MIDNIGHT
Oil Exploration Ltd.

Q1 2009 MANAGEMENT’S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Midnight should be read in conjunction with the unaudited interim Consolidated Financial Statements and accompanying notes for the three months ended March 31, 2009 and 2008 and the audited Consolidated Financial Statements, related notes and Management's Discussion and Analysis for the years ended December 31, 2008 and 2007.

Basis of Presentation – The financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas is converted to a barrel equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil unless otherwise stated. The following MD&A compares the results of the three months ended March 31, 2009 ("Q1 2009") to the three months ended March 31, 2008 ("Q1 2008") and to the results of the three months ended December 31, 2008 ("Q4 2008").

Non-GAAP Measurements - Within the Management's Discussion and Analysis references are made to terms commonly used in the oil and gas industry. Funds from operations, funds from operations per share and netbacks are not defined by GAAP in Canada and are referred to as non-GAAP measures. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income per share. Netbacks equal total revenue less royalties and operating and transportation expenses calculated on a per boe basis. Management utilizes these measures to analyze operating performance and leverage. Funds from operations is not intended to represent operating profit for the period nor should it be viewed as an alternative to operating profit, net income, cash flow from operations or other measures of financial performance calculated in accordance with Canadian GAAP. Funds from operations is commonly referred to as cash flow by research analysts and is used to value and compare oil and gas companies and is frequently included in published research when providing investment recommendations. Total boes are calculated by multiplying the daily production by the number of days in the period.

The following table reconciles cash flow from operations to funds from operations which is used in the MD&A:

($000's)	**Q1 2009**	Q1 2008	Q4 2008
Cash flow from operations	**3,371**	8,457	7,563
Abandonment expenditures	**30**	35	484
Changes in non-cash working capital	**(1,639)**	(3,255)	(3,365)
Funds from operations	**1,762**	5,237	4,682

Forward Looking Statements – Certain statements contained within the Management's Discussion and Analysis, and in certain documents incorporated by reference into this document, constitute forward looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward looking statements. Forward looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements.

In particular, this MD&A contains the following forward looking statements pertaining to, without limitation, the following: Midnight's future production volumes and the timing of when additional production volumes will come on stream; Midnight's realized price of commodities in relation to reference prices; future commodity prices; the Company's future royalty rates and the realization of royalty incentives; Midnight's expectation of reducing operating costs on a per unit basis; the relationship of Midnight's interest expense and the Bank of Canada interest rates; increases in general and administrative expenses and recoveries; future development and exploration activities and the timing thereof; the future tax liability of the Company; the expected decrease the depletion, depreciation and accretion rate; the estimated future contractual obligations of the Company and the amount expected to be incurred under its farm-in commitments; the future liquidity and financial capacity of the Company; and its ability to fund its working capital and forecasted capital expenditures. In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

With respect to the forward looking statements contained in the MD&A, Midnight has made assumptions regarding: future commodity prices; the impact of royalty regimes and certain royalty incentives, the timing and the amount of capital expenditures; production of new and existing wells and the timing of new wells coming on stream; future proved finding and development costs; future operating expenses including processing and gathering fees; the performance characteristics of oil and natural gas properties; the size of oil and natural gas reserves; the ability to raise capital and to continually add to reserves through exploration and development; the continued availability of capital, undeveloped land and skilled personnel; the ability to obtain equipment in a timely manner to carry out exploration and development activities; the ability to obtain financing on acceptable terms; the ability to add production and reserves through exploration and development activities; and the continuation of the current tax and regulation.

We believe the expectations reflected in those forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this Management's Discussion and Analysis, as the case may be. The actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth below and elsewhere in this Management's Discussion and Analysis: volatility in market prices for oil and natural gas; counterparty credit risk; access to capital; changes or fluctuations in production levels; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; stock market volatility and market valuation of Midnight stock; geological, technical, drilling and processing problems; limitations on insurance; changes in environmental or legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; and the other factors discussed under "Risk Factors" in our Annual Information Form filed on SEDAR. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward looking statements contained in this document speak only as of the date of this document and Midnight does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws. This Management's Discussion and Analysis is dated as of May 11, 2009.

Selected Quarterly Information

Set out below is selected information by quarter for Midnight for the last eight quarters:

Financial	**2009**	**2008**				**2007**		
(000's, except for per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales	**$ 5,148**	$ 7,828	$ 14,930	$ 15,576	$ 11,243	$ 10,811	$ 10,439	$ 11,009
Cash flow from operations	**3,371**	7,563	7,031	3,802	8,457	6,026	6,510	833
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 disposition	**-**	(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
Operating netback ($/boe)	**$ 17.29**	$ 28.96	$ 54.12	$ 57.66	$ 39.67	$ 34.39	$ 33.77	$ 37.37

Midnight is a junior oil and gas company that has a balanced portfolio of light oil and sweet natural gas. Midnight's properties are primarily focused within two core areas in Alberta; the Deep Basin in the Peace River Arch where the Company has its multi year natural gas resource play and in Red Earth where the Company has its light oil production and development opportunities. The Company's net income and funds from operations have fluctuated with the changes in commodity prices. Midnight has consistently maintained high operating netbacks compared to its peer group as a result of its product mix. Growth in petroleum and natural gas sales and funds from operations are derived by the combination of increased oil and natural gas production and strong commodity prices. In Q4 2008 Midnight disposed of its low working interest non-core West Central assets to help fund the exploration and development of its multi-zone, Deep Basin tight gas resource play in the Peace River Arch area of Alberta. Midnight has increased its asset base spending $71.8 million during the past 8 quarters funded primarily through this property disposition, farm-outs and funds from operations and recently with an equity financing which closed on April 9, 2009 and raised gross proceeds of $9.6 million. This has been the only equity financing Midnight has done in the last eight quarters. Commodity prices over the last two years have been extremely volatile with a record high oil price of over $147/bbl achieved in Q2 of 2008 which then plummeted to its lowest price since February of 2004 in Q4 of 2008. Midnight's realized sales price for Q1 2009 was $37.64 a 58% decline from the high in Q2 2008. Midnight's production averaged 1,519 boe/d in Q1 2009 which is only an 11% decline from Q4 2008 when Midnight disposed of 550 boe/d on October 31, 2008 which was approximately 25% of its production. The global economic crisis has impacted all industries world wide which in turn has reduced the demand for energy and has reduced commodity prices which is a key element to our business. Reduced commodity prices have reduced available cash flow for re-investment and development and has increased uncertainty in various aspects of our business. Although activity in the Western Canadian Sedimentary Basin has seen some of its lowest levels in years, Midnight has had two of its busiest quarters in terms of capital development. The Company has focused its activities on its Deep Basin resource plays and has built a foundation to produce significant growth.

Production

Production for Q1 2009 averaged 1,519 boe/d consisting of 4,867 mcf/d of natural gas and 708 boe/d of oil and natural gas liquids ("NGLs"). Q4 2008 production of 1,714 boe/d included approximately 184 boe/d of production from West Central assets which were disposed of on October 31, 2008. Removing the impact of these assets, production remained relatively unchanged in Q1 2009 compared to Q4 2008. Q1 2008 production of 1,756 boe/d included production from West Central assets of approximately 500 boe/d which was lower than expected as production in Q1 2008 was hampered by extreme cold weather that caused intermittent shut-ins throughout January and February which reduced average production for that quarter. Midnight has had a successful winter drilling program, but delayed putting new wells on production in Q1 2009 to take advantage of the lower royalties for new wells that come on stream after April 1, 2009. Midnight only put one well on stream from its winter program, which came on production in late February 2009. Midnight has since added over 1,200 boe/d of net production that came on stream after April 1, 2009 that will contribute approximately 800 to 1,000 boe/d to the average Q2 2009 production.

The following table outlines our production volumes for the periods indicated below:

Production	**Q1 2009**	Q1 2008	Q4 2008
Natural Gas (mcf/d)	**4,867**	5,239	5,465
Oil (bbls/d)	**584**	755	683
NGLs (bbls/d)	**124**	128	120
Total (boe/d)	**1,519**	1,756	1,714

Commodity Pricing

Canadian natural gas prices are influenced by the overall North American supply and demand balance including imports of liquefied natural gas, actual and forecast weather and seasonal changes, Canadian and U.S. storage levels and transportation capacity. Canada exports to the U.S. more natural gas than it consumes and as a result U.S. domestic market dynamics significantly affect Canadian gas prices. Recently U.S. domestic supply significantly increased with the development of new drilling and completion technology that resulted in production gains from new and large scale tight gas and shale gas developments in numerous areas in the U.S.

Midnight markets substantially all of its gas in Alberta with a mix of daily and monthly pricing and therefore has a high correlation to Alberta spot prices. Midnight's realized natural gas price was $5.26/mcf in Q1 2009 compared to the daily index price of $4.79/mcf. The premium to the daily index price is a result of selling part of the gas at the monthly index in a declining price environment.

World oil prices have been volatile and dynamic over the past number of years with the trend expected to continue. Near term and long term oil prices are determined by daily free trading of the commodity on various world wide commodity exchanges and are influenced by actual and forecast global economic activity that affects global supply and demand. The principal trading exchange that affects Midnight's oil price is the U.S. benchmark West Texas Intermediate at Cushing, Oklahoma ("WTI") price. Midnight's realized oil price has a high correlation to the Edmonton Par benchmark price which generally has a high correlation to WTI adjusted by the Canadian to U.S. dollar exchange rate as well as transportation costs and quality adjustments. Midnight's oil is light, sweet crude which is a high quality crude and has tracked appropriately to the Edmonton par benchmark. Midnight's realized oil price for Q1 2009 was $47.35 compared to the Edmonton benchmark price of $50.27.

Prices for Natural Gas Liquids have their own market dynamic. NGLs include condensate, pentane, butane and propane. While prices for condensate and pentane have a relatively strong correlation to oil prices, prices for butane and propane trade at varying discounts due to the local market conditions of supply and demand. Midnight realized 57% of the Edmonton par price in Q1 2009.

Midnight did not buy or sell any commodity or currency hedges during 2009 or 2008 and did not have any outstanding at March 31, 2009.

Midnight's realized price for commodities has tracked with the appropriate benchmark prices and are expected to continue to correlate in 2009. The following table outlines benchmark prices compared to Midnight's realized prices:

Prices and Marketing	**Q1 2009**	Q1 2008	Q4 2008
Benchmark Prices			
Alberta spot ($/mcf)	**$ 4.79**	$ 7.77	$ 6.62
WTI oil ($US/bbl)	**43.18**	97.86	59.06
Cdn/US average exchange rate	**0.804**	0.995	0.828
Edmonton Par ($/bbl)	**$ 50.27**	$ 98.08	$ 63.62
Midnight's Realized Price			
Natural gas ($/mcf)	**$ 5.26**	$ 7.95	$ 6.96
Oil ($/bbl)	**47.35**	96.72	61.63
NGLs ($/bbl)	**28.76**	63.25	40.95
Combined oil & NGLs ($/bbl)	**44.08**	91.88	58.54
Total ($/boe)	**$ 37.64**	$ 70.35	$ 49.65

Petroleum and Natural Gas Sales

Petroleum and natural gas sales totalled $5.1 million for Q1 2009 compared to $11.2 million in Q1 2008 and $7.8 million in Q4 2008. The dramatic decrease in sales is due almost entirely from reduced commodity prices. In Q1 2009 Midnight's overall realized sales price was $37.64/boe compared to $70.35/boe in Q1 2008 a 46% reduction. Production in Q1 2009 was 13% lower than the comparative period due to the West Central asset disposition which also contributed to lower sales.

The following table outlines our sales by product for the periods indicated below:

Petroleum and Natural Gas Sales (000's)	**Q1 2009**	Q1 2008	Q4 2008
Natural Gas	**$ 2,302**	$ 3,789	$ 3,497
Oil	**2,488**	6,649	3,873
NGLs	**322**	734	452
Royalty income	**36**	71	6
Total	**$ 5,148**	$ 11,243	$ 7,828

Royalties

Royalty payments are made by producers of oil and gas to the owners of the mineral rights on our leases that include provincial governments (Crown) and freehold landowners as well as to other third parties by way of contractual overriding royalties.

In January 2009, the new royalty framework ("NRF") was implemented. The NRF calculates royalty rates based on an individual wells production, depth and the commodity reference price and eliminates royalty incentives and holiday programs with the exception of specific programs relating to deep oil and natural gas drilling programs. Royalties under the NRF are based on individual wells production and on the crown reference price. The sliding scale royalty calculation is based on a broader range of commodity prices where the price component of royalties increases up to maximum prices of approximately $120/bbl for oil and $16/gj for natural gas. The minimum crown rate under the NRF is 5% and has a maximum royalty rate of 50%. Subsequent to the initial legislation, the Alberta Government announced additional programs that may reduce royalties on qualifying wells. Midnight will benefit from many of these programs including the deep gas drilling incentives, the new well incentives for wells coming on production after April 1 and the drilling incentives for wells drilling between April 1 2009 and March 31, 2010. For new wells spud on or after April 1, 2009 and rig released before April 1, 2010 the Company may receive a royalty credit of $200/metre drilled. These credits are applied to the Company's corporate royalty liability and can be used to shelter up to 50% of Midnight's Alberta Crown royalty liability. A new well incentive program was also announced for new wells which come on production after April 1, 2009. This program caps a well's royalty at 5% for the first 12 months of production or for the first 50,000 bbls or 500 mmcf produced, whichever comes first. To obtain maximum benefit under this latter program, Midnight delayed putting on production a number of wells from its winter drilling program which were planned to be on production from periods ranging from March 9 to March 31, 2009. A number of new wells in its Deep Basin program are subject to gross overriding royalties to third parties which will increase the overall rate on these wells above 5%.

Midnight's Q1 2009 royalties were 25.6% of revenue which increased from Q1 2008 where royalties were 22.6% of revenue and from Q4 2008 where royalties were 19.4% of revenue. Given the implementation of the NRF, royalties this year will not be comparable to the prior year as the basis for the calculation of royalties has changed. Royalties for oil and natural gas have increased in Q1 2009 compared to both Q1 2008 and Q4 2008 as expected due to the NRF and because royalty incentives will not commence until Q2 2009. The overall royalty rate for Q1 2009 was higher than anticipated due to a higher reference price for oil than forecast and additional crown royalties assessed for prior periods. The Q2 2009 oil royalty rates are expected to decrease as the crown oil reference price has decreased and oil production is not forecast to change materially. The Company expects its gas royalty rates to decrease substantially in Q2 2009 with the addition of its new wells brought on stream in April at the 5% crown incentive rate although certain wells are subject to applicable overrides. The estimated royalty rates are based on many assumptions. The actual royalty rates may differ significantly as the rates will vary based on commodity prices, production profiles of new and existing wells, the depth of new wells drilled along with the application of incentives received.

The following tables outline our royalties by type and by commodity:

Royalties by Type (000's)	**Q1 2009**	Q1 2008	Q4 2008
Crown	**$ 1,197**	$ 2,355	$ 1,150
Gross overriding and other	**123**	186	365
Total	**$ 1,320**	$ 2,541	$ 1,515
$/boe	**$ 9.65**	$ 15.90	$ 9.61
% of revenue	**25.6**	22.6	19.4

Royalties by Commodity	**Q1 2009**	Q1 2008	Q4 2008
Natural Gas			
000's	**$ 550**	$ 590	$ 583
% of revenue	**23.9**	15.6	16.7
Oil			
000's	**$ 672**	$ 1,717	$ 798
% of revenue	**27.0**	25.8	20.6
NGLs			
000's	**$ 98**	$ 234	$ 134
% of revenue	**30.4**	31.9	29.6

Operating and Transportation Expenses

Operating and transportation expenses totalled $1.5 million ($10.70/boe) in Q1 2009 compared to $2.4 million ($14.78/boe) for Q1 2008 and $1.7 million ($11.08/boe) in Q4 2008. Midnight's transportation costs decreased in the current year as it commissioned its water handling facilities at Red Earth in Q1 of 2008 which reduced transportation costs for the remainder of 2008. Operating costs for Q1 2009 decreased on a per boe basis from the same period in 2008 as costs were higher with extremely cold weather which caused shut-ins and increased maintenance in Q1 2008. Operating costs have remained consistent with Q4 2008 decreasing 3% per boe. We expect our operating costs in 2009 to continue to decrease on a boe basis as we increase our natural gas production that will initially have lower overall operating costs on a per unit basis. The following table details the Company's operating and transportation expenses:

Operating and Transportation Expenses (000's)	**Q1 2009**	Q1 2008	Q4 2008
Operating	**$ 1,413**	$ 2,154	$ 1,683
Transportation	**51**	207	64
Total	**$ 1,464**	$ 2,361	$ 1,747
Operating ($/boe)	**$ 10.33**	$ 13.48	$ 10.67
Transportation ($/boe)	**0.37**	1.30	0.41
Total ($/boe)	**$ 10.70**	$ 14.78	$ 11.08

Interest Expense

Q1 2009 interest expense totalled $54,000 which is lower than past quarters due to considerably lower average debt in Q1 2009 as the Company sold its remaining Daylight Resources Trust Units in Q4 2008 and Q1 2009 for proceeds of $29,597,000 and used the proceeds to initially pay down our long-term debt which was redrawn to fund our exploration program. Interest expense for Q1 2008 totalled $396,000 on average bank debt of $29.1 million and totalled $257,000 in Q4 2008 on average bank debt of $24.8 million. Midnight's credit facility bears interest at the bank's prime rate plus a stamping fee or at Bankers' Acceptance rates plus a stamping fee based on the Company's debt to cash flow ratio as defined in the credit facility. Over the last year, Midnight's stamp fees have increased with each review of the credit facility due to pressure on the commercial banks resulting from the global credit crisis. Record low prime rates have reduced the impact of the increased stamp fees but should prime rates increase, Midnight's effective interest rate will be higher than in past quarters.

General and Administration Expenses

Q1 2009 direct general and administration ("G&A") totalled $1.8 million which was consistent with the Q4 2008 charge of $1.8 million and a slight increase over the $1.7 million charge for Q1 2008. Cash G&A decreased to $571,000 from $1,012,000 in Q4 2008 and from $811,000 in Q1 2008. Cash G&A decreased as Q1 2009 overhead recoveries increased compared to the prior quarters due to the Company's large operated capital program that was executed in the quarter. The largest portion of Midnight's cash G&A is comprised of salaries and benefits and as such, Midnight's cash G&A will depend on the staffing levels in 2009 along with any changes to salaries and bonuses. In addition, Midnight has separated all services from Daylight which will cause direct G&A to increase slightly in 2009. The per boe cost will be significantly affected by future production volumes.

Stock-based compensation expense totalled $142,000 in Q1 2009 which was consistent with Q4 2008 expense of $144,000 and slightly higher than the Q1 2008 expense of $130,000. Midnight estimates the fair value of stock options when they are granted using the black-scholes pricing model and expenses the options over the vesting period of the option and capitalizes amounts associated with employees' salaries that are capitalized. No options have been exercised since inception and no vested options were in the money at March 31, 2009. Midnight has 1,998,998 options that have vested with a weighted average exercise price of $2.62.

The components of general and administration expense are as follows:

General and Administration Expenses (000's)	**Q1 2009**	Q1 2008	Q4 2008
Direct G&A	**$ 1,796**	$ 1,671	$ 1,815
Overhead recoveries	**(609)**	(239)	(237)
Capitalized G&A	**(616)**	(621)	(566)
Cash G&A	**$ 571**	$ 811	$ 1,012
Stock-based compensation	**142**	130	144
Net G&A	**$ 713**	$ 941	$ 1,156
Cash G&A ($/boe)	**$ 4.17**	$ 5.07	$ 6.42
Stock-based compensation ($/boe)	**1.04**	0.81	0.91
Net G&A ($/boe)	**$ 5.21**	$ 5.88	$ 7.33

Depletion, Depreciation and Accretion

For Q1 2009, depletion, depreciation and accretion ("DD&A") was $4.7 million compared to $5.1 million in Q1 2008 and $5.3 million in Q4 2008. Midnight has excluded $21.8 million from the depletion base related to unproved properties in Q1 2009 and has added $26.2 million to its base for future development capital related to proved reserves. On a per boe basis, Midnight's charge was consistent with the Q4 2008 charge. In Q4 2008, the Company sold its West Central assets and they were removed from the depletable base at a cost of $20.26/boe which increased the Company's DD&A rate as assets had a higher historical carrying cost. Going forward the Company's drilling program is focused in the Deep Basin where historically it has been able to add reserves at low finding and development costs. The Company anticipates that its DD&A rate will decrease with continued drilling in this area and increased recognition of reserves from the tight gas formations. The components of DD&A are as follows:

Depletion, Depreciation and Accretion (000's)	**Q1 2009**	Q1 2008	Q4 2008
Depletion and Depreciation	**$ 4,615**	$ 4,999	$ 5,305
Accretion	**43**	52	44
Total	**$ 4,658**	$ 5,051	$ 5,349
Depletion and Depreciation ($/boe)	**$ 33.75**	$ 31.28	$ 33.64
Accretion ($/boe)	**0.31**	0.33	0.28
Total ($/boe)	**$ 34.06**	$ 31.61	$ 33.92

Investments and Other Income

Investments were comprised of the Trust Units received from the disposition of the West Central assets to Daylight Resources Trust (TSX-DAY.UN). At December 31, 2008 Midnight held 2,690,200 Trust Units with a fair value of $21,010,000 based on Daylight's closing price on December 31, 2008 of $7.81 per unit. In January 2009, the Company disposed of the remaining Trust Units for $21,489,000 and recorded a gain of $479,000. The proceeds from the sale were used to reduce long-term debt. In Q4 2008, the Company recorded $1,360,000 of distribution income from the trust units in other income, no distributions were received for Q1 2009. Seismic sales make up the balance of other income in all of the corresponding periods.

Taxes

For Q1 2009, the future tax reduction was $652,000 compared to a future tax expense of $48,000 in Q1 2008 and a future expense of $466,000 in Q4 2008. The difference in the expected rate of 29% and the effective rate for Q1 2009 relates primarily to the tax rate differences, permanent differences from stock-based compensation expense and gains on the sale of investments.

Midnight has approximately $133 million in tax pools to shelter taxable income in the future. These tax pool balances are subject to change as tax returns are completed, annual claims are made, and reclassification of items between categories may occur.

Funds from Operations and Net Income

Q1 2009 funds from operations totalled $1,762,000 or $0.04 per basic and diluted share. Funds from operations for Q4 2008 totalled $4,682,000 or $0.10 per basic and diluted share. Funds from operations for Q1 2008 were $5,237,000 or $0.11 per basic and diluted share. Funds from operations in Q1 2009 decreased from the comparable periods in 2008 primarily due to lower realized commodity prices. The Q1 2009 net loss was $1,907,000 verses net income of $760,000 in Q4 2008 and $8,000 in Q1 2008. On a per share basis, the net loss for Q1 2009 was $0.04 per basic and diluted share compared to Q4 2008 income of $0.02 per basic and diluted share and Q1 2008 income of $0.00 per basic and diluted share. The changes in non-cash working capital and abandonment expenditures are removed from cash flow from operations to arrive at funds from operations.

The following table summarizes the net income on a barrel of oil equivalent basis for the periods indicated.

($/boe)	**Q1 2009**	Q1 2008	Q4 2008
Sales price	**$ 37.64**	$ 70.35	$ 49.65
Royalties	**9.65**	15.90	9.61
Operating expenses	**10.33**	13.48	10.67
Transportation expenses	**0.37**	1.30	0.41
Operating netback	**$ 17.29**	$ 39.67	$ 28.96
General and administration	**4.17**	5.07	6.42
Interest	**0.40**	2.48	1.63
Other income	**(0.17)**	(0.64)	(8.78)
Cash flow netback	**$ 12.89**	$ 32.76	$ 29.69
Depletion, depreciation and accretion	**34.06**	31.61	33.92
Stock-based compensation	**1.04**	0.81	0.91
Gain on investments	**(3.50)**	-	(12.92)
Future tax (reduction)	**(4.77)**	0.30	2.96
Net income (loss)	**$ (13.94)**	$ 0.04	$ 4.82

The following table provides reconciliations to the change in funds from operations and net income for Q1 2009 to Q1 2008 and for Q1 2009 to Q4 2008.

Change in Funds from Operations and Net Income (Loss) (000's)	**Q1 2009 to Q1 2008**		**Q1 2009 to Q4 2008**	
	Funds from Operations	**Net Income (Loss)**	**Funds from Operations**	**Net Income (Loss)**
Comparative period	$ 5,237	$ 8	$ 4,682	$ 760
Increase (decrease) in revenue:				
Change in production volumes	(1,622)	(1,622)	(1,039)	(1,039)
Change in prices	(4,473)	(4,473)	(1,641)	(1,641)
Change in royalties	1,221	1,221	195	195
Change in other income	(80)	(80)	(1,362)	(1,362)
(Increase) decrease in expenses:				
Operating	741	741	270	270
Transportation	156	156	13	13
Interest	342	342	203	203
Cash general and administration	240	240	441	441
Stock-based compensation	-	(12)	-	2
Depletion, depreciation and accretion	-	393	-	691
Gain on investments	-	479	-	(1,558)
Taxes	-	700	-	1,118
Current period	**$ 1,762**	**$ (1,907)**	**$ 1,762**	**$ (1,907)**

Capital Expenditures

Q1 2009 capital expenditures totalled $24.3 million compared to $11.6 million in the corresponding period in 2008 and $13.4 million in Q4 2008. In Q1 2009 Midnight drilled 5 gross (2.0 net) wells in its Deep Basin program. In Q1 2009 Midnight continued on its previously discussed Deep Basin program and had only minor capital expenditures in other areas. Midnight's winter program consisted of drilling 9 gross (3.7 net) wells, 7 of these wells were completed, with the remaining two completions scheduled for Q3 2009; completing and/or recompleting 6 gross (4.5 net) previously drilled wells and tieing in one additional well in Elmworth. Midnight delayed putting wells on production until after April 1, 2009 to take advantage of the new well royalty incentives. Midnight currently has 5 of the 9 wells on production with the remaining 4 wells scheduled to come on production in the balance of the year. Midnight plans to continue to invest in its properties in the Deep Basin for the remainder of 2009. Capital expenditures for the balance of the year are expected to be approximately $15 million to drill an additional 4 gross (1.7 net) wells, to complete an additional 7 gross (2.8 net) wells, with the remaining funds directed to pipelines, facilities, land and geological and geophysical.

In addition to the cash capital expenditures discussed above, we have capitalized $106,000 of stock-based compensation and the related future tax liability of $36,000 for Q1 2009 consistent with the exploration salaries that we have added to our property base. Midnight had approximately 119,000 net acres of undeveloped land at March 31, 2009, which excludes unearned lands on farm-ins.

The following table highlights the breakdown of expenditures by category for the periods indicated:

Capital Expenditures (000's)	**Q1 2009**	Q1 2008	Q4 2008
Land	**$ 77**	$ 282	$ 55
Geological and geophysical	**642**	746	620
Drilling	**11,430**	5,986	5,691
Completions	**7,555**	2,497	4,665
Facilities, pipelines and equipment	**4,515**	2,101	2,216
Office and other	**66**	20	176
Total expenditures	**$ 24,285**	$ 11,632	$ 13,423
Property disposition	**-**	-	(30,371)
Total net expenditures	**$ 24,285**	$ 11,632	$(16,948)

Equity

On April 9, 2009, the Company closed a bought deal financing with a syndicate of underwriters and 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 $9.6 million. Management participated in this issue, acquiring 210,000 flow-through common shares at $0.94 per flow-through common share. The offering was done by way of short form prospectus.

During Q1 2009, the Company granted 35,000 options while no options were exercised, cancelled or forfeited. At March 31, 2009 the Company had 4,177,500 options outstanding with a weighted average exercise price of $2.19 and a weighted average remaining life of 3.0 years.

On November 7, 2008, Midnight filed a second notice with the TSX to make a normal course issuer bid. 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. Under this bid in 2008, Midnight purchased and cancelled 1,247,500 shares at an average price of $0.80 per share. As a result, during the year 2008 the basic shares declined from 47,595,129 to 46,175,129 a 3% decline and the fully diluted shares declined 4% from 52,600,462 to 50,317,629. To date in 2009 no additional shares have been purchased or cancelled.

At May 11, 2009 the Company had 57,885,129 common shares, 4,240,000 stock options outstanding. The average exercise price of stock options outstanding is $2.17 per share.

Share Information (000's)	**Q1 2009**	Q1 2008	Q4 2008
Shares outstanding			
Basic	**46,175**	47,423	46,175
Diluted	**50,353**	52,430	50,318
Weighted average shares outstanding			
Basic	**46,175**	47,455	46,867
Diluted	**46,175**	47,455	46,867

Liquidity and Capital Resources

Midnight Oil Exploration Ltd. is listed as a senior issuer on the Toronto Stock Exchange trading under the symbol "MOX". The Company's market capitalization at March 31, 2009 was approximately $36.9 million. The market has experienced a high degree of volatility and with the global market crisis the Company has seen a decrease in its market capitalization to a low of approximately $28 million. At May 11, 2009 the market capitalization was approximately $66.6 million.

Trading History on the TSX	**Q1 2009**	Q1 2008	Q4 2008
High	**$ 0.99**	$ 1.54	$ 1.40
Low	**$ 0.67**	$ 0.93	$ 0.60
Close	**$ 0.80**	$ 1.21	$ 0.75
Volume (000's)	**1,608**	2,929	13,404

At March 31, 2009, Midnight had drawn $14.7 million on its $28 million credit facility and had a working capital deficit of $16.1 million for a net debt position of $30.8 million. Midnight's borrowing base was adjusted to $28 million in January 2009. The net proceeds of $9.1 million from our equity issue were applied to bank debt on April 9, 2009. Midnight's credit facility is available on a revolving basis until May 31, 2009. On this date and 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. On this basis, the bank debt is considered Long-term debt for financial reporting purposes. The credit facility bears interest at the bank's prime rate plus a stamp or Bankers' Acceptances plus a stamp based on the Company's net debt to cash flow ratio, calculated using the two most recent fiscal quarters. The credit facility is based solely on the drawn amount and does not have a covenant relating to the Company's net debt which includes working capital. The facility is secured by a $50 million first floating charge debenture and a general securities agreement. 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 one scheduled for on or prior to May 31, 2009. The Company will continue to utilize its credit facility as needed to fund the Company's ongoing exploration and development activities.

The nature of the oil and gas industry requires significant cash outlays to fund capital programs necessary to maintain and increase production and reserves and to acquire strategic oil and gas assets. At certain times the Company may enter into agreements with third parties to either farm-in or farm-out properties. These arrangements often require one party to incur costs on behalf of the other party in order to earn an increased interest in lands. Midnight entered into a farm-in agreement in Bilbo where the Company agreed to drill and complete six wells. At March 31, 2009 the Company drilled five of the six wells and completed three wells. Midnight spent approximately $15.6 million on this farm-in at March 31, 2009 and expects to incur an additional $4 million to $6 million in Q2 and Q3 2009 to fulfill its commitments relating to the remaining well and completing all wells capable of production. Subsequent to March 31, 2009, Midnight elected to drill and complete an option well to earn an interest in all remaining lands under the farm-in. Midnight has a partner in this farm-in, sharing 50% of the farm-in obligations.

The global economic downturn has caused uncertainty in the capital markets which has in-turn restricted access to both debt and equity in all industries. As a result, Midnight anticipates that junior oil and gas companies will be faced with limited access to capital; an increased cost of capital; and increased cost of borrowing. Operating results and capital investment decisions will be impacted. Despite the tougher economic times, Midnight had a busy and successful winter. The Company drilled 9 gross (3.7 net) wells and has added significantly to its production since March 31, 2009. The Company delayed putting wells on production until after April 1, 2009 to take advantage of the royalty incentives offered by the Alberta Government for new wells and has since increased its production over 50%. The success of our winter drilling program will increase production growth and cash flow from new production which, it is anticipated, will increase shareholder value and ultimately encourage capital investment Midnight anticipates that it will have adequate liquidity to fund future working capital and forecasted capital expenditures in 2009 through a combination of cash flow, additional drawing on its existing credit facility and proceeds from its equity financing in April 2009. The Company has the ability to modify its capital program in response to economic conditions. Actual funding alternatives will be influenced by the current market environment and the ability to access capital on reasonable terms, balanced with any investment opportunities presented.

Off Balance Sheet Transactions

There were no off balance sheet transactions entered into during the period, nor are there any outstanding as of the date of this MD&A.

Contractual Obligations

The contractual obligations for which the Company is responsible are as follows:

Contractual Obligations (000's)	**Total**	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	**$ 14,662**	$ -	$ 14,662	$ -	$ -
Asset retirement obligations	**4,879**	98	268	235	4,278
Total Contractual Obligations	**$ 19,541**	$ 98	$ 14,930	$ 235	$ 4,278

Midnight enters into many contractual obligations in the course of conducting its day to day business. Material contractual obligations consist of our long-term debt with a major bank and our asset retirement obligations. The payment terms on the asset retirement obligations are based on an estimated timing of expenditures to be made in future periods, actual expenditures and when they may occur may differ materially than presented above. Midnight has not entered into any firm transportation commitments to date.

Midnight enters into commitments for capital expenditures in advance of the expenditures being made. The Company also enters into farm-in agreements where it commits to capital expenditures in order to earn and retain certain lands. These are considered routine in nature and form part of normal course of operations for active oil and gas companies and therefore are not included in the table above. We have disclosed in Note 7 to the Q1 2009 Consolidated Financial Statements our future obligation on the Bilbo farm-in as we do not earn the lands until all of the wells have been drilled and completed. The Company estimates it will incur $4 million to $6 million in additional expenditures to fulfill this obligation and retain the rights to the lands.

As part of the Company's equity issuance on April 9, 2009, the Company issued 3,710,000 flow-through common shares for approximately $3.5 million and has committed to spend this amount on qualifying exploration expenditures. The Company has until December 31, 2010 to incur these expenditures.

Relationship with Daylight Energy Ltd. ("Daylight")

Midnight and Daylight are considered related, as Daylight's Chairman is a director and officer of Midnight and a director and officer of Daylight 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 Board's, 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. See Note 8 to the Q1 2009 Consolidated Financial Statements.

Outlook

Midnight's winter capital program focused on applying new drilling and completion technologies in the Deep Basin of the Peace River Arch to improve the productive capability of tighter rock and established this area as the key to growing production and reserves for the Company. Results from our Deep Basin program are encouraging and substantiate the upside of this multi-zone sweet gas resource play. We achieved our production forecast for Q1 2009, after delaying the start up of our new wells until the beginning of Q2 2009 to take advantage of the lower royalty rates effective April 1, 2009. Subsequent to the end of the quarter in April 2009, the Company placed on stream a portion of the wells from the winter program and added an additional 1,200 boe/d. With these early additions and forecasted production declines and intermittent outages and production constraints from third parties we expect our production to average between 2,300 and 2,500 boe/d for Q2 and Q3 2009. The Company's capital program is expected to be approximately $40 million for 2009 and will be flexible to respond to changes in gas prices and capital market conditions. Midnight plans to drill an additional 4 gross (1.7 net) wells and to complete and additional 7 gross (2.8 net) wells for approximately $11 million and has budgeted an additional $4 million for facilities, land and geological and geophysical activities. With continued success from the remainder of the capital program, the Company expects its Q4 2009 production to be in the range of 2,500 and 3,000 boe/d and production for 2009 to average approximately between 2,200 and 2,500 boe/d. Midnight's efforts in the Deep Basin have validated our thesis of the resource potential of this area and put in place a solid foundation for material long-term growth. Subsequent to the end of the quarter the Company reduced its debt with an equity offering and has positioned itself to react to opportunities.

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.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by Midnight is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. Midnight's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to Midnight, including its consolidated subsidiaries, is made known to them by others within those entities. There were no changes made to the disclosure controls and procedures during the three months ended March 31, 2009.

Internal Control over Financial Reporting ("ICFR")

Midnight's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, internal controls over financial reporting related to the Company to provide reasonable assurance regarding the reliability of Midnight's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The control framework the officers used to design Midnight's ICFR is the Internal Control- Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission. As at March 31, 2009 Midnight's Chief Executive Officer and Chief Financial Officer have evaluated or caused to be evaluated under their supervision, the design of the Company's internal controls over financial reporting and have concluded that these controls are designed properly.

There were no changes in the Company's internal controls or new weaknesses noted in controls during the three months ended March 31, 2009 that have materially affected, or are reasonably likely to affect, the Company's internal controls over financial reporting.

It should be noted that while Midnight's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure and internal control procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure and internal control procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Application of Critical Accounting Estimates

The significant accounting policies used by Midnight are disclosed in note 1 to the audited Consolidated Financial Statements for the years ended December 31, 2008 and 2007. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates.

Financial Reporting Update

Recent pronouncements

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. The Company continues to perform detailed analysis on the major areas impacted by IFRS and will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

Risk Factors

There are a number of risk factors facing Companies that participate in the Canadian oil and gas industry. A complete list of risk factors is provided in our Annual Information Form filed on SEDAR at www.sedar.com.

Additional Information

Additional information relating to Midnight is filed on SEDAR and can be viewed at www.sedar.com. Information can also be obtained by contacting the Company at Midnight Oil Exploration Ltd., 2500, 144 4th Ave S.W., Calgary, Alberta T2P 3N4 or by email to ir@midnightoil.ca or by accessing the website at www.midnightoil.ca.