise the management of the business and affairs of the Corporation with the goal of achieving the Corporation's principal objectives as defined by the Board;
- discharge the duties imposed on the Board by applicable laws; and
- for the purpose of carrying out the foregoing responsibilities, take all such actions as the Board deems necessary or appropriate.

Without limiting the generality of the foregoing, the Board will perform the following duties:

Strategic Direction and Capital and Financial Plans

- require the CEO to present annually to the Board a longer range strategic plan and a shorter range business plan for the Corporation's business, which plans must:
 - be designed to achieve the Corporation's principal objectives;
 - identify the principal strategic and operational opportunities and risks of the Corporation's business; and
 - be approved by the Board as a pre-condition to the implementation of such plans;
- review progress towards the achievement of the goals established in the strategic, operating and capital plans;
- identify the principal risks of the Corporation's business and ensure policies and procedures are in place to appropriately manage these risks;
- approve the annual operating and capital plans;
- approve acquisitions and dispositions in excess of which require approval pursuant to expenditure limits established by the Board;
- approve the establishment of credit facilities; and
- approve issuances of additional Shares or other instruments to the public.

Monitoring and Acting

- monitor the Corporation's progress towards achieving its goals, and to revise and alter its direction through management in light of changing circumstances;
- monitor overall human resources policies and procedures, including compensation and succession planning; appoint the CEO and determine the terms of the CEO's employment with the Corporation;
- ensure systems are in place for the implementation and integrity of the Corporation's internal control and management information systems;
- in consultation with the CEO, develop a position description for the CEO;
- evaluate the performance of the CEO at least annually;
- in consultation with the CEO, establish the limits of management's authority and responsibility in conducting the Corporation's business;
- in consultation with the CEO, appoint all officers of the Corporation and approve the terms of each officer's employment with the Corporation;
- develop a system under which succession to senior management positions will occur in a timely manner;
- approve any proposed significant change in the management organization structure of the Corporation;
- in consultation with the CEO, establish a disclosure policy for the Corporation;
- generally provide advice and guidance to management; and
- approve all matters relating to a takeover bid for the securities of the Corporation.

Finances and Controls

- review the Corporation's systems to manage the risks of the Corporation's business and, with the assistance of management, the Corporation's auditors and others (as required), evaluate the appropriateness of such systems;
- monitor the appropriateness of the Corporation's capital structure;
- ensure that the financial performance of the Corporation is properly reported to shareholders, other security holders and regulators on a timely and regular basis;
- in consultation with the CEO, establish the ethical standards to be observed by all officers and employees of the Corporation and use reasonable efforts to ensure that a process is in place to monitor compliance with those standards;
- require that the CEO institute and monitor processes and systems designed to ensure compliance with applicable laws by the Corporation and its officers and employees;
- require the CEO institute and maintain the integrity of internal control and information systems, including maintenance of all required records and documentation;
- approve material contracts to be entered into by the Corporation;

- recommend to shareholders of the Corporation a firm of chartered accountants to be appointed as the Corporation's auditors;
- ensure the Corporation's oil and gas reserve report(s) fairly represents the quantity and value of corporate reserves in accordance with generally accepted engineering principles and applicable securities laws; and
- take reasonable actions to gain reasonable assurance that all financial information made public by the Corporation (including the Corporation's annual and quarterly financial statements) is accurate and complete and represents fairly the Corporation's financial position and performance.

Governance

- in consultation with the Corporate Governance Committee, develop a position description for the Chairman of the Board;
- in consultation with the Corporate Governance Committee, select nominees for election to the Board;
- facilitate the continuity, effectiveness and independence of the Board by, amongst other things:
 - appointing a Chairman of the Board;
 - appointing from amongst the directors an audit committee and such other committees of the Board as the Board deems appropriate;
 - defining the mandate of each committee of the Board;
 - ensuring that processes are in place and are utilized to assess the effectiveness of the Chairman of the Board, the Board as a whole, each committee of the Board and each director; and
 - establishing a system to enable any director to engage an outside adviser at the expense of the Corporation;
- in consultation with the Corporate Governance Committee, review annually the composition of the Board and its committees and assess Directors' performance on an ongoing basis, and propose new members to the Board; and
- in consultation with the Compensation Committee, review annually the adequacy and form of the compensation of directors.

Delegation

- the Board may delegate its duties to, and receive reports and recommendations from, any committee of the Board.

Composition

- the Board should be composed of at least 5 individuals elected by the shareholders at the annual and/or special meeting(s);
- a majority of Board members should be independent Directors (within the meaning of Multilateral Instrument 52-110) and free from any business or other relationship that could impair the exercise of independent judgment;
- members should have or obtain sufficient knowledge of the Corporation and the oil and gas business to assist in providing advice and counsel on relevant issues; and

- board members should offer their resignation from the Board to the Chairman of the Corporate Governance Committee following:
 - change in personal circumstances which would reasonably interfere with the ability to serve as a Director; and
 - change in personal circumstances which would reasonably reflect poorly on the Corporation (for example, finding by a Court of fraud, or conviction under Criminal Code or securities legislation);
- the Board shall meet at least four times per year and/or as deemed appropriate by the Board Chair;
- the Board shall meet at the end of its regular quarterly meetings without members of management being present;
- minutes of each meeting shall be prepared;
- the CEO and Chief Financial Officer shall be available to attend all meetings of the Board upon invitation by the Board; and
- Vice-Presidents and such other staff as appropriate to provide information to the Board shall attend meetings at the invitation of the Board.

Authority

- the Board shall have the authority to review any corporate report or material and to investigate activity of the Corporation and to request any employee to cooperate as requested by the Board; and
- the Board may retain persons having special expertise and/or obtain independent professional advice to assist in fulfilling its responsibilities at the expense of the Corporation.

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| SCHEDULE "B" | MIDNIGHT OIL EXPLORATION LTD. STOCK OPTION PLAN <i>(Amended and Restated Effective May 11, 2007)</i> |
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1. PURPOSE OF THE PLAN

The purpose of the Plan is to provide certain directors, officers and key employees and consultants of the Corporation or a Subsidiary with an opportunity to purchase Common Shares and to benefit from the appreciation thereof. This will provide an increased incentive for these directors, officers, key employees and consultants to contribute to the future success and prosperity of the Corporation, thus enhancing the value of the Common Shares for the benefit of all the shareholders and increasing the ability of the Corporation to attract and retain individuals of exceptional skill.

2. DEFINED TERMS

Where used herein, the following terms shall have the following meanings, respectively:

2.1 "Blackout Period" means the period of time when, pursuant to any policies of the Corporation, any securities of the Corporation may not be traded by certain persons as designated by the Corporation, including any holder of an Option;

2.2 "Board" means the board of directors of the Corporation;

2.3 "Common Shares" means the common shares of the Corporation or, in the event of an adjustment contemplated by Article 6 hereof, such other Common Shares to which a Participant may be entitled upon the exercise of an Option as a result of such adjustment;

2.4 "Corporation" means Midnight Oil Exploration Ltd., and includes any successor corporation thereof;

2.5 "Exchange" means the Toronto Stock Exchange or, if the Common Shares are not then listed and posted for trading on the Toronto Stock Exchange, on such stock exchange in Canada on which such shares are listed and posted for trading as may be selected for such purpose by the Board;

2.6 "Insider" means an insider as defined in subsection 1(i) of the *Securities Act* (Alberta) and includes an associate, as defined in subsection 1(a.1) of the *Securities Act* (Alberta), as such provisions are from time to time amended, varied or re-enacted, of any insider;

2.7 "Market Price" per Common Share at any date shall be the closing price of the Common Shares on the Exchange (or, if the Common Shares are not then listed and posted for trading on the Exchange, on such stock exchange in Canada on which such shares are listed and posted for trading as may be selected for such purpose by the Board) on the trading day immediately preceding the date on which the Option is granted. In the event that the Common Shares are not listed and posted for trading on any stock exchange in Canada, the Market Price shall be determined by the Board in its sole discretion;

2.8 "Option" means an option to purchase Common Shares granted by the Board to certain directors, officers, key employees or consultants of the Corporation or a Subsidiary, subject to the provisions contained herein;

2.9 "Option Price" means the price per share at which Common Shares may be purchased under the Option, as the same may be adjusted in accordance with Articles 4 and 6 hereof;

2.10 "Participants" means certain directors, officers, key employees or consultants of the Corporation or a Subsidiary and, certain other persons providing services on an ongoing basis to the Corporation and its Subsidiaries, including through the Technical Services Agreement, to whom Options are granted and which Options or a portion thereof remain unexercised;

2.11 "Plan" means the stock option plan of the Corporation, as the same may be amended or varied from time to time;

2.12 "Subsidiary" means a person or company considered to be a subsidiary entity of another person or company as described in clause 1.2(3) of the Ontario Securities Commissions Rule 45-501;

2.13 "Technical Services Agreement" means the agreement between the Corporation and Daylight Energy Ltd. pursuant to which Daylight Energy Ltd. provides the services of its employees to the Corporation; and

2.14 "Weighted Average Market Price" means at any date the weighted average price per share for five (5) consecutive trading days preceding the determination of the Weighted Average Market Price, such weighted average price per share to be determined by dividing the aggregate sale price of all Common Shares sold on the Exchange during the said five (5) consecutive trading days by the total number of shares so sold.

3. ADMINISTRATION OF THE PLAN

3.1 The Plan shall be administered by the Board. The Corporation shall effect the grant of Options under the Plan, in accordance with determinations made by the Board pursuant to the provisions of the Plan as to:

- (a) the directors, officers, key employees or consultants of the Corporation or a Subsidiary and, certain other persons providing services on an ongoing basis to the Corporation and its Subsidiaries, including through the Technical Services Agreement, to whom Options will be granted; and
- (b) the number of Common Shares which shall be the subject of each Option;

by the execution and delivery of instruments in writing in form approved by the Board.

3.2 The Board may, from time to time, adopt such rules and regulations for administering the Plan as it may deem proper and in the best interests of the Corporation and may, subject to applicable law, delegate its powers hereunder to administer the Plan to a committee of the Board.

4. GRANTING OF OPTIONS

4.1 The Board from time to time shall grant Options to certain directors, officers, key employees and consultants of the Corporation or a Subsidiary. The grant of Options will be subject to the conditions contained herein and may be subject to additional conditions determined by the Board from time to time.

4.2 The aggregate number of Common Shares that may be issued pursuant to the exercise of Options awarded under the Plan at any time shall be 10% of the number of outstanding Common Shares from time to time which shall be subject to adjustment as provided in section 6 and subject to the following limitations:

- (a) the aggregate number of Common Shares reserved for issuance to any one person under the Plan, together with all other share compensation arrangements of the Corporation, must not exceed 5% of the outstanding issue of Common Shares (on a non-diluted basis);
- (b) in the aggregate, no more than 10% of the outstanding issue of Common Shares (on a non-diluted basis) may be reserved at any time for Insiders under the Plan, together with all other share compensation arrangements of the Corporation;

- (c) the aggregate number of Common Shares issued to Insiders pursuant to the Plan and all other share compensation arrangements of the Corporation, within a one year period, shall not exceed 10% of the outstanding issue of Common Shares (on a non-diluted basis);
- (d) the aggregate number of Common Shares issued to any one Insider and such Insider's associates pursuant to the Plan and all other share compensation arrangements of the Corporation, within a one year period, shall not exceed 5% of the outstanding issue of Common Shares (on a non-diluted basis); and
- (e) non-employee directors, in aggregate, shall not be entitled to receive in a calendar year Options to acquire, in aggregate, in excess of 250,000 Common Shares.

The Common Shares in respect of which Options are not exercised shall be available for subsequent Options. No fractional shares may be purchased or issued hereunder. For the purposes of sections 4.2 and 4.5, "outstanding issue" is determined on the basis of the number of Common Shares that are outstanding immediately prior to the share issuance in question, excluding shares issued pursuant to share compensation arrangements over the preceding one-year period.

4.3 The Option Price shall be fixed by the Board but under no circumstances shall any Option Price at the time of the grant be lower than the Market Price per Common Share or such other minimum price as may be required by any stock exchange on which the Common Shares are listed at the time of grant. Notwithstanding the foregoing, in certain circumstances, such as when an option is offered to an individual as an inducement to secure employment, the Option Price may be otherwise determined, but only with the prior consent of all stock exchanges on which the Common Shares are at that time listed.

4.4 The term of Options granted shall be determined by the Board in its discretion, to a maximum of 5 years from the date of the grant of the Option. The vesting period or periods within this period during which an Option or a portion thereof may be exercised by a Participant shall be determined by the Board.

4.5 The Board shall not issue any Options under the Plan for a period of 60 days following the listing of the Common Shares on the Toronto Stock Exchange. In addition, future option grants under the Plan shall be limited to 5% of the outstanding issue of Common Shares for the period ending November 30, 2005 and be limited to 7.5% of the outstanding issue of Common Shares for the period ending November 30, 2006. In addition, no Options shall be granted to any individuals that receive share purchase warrants of the Corporation issued in connection with an initial private placement of the Corporation in connection with a plan of arrangement involving Midnight Oil & Gas Ltd. and its securityholders pursuant to an arrangement agreement dated October 28, 2004 (the "Arrangement") until after the second anniversary of the effective date of the Arrangement.

4.6 Any increase in the issued and outstanding Common Shares will result in an increase in the available number of Common Shares issuable under this Plan; and any increase in the number of options granted under this Plan will, if exercised, make new grants available under this Plan.

4.7 If the normal expiry date of any Option falls within any Blackout Period or within 10 business days (being a day other than a Saturday, Sunday or other than a day when banks in Calgary, Alberta are not generally open for business) following the end of any Blackout Period (the "Restricted Options"), then the Expiry Date of such Restricted Options shall, without any further action, be extended to the date that is 10 business days following the end such Blackout Period. The foregoing extension applies to all Options whatever the date of grant and shall not be considered an extension of the term of the Options as referred to in Section 9 hereof.

5. EXERCISE OF OPTION

5.1 Subject to the Plan, an optionee (or his or her legal personal representative) may:

- (a) exercise from time to time by delivery to the Corporation, at its head office in Calgary, Alberta, of a written notice of exercise ("Exercise Notice") specifying the number of Common Shares with respect to which the Option is being exercised and accompanied by payment in full of the purchase price of the Common Shares

then being purchased. Upon exercise of the Option, the Corporation will cause to be delivered to the optionee a certificate or certificates, representing such Common Shares in the name of the optionee or the optionee's legal personal representative or otherwise as the optionee may or they may in writing direct; or

- (b) exercise the right (the "Put Right") from time to time to require the Corporation to purchase all or any part of the Options of the optionee by delivery to the Corporation, at its head office in Calgary, Alberta, of a written notice of exercise ("Put Notice") specifying the number of Options with respect to which the Put Right is being exercised. Upon the exercise of the Put Right, the Corporation will purchase from the optionee all of the Options specified in the Put Notice at a purchase price (the "Purchase Price") equal to the excess of the Current Market Price, determined on the date of receipt of the Put Notice by the Corporation (the "Notice Date"), over the Exercise Price for each Option being purchased under the Put Right. Upon the exercise of the Put Right, the Corporation will cause to be delivered to the optionee a cheque representing the Purchase Price within three business days of the Notice Date. Notwithstanding the foregoing, the Board of Directors of the Corporation or the Optionee, may select all or a portion of the Purchase Price to be satisfied in whole or in part by an issuance of Common Shares from treasury, in which case the number of Common Shares is determined by dividing the Purchase Price by the Current Market Price. Notwithstanding the foregoing, the Board, or any committee of the Board to whom the operation of the Plan has been delegated, may at its sole discretion decline to accept the exercise of a Put Right at any time; or
- (c) Subject to the provisions of the Plan, with the consent of the Corporation, an Optionee may elect to exercise an Option by surrendering such Option in exchange for the issuance of Common Shares equal to the number determined by dividing the Weighted Average Market Price (calculated as at the date that is two (2) business days prior to the date of exercise) into the difference between the Weighted Average Market Price and the exercise price of such Option. An Option may be exercised pursuant to this section from time to time by delivery to the Corporation at its head office in Calgary, Alberta or such other place as may be specified by the Corporation, of a written notice of exercise specifying that the Optionee has elected the cashless exercise of such Option and the number of Options to be exercised. The Corporation will not be required, upon the exercise of any Options pursuant to this section, to issue fractions of Common Shares or to distribute certificates which evidence fractional Common Shares. In lieu of fractional Common Shares, there will be paid to the Optionee by the Corporation upon the exercise of such Options pursuant to this section within ten (10) business days after the exercise date, an amount in lawful money of Canada equal to the then fair market value of such fractional interest (as determined by the Committee), provided that the Corporation will not be required to make any payment, calculated as aforesaid, that is less than \$10.00.

For purposes of this Section 5, the Current Market Price means the weighted average trading price of the Common Shares on the last five trading days prior to the Notice Date on which at least one board lot traded as reported by the principal stock exchange on which the Common Shares are then traded, or such lower price as the Board, or any committee of the Board to whom the operation of the Plan has been delegated, may determine. Notwithstanding the foregoing sentence, in the event that there has been a publicly announced take-over bid, amalgamation or other transaction involving the Common Shares, while such transaction is still outstanding, the Current Market Price shall be the consideration offered pursuant to such transaction (in the event that the consideration is other than cash, the Board of Directors shall determine the cash equivalent for the purpose of this provision).

6. ADJUSTMENTS IN SHARES

6.1 Appropriate adjustments in the number of Common Shares subject to the Plan and, as regards Options granted or to be granted, in the number of Common Shares optioned and in the Option Price, shall be made by the Board to give effect to adjustments in the number of Common Shares resulting from subdivisions, consolidations or reclassifications of the Common Shares, the payment of stock dividends by the Corporation (other than dividends in the ordinary course) or other relevant changes in the authorized or issued capital of the Corporation, which changes occur subsequent to the approval of the Plan by the Board.

6.2 Options granted to Participants hereunder are non-assignable, except in the case of the death of a Participant (which is provided for in section 8), and are exercisable only by the Participant to whom the Option has been granted.

7. DECISIONS OF THE BOARD

All decisions and interpretations of the Board respecting the Plan or Options granted thereunder shall be conclusive and binding on the Corporation and the Participants and their respective legal personal representatives and on all directors, officers and employees eligible under the provisions of the Plan to participate therein.

8. TERMINATION OF EMPLOYMENT/DEATH

8.1 If an Optionee ceases to be a Participant due to termination of the Optionee by the Corporation (with or without cause), then an Option, and all rights to purchase Common Shares pursuant thereto, shall expire and terminate immediately at the earlier of 5:00 p.m. on the 90th day after the Optionee ceasing to be an officer, director, employee or consultant of the Corporation or Subsidiary, as the case may be and the expiry of the option.

8.2 If an Optionee ceases to be a Participant as a result of the resignation of the Optionee from the Corporation, then all rights to purchase Common Shares pursuant thereto shall expire and terminate immediately at 5:00 p.m. on the date of such resignation or the date on which the Optionee ceases to be an officer, director, employee or consultant of the Corporation or Subsidiary. Thereafter, all of such Optionee's Options shall immediately expire and be of no further force and effect and the Optionee shall have no further rights in respect of any Options.

8.3 If before the expiry of an Option in accordance with the terms thereof a Participant ceases to be an employee, officer, director or consultant by reason of his permanent physical or mental disability, or death of the Participant, any unvested portion of such Option shall immediately vest. In addition, such Option may, subject to the terms thereof and any other terms of the Plan, be exercised by the legal personal representative(s) of the Participant's estate or at any time before 5:00 p.m. Calgary time on the 90th day after the date of death of the Participant, subject to, at the discretion of the Board of Directors of the Corporation, to extension of the expiry. Notwithstanding the foregoing, in no event will an Option be exercisable at a date in excess of 5 years from the date of grant without the approval of the Exchange.

8.4 The Plan does not confer upon a Participant any right with respect to continuation of employment by the Corporation or any Subsidiary, nor does it interfere in any way with the right of the Participant, the Corporation or the Subsidiary to terminate the Participant's employment at any time.

8.5 Options shall not be affected by any change of employment of the Participant where the Participant continues to be employed by the Corporation or any of its Subsidiaries.

9. AMENDMENT OR DISCONTINUANCE OF PLAN

Subject to the restrictions set out in this Section 9, the Board may amend or discontinue the Plan or Options granted thereunder at any time without shareholder approval; provided any amendment to the Plan that requires approval of any stock exchange on which the Common Shares are listed for trading may not be made without approval of such stock exchange. Without the prior approval of the shareholders, as may be required by the Exchange, the Board may not:

- (a) make any amendment to the Plan to increase the percentage or the maximum number of Common Shares issuable pursuant to the Plan on exercise of outstanding Options at any time pursuant to Section 4 hereof;
- (b) reduce the exercise price of any outstanding Options held by Insiders;
- (c) extend the term of any outstanding Option held by Insiders beyond the original expiry date of such Option;

- (d) make any amendment to increase the maximum limit on the number of securities that may be issued to Insiders pursuant to Sections 4.2(c) or 4.2(d);
- (e) make any amendment to Section 4.2(e) to increase the maximum number of Common Shares issuable on exercise of Options to directors who are not officers or employees of the Corporation;
- (f) make any amendment to the Plan that would permit an Optionee to transfer or assign Options to a new beneficial Optionee other than in the case of death of the Optionee; or
- (g) amend this Section 9.

In addition, no amendment to the Plan or Options granted pursuant to the Plan may be made without the consent of the Optionee, if it adversely alters or impairs any Option previously granted to such Optionee under the Plan.

10. GOVERNMENT REGULATION

The Corporation's obligation to issue and deliver Common Shares under any Option is subject to:

- (a) the satisfaction of all requirements under applicable securities laws in respect thereof and obtaining all regulatory approvals as the Corporation shall determine to be necessary or advisable in connection with the authorization, issuance or sale thereof;
- (b) the admission of such Common Shares to listing on any stock exchange on which such Common Shares may then be listed; and
- (c) the receipt from the Participant of such representations, agreements and undertakings as to future dealings in such Common Shares as the Corporation determines to be necessary or advisable in order to safeguard against the violation of the securities laws of any jurisdiction.

In this connection, the Corporation shall take all reasonable steps to obtain such approvals and registrations as may be necessary for the issuance of such Common Shares in compliance with applicable securities laws and for the listing of such Common Shares on any stock exchange on which such Common Shares are then listed.

11. PARTICIPANTS' RIGHTS

A Participant shall not have any rights as a shareholder of the Corporation until the issuance of a certificate for Common Shares upon the exercise of an Option or a portion thereof, and then only with respect to the Common Shares represented by such certificate or certificates.

12. EFFECTIVE TIME OF GRANT

A grant of Options is effective as of 12:01 a.m. on the date of grant.

13. APPROVALS

13.1 The Plan shall be subject to acceptance by the Exchange. In addition, any material amendments to the Plan are subject to the prior approval of the Exchange.

13.2 Any Options granted prior to such approval and acceptance shall be conditional upon such approval and acceptance being given and no such Options may be exercised unless such approval and acceptance is given.