MIDNIGHT
Oil Exploration Ltd.

Q1 2009 CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

(000's) (unaudited)

	March 31, 2009	December 31, 2008
Assets		
Current assets:		
Accounts receivable	**$ 25,733**	$ 18,527
Investments (note 2)	**-**	21,010
Deposits and prepaid expenses	**772**	709
	26,505	40,246
Petroleum and natural gas assets (note 1)	**156,714**	136,810
	$ 183,219	$ 177,056
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 42,647**	$ 30,132
Long-term debt (note 3)	**14,662**	18,844
Future taxes	**5,215**	5,831
Asset retirement obligations (note 4)	**1,988**	1,883
Shareholders' equity:		
Share capital (note 5)	**109,660**	109,660
Contributed surplus (note 5)	**5,855**	5,607
Retained earnings	**3,192**	5,099
	118,707	120,366
Commitments (note 7)		
Subsequent event (note 9)		
	$ 183,219	$ 177,056

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income (Loss), Comprehensive Income (Loss) and Retained Earnings
Three months ended March 31,

(000's, except per share amounts) (unaudited)

	2009	2008
Revenues:		
Petroleum and natural gas sales	**$ 5,148**	$ 11,243
Royalties	**(1,320)**	(2,541)
Gain on investments (note 2)	**479**	-
Other income	**23**	103
	4,330	8,805
Expenses:		
Operating and transportation	**1,464**	2,361
Interest	**54**	396
General and administration	**713**	941
Depletion, depreciation and accretion	**4,658**	5,051
	6,889	8,749
Income (loss) before taxes	**(2,559)**	56
Future taxes (reduction)	**(652)**	48
Net income (loss) and comprehensive income (loss)	**(1,907)**	8
Retained earnings, beginning of period	**5,099**	510
Retained earnings, end of period	**$ 3,192**	$ 518
Income (loss) per share: (note 5)		
Basic	**$ (0.04)**	$ 0.00
Diluted	**$ (0.04)**	$ 0.00

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
Three months ended March 31,

(000's) (unaudited)

	2009	2008
Cash provided by (used in):		
Operations:		
Net income (loss)	**$ (1,907)**	$ 8
Items not involving cash:		
Depletion, depreciation and accretion	**4,658**	5,051
Stock-based compensation	**142**	130
Gain on investments (note 2)	**(479)**	-
Future taxes (reduction)	**(652)**	48
Abandonment expenditures	**(30)**	(35)
Changes in non-cash working capital	**1,639**	3,255
Cash flow from operations	**3,371**	8,457
Financing:		
Increase (decrease) in long-term debt	**(4,182)**	937
Repurchase of common shares	**-**	(192)
Cash flow from (used in) financing	**(4,182)**	745
Investing:		
Petroleum and natural gas additions	**(24,285)**	(11,632)
Proceeds from disposition of investments (note 2)	**21,489**	-
Changes in non-cash working capital	**3,607**	2,430
Cash flow from (used in) investing	**811**	(9,202)
Changes in cash	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**$ -**	$ -
Interest paid	**$ 71**	$ 370

Cash is defined as cash and cash equivalents.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the three months ended March 31, 2009 and 2008
(Tabular amounts are stated in thousands of dollars except share and per share amounts)
(unaudited)

The interim consolidated financial statements for Midnight Oil Exploration Ltd. ("Midnight" or the "Company") have been prepared in accordance with accounting principles generally accepted in Canada, using the same accounting policies and methods of computation as set out in note 1 to the consolidated financial statements for the year ended December 31, 2008. The disclosures provided below are incremental to those included with the audited consolidated financial statements for the year ended December 31, 2008. The interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2008.

Nature of operations

The principal business of the Company is the exploration, exploitation, development and production of oil and natural gas reserves. All activity is conducted in Western Canada and comprises a single business segment.

1. Petroleum and natural gas assets

	March 31, 2009	December 31, 2008
Cost	$ 236,376	$ 211,857
Accumulated depletion and depreciation	(79,662)	(75,047)
	$ 156,714	$ 136,810

During the three months ended March 31, 2009, the Company capitalized $722,000 (2008 – $719,000) of general and administration expenses related to exploration and development activities. Included in this amount is the non–cash related stock-based compensation of $106,000 (2008 - $98,000). In addition, the future tax liability of $36,000 (2008 - $33,000) associated with the capitalized stock-based compensation has been capitalized.

The cost of unproven properties at March 31, 2009 of $21,758,000 (2008 - $26,500,000) has been excluded from the depletion and depreciation calculation. Future development costs of proven reserves of $26,237,000 (2008 - $9,112,000) have been included in the depletion and depreciation calculation.

2. Investments

Investments formerly held by the Company were comprised of the Trust Units received from the disposition of interests in certain petroleum and natural gas assets to Daylight Resources Trust, a publicly traded oil and gas royalty trust and a related party. Midnight considers the units to be financial assets and accounts for them as held for trading determining fair values based on quoted market prices. At December 31, 2008 the Company held 2,690,200 Trust Units with a fair value of $21,010,000. In January of 2009, Midnight disposed of its remaining Trust Units for $21,489,000. A gain of $479,000 was realized on the disposition.

3. Long-term debt

Midnight has a revolving term credit facility available up to $28.0 million with a Canadian chartered bank. The facility is available on a revolving basis until May 31, 2009. On May 31, 2009, at the Company's discretion, the facility is available on a non-revolving basis for a period of 366 days, at which time the facility would be due and payable. Alternatively, the facility may be extended for a further 364-day period at the request of the Company and subject to approval by the bank. The credit facility bears interest at the bank's prime rate or Bankers' Acceptance rates plus stamping fees based on the Company's debt to cash flow ratio, calculated using the two most recent fiscal quarters. The facility is secured by a $50 million first floating charge debenture and a general securities agreement. At March 31, 2009, $14,662,000

(2008 – $18,844,000) was drawn on this facility. The $28.0 million borrowing base is subject to a semi-annual and annual review by the bank. These reviews are based primarily on the reserves and using commodity prices estimated by the bank, as well as other factors and therefore there can be no assurance that the credit facility available upon the next scheduled review will not be reduced. The last review was performed on November 7, 2008 with the next review scheduled for on or prior to May 31, 2009.

4. Asset retirement obligations

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations is approximately $4,879,000 (2008 - $4,658,000) which will be incurred from 2009 to 2054. The majority of the costs will be incurred between 2015 and 2030. An inflation factor of 2% has been applied to the estimated asset retirement cost at March 31, 2009 and December 31, 2008. A credit-adjusted risk-free rate of between 8% and 10% was used to calculate the fair value of the asset retirement obligations at March 31, 2009 and December 31, 2008.

A reconciliation of the asset retirement obligations is provided below:

	March 31, 2009	December 31, 2008
Balance, beginning of period	$ 1,883	$ 2,102
Liabilities incurred	92	119
Change in estimates	-	837
Liabilities settled	(30)	(554)
Liabilities transferred on disposal	-	(824)
Accretion expense	43	203
Balance, end of period	$ 1,988	$ 1,883

5. Share capital

(a) Authorized:

The authorized share capital consists of an unlimited number of common shares without par value.

(b) Issued and outstanding:

	Number of Shares	Amount
Common shares:		
Balance, December 31, 2007	47,595,129	$ 113,032
Shares repurchased	(1,420,000)	(3,372)
Balance, December 31, 2008 and March 31, 2009	46,175,129	$ 109,660

On November 7, 2008, Midnight filed notice with the Toronto Stock Exchange (the "TSX") to make a normal course issuer bid to purchase its outstanding common shares on the open market. The TSX has authorized Midnight to purchase up to 4,081,619 common shares during the period from November 12, 2008 to November 11, 2009. There were no shares repurchased during the three months ended March 31, 2009.

(c) Per share amounts:

The following summarizes the common shares used in calculating per share amounts:

	Three months ended	
	March 31, 2009	March 31, 2008
Weighted average shares outstanding:		
Basic	46,175,129	47,454,549
Diluted	46,175,129	47,454,549

The reconciling items between basic and diluted average common shares outstanding are stock options and warrants. At March 31, 2009 there were 4,177,500 (2008 – 2,994,500) options that were anti-dilutive and at

March 31, 2008 there were also 2,013,333 warrants that were anti-dilutive. There were no warrants outstanding at March 31, 2009.

(d) Stock options:

The Company has a stock option plan whereby up to 10% of the issued and outstanding common shares may be granted under option to employees, directors and other persons who provide ongoing management or consulting services to the Company. Stock options are normally granted for a term up to five years and vest over three years from the date granted. The exercise price of each option equals the market price of the Company's common shares on the date of the grant.

The summary of stock option activity is presented below:

	Number of options		**Weighted average exercise price**
Balance, December 31, 2007	2,992,000	$	2.56
Granted	1,218,000		1.28
Forfeited	(67,500)		1.01
Balance, December 31, 2008	4,142,500	$	2.21
Granted	35,000		0.76
Balance, March 31, 2009	4,177,500	$	2.19
Exercisable at March 31, 2009	1,998,998	$	2.62

(e) Stock-based compensation:

Midnight accounts for its stock-based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for warrants and options granted to employees, officers, and directors.

Midnight has not incorporated an estimated forfeiture rate for stock options that will not vest, rather the Company accounts for actual forfeitures as they occur.

The fair value of options granted were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values for the three months ended March 31, 2009 and for the year ended December 31, 2008:

		2009		**2008**
Fair value of options granted	$	0.36	$	0.46
Risk free interest		1.9%		3.1%
Estimated hold period prior to exercise		4 years		4 years
Expected volatility		60%		40%
Dividend per share	$	0.00	$	0.00

(f) Contributed surplus:

The following table reconciles Midnight's contributed surplus:

		March 31, 2009		**December 31, 2008**
Balance, beginning of period	$	5,607	$	2,442
Stock-based compensation		248		962
Forfeiture and expiration of warrants		-		40
Repurchase of common shares		-		2,163
Balance, end of period	$	5,855	$	5,607

6. Financial risk management

(a) Fair value of financial instruments:

Financial instruments comprise cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt. The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short-term maturities. The Company's long-term debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

(b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and petroleum and natural gas marketers. As at March 31, 2009 Midnight's receivables consisted of $22,996,000 (2008 - $10,432,000) from joint venture partners which includes cash call receivables of $14,600,000 (2008 - $4,284,000), $1,782,000 (2008 - $5,345,000) from petroleum and natural gas marketers and $955,000 (2008 - $245,000) of other trade receivables. At December 31, 2008 the Company had accounts receivable of $2,505,000 from a brokerage house for the disposition of Trust Units that was collected.

At March 31, 2009, the Company had $300,000 (2008 – $1,000,000) of receivables that were considered past due. The majority of these amounts are due from large well established joint venture partners.

Midnight establishes an allowance for doubtful accounts as determined by management based on their assessment of collection, therefore the carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. Midnight has an allowance for doubtful accounts of $83,000 that was provided for in 2008. No additional provisions have been made in 2009. Although an allowance has been provided Midnight will continue to pursue collection of this balance. The allowance may be adjusted if circumstances or events change.

(c) Liquidity risk:

Midnight's financial liabilities consist of its long-term debt, as outlined in note 3, and its accounts payable and accrued liabilities.

The following are the contractual maturities of financial liabilities at March 31, 2009.

Financial Liability	Total	Less than 1 Year	1-2 Years	2-5 Years
Account payable and accrued liabilities	$ 42,647	$ 42,647	$ -	$ -
Long-term debt	14,662	-	14,662	-
Total	$ 57,309	$ 42,647	$ 14,662	$ -

(d) Market risk:

Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company had no forward exchange rate contracts in place as at March 31, 2009 and December 31, 2008.

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. There were no financial instruments in place to manage commodity prices during the three months ended March 31, 2009 or the year ended December 31, 2008.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents, when held, and long-term debt that have a floating interest rates. If interest rates had been 100 basis points lower for the three months ended March 31, 2009, net income would have increased $1,000 and cash flow from operations would have been $1,000 higher. An equal and opposite impact would have occurred to net income and cash flow from operations had interest rates been 100 basis points higher for the period. The Company had no interest rate swaps or hedges at March 31, 2009 or December 31, 2008.

(e) Capital management:

The management of capital includes share capital of $109,660,000 and net debt of $30,804,000 which includes working capital (the sum of current assets and current liabilities) and long-term debt. The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including: changes in economic conditions, the risk profile of its drilling inventory, the efficiencies of past investments, the efficiencies of forecasted investments and the timing of such investments, the current and forecasted net debt levels, the forecasted commodity prices and resulting cash flow. The Company strives to balance the proportion of debt and equity in its capital structure and monitors net debt to funds from operations. The calculation of this ratio is based on current net debt divided by funds from operations from the previous 2 quarters which is annualized. Funds from operations is defined as cash flow from operations before abandonment expenditures and changes in non-cash working capital from operating activities. At March 31, 2009 this ratio increased to 2.4 as a result of the Company spending $24,285,000 for its capital program in the first quarter of 2009 that increased net debt and due to reduced cash flows from lower commodity prices. On April 9, 2009, the Company issued equity and raised gross proceeds of $9,647,000 in order to reduce this ratio. In addition the Company has increased production commencing in the second quarter of 2009 from its winter drilling which is expected to increase funds from operations and reduce this ratio. The calculation is detailed as follows:

		March 31, 2009		**December 31, 2008**
Long-term debt	$	14,662	$	18,844
Current assets		(26,505)		(40,246)
Current liabilities		42,647		30,132
Net debt	$	30,804	$	8,730
Cash flow from operations for quarter	$	3,371	$	7,563
Changes in non-cash working capital from operations		(1,639)		(3,365)
Abandonment expenditures		30		484
Funds from operations for quarter	$	1,762	$	4,682
Prior quarter funds from operations		4,682		7,923
	$	6,444	$	12,605
		x 2		x 2
Annualized funds from operations	$	12,888	$	25,210
Ratio of net debt to annualized funds from operations		2.4		0.3

In order to maintain or adjust the capital structure, the Company may from time to time issue shares, if available on reasonable terms, sell assets, farm out properties and adjust its capital spending to manage current and projected debt levels. The Company may also review its level of bank credit obtainable based on the growth of its oil and natural gas reserves.

The Company's capital management objectives, evaluation measures and targets have remained unchanged over the periods presented.

7. Commitments

Midnight's normal day to day activities includes farm-ins and farm-outs of joint venture properties. Midnight had entered into a farm-in commitment at Bilbo to drill and complete six wells to earn an interest in approximately 36 sections of land. At March 31, 2009 Midnight had drilled five and completed three of the six wells and had incurred approximately $15,600,000 on this obligation. Midnight will fulfill the remainder of this commitment in 2009 and expects its obligation to be between $4,000,000 and $6,000,000.

8. Related Party

Midnight is considered related to Daylight Energy Ltd. ("Daylight"), the administrator of Daylight Resources Trust, as a director and officer of Midnight is Daylight's Chairman and, a director and officer of Daylight is also a director of

Midnight. Midnight and Daylight are 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 the Company's business activities and operations.

For the three months ended March 31, 2009, Daylight charged Midnight $150,000 (2008 - $400,000) for administrative services and premise costs. At March 31, 2009 Midnight had a receivable balance, which includes joint venture and commodity marketing amounts of approximately $3,700,000 due from Daylight (2008 - $2,800,000). At March 31, 2009 Midnight also has $7,700,000 due from Daylight for cash calls which are not included in the amount above (2008 – due to Daylight $3,900,000).

9. Subsequent Event

On April 9, 2009, the Company issued 8.0 million common shares at a price of $0.77 per common share and 3.71 million flow-through common shares at a price of $0.94 per flow-through common share to raise gross proceeds of approximately $9,647,000. Management participated in this issue, acquiring 210,000 flow-through common shares at $0.94 per flow-through common share. This offering was done by way of short form prospectus.

Selected Quarterly Information

	2009	2008				2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial (000's, except for per share amounts)								
Petroleum and natural gas sales	**$ 5,148**	$ 7,828	$ 14,930	$ 15,576	$ 11,243	$ 10,811	$ 10,439	$ 11,009
Royalties	**1,320**	1,515	3,171	3,567	2,541	1,649	1,597	1,618
Operating expenses	**1,413**	1,683	1,934	1,883	2,154	2,746	2,227	1,781
Transportation expenses	**51**	64	80	114	207	200	255	312
Netback	**$ 2,364**	$ 4,566	$ 9,745	$ 10,012	$ 6,341	$ 6,216	$ 6,360	$ 7,298
G&A – cash charge	**571**	1,012	1,453	1,017	811	1,128	1,001	803
Interest	**54**	257	369	350	396	369	439	426
Other income	**(23)**	(1,385)	-	(39)	(103)	(179)	-	-
Funds from operations	**$ 1,762**	$ 4,682	$ 7,923	$ 8,684	$ 5,237	$ 4,898	$ 4,920	$ 6,069
Per share – Basic	**0.04**	0.10	0.17	0.18	0.11	0.10	0.10	0.13
– Diluted	**0.04**	0.10	0.17	0.18	0.11	0.10	0.10	0.13
Net income (loss)	**$ (1,907)**	$ 760	$ 1,647	$ 2,174	$ 8	$ (19)	$ (827)	$ 51
Per share – Basic	**(0.04)**	0.02	0.03	0.05	0.00	(0.00)	(0.02)	0.00
– Diluted	**(0.04)**	0.02	0.03	0.05	0.00	(0.00)	(0.02)	0.00
Petroleum and natural gas additions	**$ 24,285**	$ 13,423	$ 6,417	$ 4,695	$ 11,632	$ 8,092	$ 3,217	$ 3,439
Property dispositions	**-**	(30,371)	-	-	-	-	-	-
Net debt	**30,804**	8,730	29,536	31,042	34,996	28,374	24,886	26,577
Total assets	**183,219**	177,056	172,180	172,905	169,706	164,681	160,573	161,537
Shares outstanding								
Basic	**46,175**	46,175	47,423	47,423	47,423	47,595	47,828	47,828
Diluted	**50,353**	50,318	53,591	53,543	52,430	52,600	52,953	53,168
Operations								
Average daily production								
Natural gas (mcf/d)	**4,867**	5,465	6,097	5,799	5,239	5,573	5,981	5,769
Oil & NGLs (bbls/d)	**708**	803	941	942	883	1,036	1,050	1,185
Combined (boe/d)	**1,519**	1,714	1,957	1,908	1,756	1,965	2,047	2,146
Average prices received								
Natural gas ($/mcf)	**$ 5.26**	$ 6.96	$ 8.64	$ 10.44	$ 7.95	$ 6.17	$ 5.33	$ 7.22
Oil & NGLs ($/bbl)	**44.08**	58.54	114.18	116.87	91.88	79.62	77.16	66.76
Combined ($/boe)	**$ 37.64**	$ 49.65	$ 82.91	$ 89.71	$ 70.35	$ 59.81	$ 55.43	$ 56.37
Royalties	**9.65**	9.61	17.61	20.54	15.90	9.12	8.48	8.29
Operating expenses	**10.33**	10.67	10.74	10.85	13.48	15.19	11.82	9.12
Transportation expenses	**0.37**	0.41	0.44	0.66	1.30	1.11	1.36	1.59
Operating netback ($/boe)	**$ 17.29**	$ 28.96	$ 54.12	$ 57.66	$ 39.67	$ 34.39	$ 33.77	$ 37.37