



Q1 2010 CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

(000's) (unaudited)

	March 31, 2010	December 31, 2009
Assets		
Current assets:		
Accounts receivable	\$ 20,951	\$ 11,123
Deposits and prepaid expenses	828	753
	21,779	11,876
Petroleum and natural gas assets (note 1)	163,167	153,374
	\$ 184,946	\$ 165,250
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 25,694	\$ 15,636
Long-term debt (note 2)	19,998	8,907
Future taxes	4,477	2,084
Asset retirement obligations (note 3)	2,177	2,084
Shareholders' equity:		
Share capital (note 4)	132,838	135,611
Contributed surplus (note 4)	6,800	6,665
Deficit	(7,038)	(5,737)
	132,600	136,539
Subsequent event (note 7)		
	\$ 184,946	\$ 165,250

See accompanying notes to consolidated financial statements.

Consolidated Statements of Loss, Comprehensive Loss and Retained Earnings (Deficit)

Three months ended March 31,

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

	2010	2009
Revenues:		
Petroleum and natural gas sales	\$ 7,529	\$ 5,148
Royalties	(1,463)	(1,320)
Gain on investments	-	479
Other income	-	23
	6,066	4,330
Expenses:		
Operating and transportation	1,629	1,464
Interest	97	54
General and administration	723	713
Depletion, depreciation and accretion	5,321	4,658
	7,770	6,889
Loss before taxes	(1,704)	(2,559)
Future taxes (reduction)	(403)	(652)
Net loss and comprehensive income loss	(1,301)	(1,907)
Retained earnings (deficit), beginning of period	(5,737)	5,099
Retained earnings (deficit), end of period	\$ (7,038)	\$ 3,192
Loss per share: (note 4)		
Basic	\$ (0.02)	\$ (0.04)
Diluted	\$ (0.02)	\$ (0.04)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Three months ended March 31,

(000's) (unaudited)

	2010	2009
Cash provided by (used in):		
Operations:		
Net loss	\$ (1,301)	\$ (1,907)
Items not involving cash:		
Depletion, depreciation and accretion	5,321	4,658
Stock-based compensation	71	142
Gain on investments	-	(479)
Future taxes (reduction)	(403)	(652)
Abandonment expenditures	(18)	(30)
Changes in non-cash working capital	(1,282)	1,639
Cash flow from operations	2,388	3,371
Financing:		
Increase (decrease) in long-term debt	11,091	(4,182)
Changes in non-cash working capital	(168)	-
Cash flow from (used in) financing	10,923	(4,182)
Investing:		
Petroleum and natural gas additions, net	(14,916)	(24,285)
Proceeds from disposition of investments	-	21,489
Changes in non-cash working capital	1,605	3,607
Cash flow from (used in) investing	(13,311)	811
Changes in cash	-	-
Cash, beginning of period	-	-
Cash, end of period	\$ -	\$ -
Interest paid	\$ 98	\$ 71

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, 2010 and 2009
(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, 2009. The disclosures provided below are incremental to those included with the audited consolidated financial statements for the year ended December 31, 2009. The interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2009.

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, 2010	December 31, 2009
Cost	\$ 265,108	\$ 250,043
Accumulated depletion and depreciation	(101,941)	(96,669)
	\$ 163,167	\$ 153,374

During the three months ended March 31, 2010, the Company capitalized \$792,000 (2009 – \$722,000) of general and administration expenses related to exploration and development activities. Included in this amount is the non-cash related stock-based compensation of \$64,000 (2009 - \$106,000). In addition, the future tax liability of \$23,000 (2009 - \$36,000) associated with the capitalized stock-based compensation has been capitalized.

The cost of unproven properties at March 31, 2010 of \$16,244,000 (2009 - \$21,758,000) has been excluded from the depletion and depreciation calculation. Future development costs of proven reserves of \$30,302,000 (2009 - \$26,237,000) have been included in the depletion and depreciation calculation.

2. Long-term debt

Midnight has a revolving term credit facility available up to \$35.0 million with a Canadian chartered bank. The facility is available on a revolving basis until June 30, 2010. On June 30, 2010, 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, 2010, \$19,998,000 (2009 – \$8,907,000) was drawn on this facility. The \$35.0 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 29, 2009, the next review was scheduled for on or prior to May 29, 2010 but has been extended to June 30, 2010 to coincide with the planned closing of the Arrangement Agreement with Provident as outlined in note 7 - Subsequent event.

3. 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 \$5,304,000 (2009 - \$4,904,000) which will be incurred from 2010 to 2038. 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, 2010 and December 31, 2009. 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, 2010 and December 31, 2009.

A reconciliation of the asset retirement obligations is provided below:

	March 31, 2010	December 31, 2009
Balance, beginning of period	\$ 2,084	\$ 1,883
Liabilities incurred	62	124
Liabilities settled	(18)	(103)
Accretion expense	49	180
Balance, end of period	\$ 2,177	\$ 2,084

4. 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, 2008	46,175,129	\$ 109,660
Issued pursuant to short form prospectus	29,160,000	27,252
Share issue costs (net of tax of \$492,000)		(1,301)
Balance, December 31, 2009	75,335,129	\$ 135,611
Tax effect of flow-through shares issued in 2009		(2,773)
Balance, March 31, 2010	75,335,129	\$ 132,838

On September 30, 2009 the Company issued 10,600,000 common shares at a price of \$0.95 per common share and 6,850,000 flow-through common shares at a price of \$1.10 per flow-through common share. The proceeds, net of share issue costs of \$1,106,000 (\$811,000 net of tax), were \$16,499,000. The Company renounced \$7,535,000 of qualifying oil and natural gas expenditures effective December 31, 2009 pursuant to the terms of the flow-through share agreements and has incurred all of the expenditures as at March 31, 2010.

On April 9, 2009 the Company issued 8,000,000 common shares at a price of \$0.77 per common share and 3,710,000 flow-through common shares at a price of \$0.94 per flow-through common share. The proceeds, net of share issue costs of \$687,000 (\$490,000 net of tax), were \$8,960,000. Management participated in this issue, acquiring 210,000 flow-through common shares at \$0.94 per flow-through common share. The Company renounced \$3,487,000 of qualifying oil and natural gas expenditures effective December 31, 2009 pursuant to the terms of the flow-through share agreements and has incurred all of the expenditures in 2009.

The future income tax effect and reduction of share capital of \$2,773,000 was recorded during the first quarter of 2010 when the Company filed the renouncement documents with tax authorities.

(c) Per share amounts:

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

	Three months ended	
	March 31, 2010	March 31, 2009
Weighted average shares outstanding		
Basic	75,335,129	46,175,129
Diluted	75,335,129	46,175,129

At March 31, 2010 there were 4,426,000 (2009 – 4,177,500) options that were anti-dilutive.

(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 granted for a term of three to five years and vest over two to 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, 2008	4,142,500	\$ 2.21
Granted	1,528,500	0.97
Expired	(2,640,000)	2.64
Forfeited	(72,500)	2.13
Balance, December 31, 2009	2,958,500	\$ 1.19
Granted	1,697,500	1.06
Expired	(50,000)	2.10
Forfeited	(180,000)	1.27
Balance, March 31, 2010	4,426,000	\$ 1.12
Exercisable at March 31, 2010	964,000	\$ 1.40

(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 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, 2010 and for the year ended December 31, 2009:

	March 31, 2010	December 31, 2009
Fair value of options granted	\$ 0.36	\$ 0.33
Risk free interest	1.7%	1.7%
Estimated hold period prior to exercise	2.0 years	2.1 years
Expected volatility	60%	60%
Dividend per share	\$ 0.00	\$ 0.00

(f) Contributed surplus:

The following table reconciles Midnight's contributed surplus:

	March 31, 2010	December 31, 2009
Balance, beginning of period	\$ 6,665	\$ 5,607
Stock-based compensation	135	1,058
Balance, end of period	\$ 6,800	\$ 6,665

5. 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, 2010 Midnight's receivables consisted of \$14,715,000 (2009 - \$7,184,000) from joint venture partners, \$3,644,000 (2009 - \$2,931,000) from petroleum and natural gas marketers and \$2,592,000 (2009 - \$1,008,000) due from provincial and federal governments.

At March 31, 2010, the Company had \$530,000 (2009 - \$332,000) 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 \$25,000 that was provided for in 2009. No additional provisions have been made in 2010. 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 2, and its accounts payable and accrued liabilities.

The following are the contractual maturities of financial liabilities at March 31, 2010.

Financial Liability	Total	Less than 1 Year	1-2 Years	2-5 Years
Account payable and accrued liabilities	\$ 25,694	\$ 25,694	\$ -	\$ -
Long-term debt	19,998	-	19,998	-
Total	\$ 45,692	\$ 25,694	\$ 19,998	\$ -

(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, 2010 and December 31, 2009.

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, 2010 or the year ended December 31, 2009.

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, 2010, net income would have increased \$21,000 and cash flow from operations would have been \$28,000 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, 2010 or December 31, 2009.

(e) Capital management:

The management of capital includes share capital of \$132,838,000 and net debt of \$23,913,000 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, 2010 this ratio increased to 1.99 as capital expenditures exceeded funds from operations for the quarter.

The calculation is detailed as follows:

	March 31, 2010	December 31, 2009
Long-term debt	\$ 19,998	\$ 8,907
Current assets	(21,779)	(11,876)
Current liabilities	25,694	15,636
Net debt	\$ 23,913	\$ 12,667
Cash flow from operations for quarter	\$ 2,388	\$ 2,897
Changes in non-cash working capital from operations	1,282	(566)
Abandonment expenditures	18	-
Funds from operations for quarter	\$ 3,688	\$ 2,331
Prior quarter funds from operations	2,331	1,581
	\$ 6,019	\$ 3,912
	x 2	x 2
Annualized funds from operations	\$ 12,038	\$ 7,824
Ratio of net debt to annualized funds from operations	1.99	1.62

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.

6. 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, 2010, Daylight charged Midnight \$165,000 (2009 - \$150,000) for administrative services and premise costs. At March 31, 2010 Midnight had a receivable balance of approximately \$11,400,000 due from Daylight (2009 - \$4,800,000) which includes amounts for joint venture and commodity marketing. At March 31, 2010 Midnight also had \$2,700,000 (2009 - \$3,200,000) due to Daylight for unexpended cash calls.

7. Subsequent event

On April 19, 2010, Midnight announced that it had entered into an Arrangement Agreement with Provident Energy Trust ("Provident") to combine Provident's Upstream Business unit ("PERI") with Midnight to form a growth oriented, intermediate sized producer Pace Oil & Gas Ltd. ("Pace"). Under the terms of the plan of arrangement, Midnight will consolidate its shares on a one for ten basis and then acquire all of the issued and outstanding share of PERI from Provident by issuing 0.12225 post-consolidation shares directly to the Provident unitholders for each Provident Unit held and will pay Provident \$120 million from the newly combined debt facility. Midnight shareholders will own approximately 19% of Pace with Provident unitholders owning approximately 81%.

Provident has agreed to pay a non-completion fee of \$12 million to Midnight in certain circumstances and Midnight has agreed to pay a break fee of \$5 million to Provident in certain circumstances. Each party has the right to match any competing superior proposal for the other, in the event such a superior proposal is made.

The Arrangement requires the approval of 66 2/3 percent of the votes cast by Midnight shareholders and Provident unitholders. A joint information circular and proxy statement outlining the details of the Arrangement was posted on SEDAR and mailed to Midnight shareholders on or about May 10, 2010 in connection with the special meetings of the Midnight shareholders and Provident unitholders, both scheduled on June 28, 2010 to consider and vote on the proposed Arrangement. Closing of the Arrangement is anticipated to occur on or about June 30, 2010.

Selected Information

	2008					2009					2010	
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	
Financial (000's, except for per share amounts)												
Petroleum and natural gas sales	\$ 11,243	\$ 15,576	\$ 14,930	\$ 7,828	\$ 49,577	\$ 5,148	\$ 6,371	\$ 5,506	\$ 6,148	\$ 23,173	\$ 7,529	
Royalties	2,541	3,567	3,171	1,515	10,794	1,320	1,293	1,340	1,134	5,087	1,463	
Operating expenses	2,154	1,883	1,934	1,683	7,654	1,413	1,770	1,472	1,631	6,286	1,578	
Transportation expenses	207	114	80	64	465	51	54	43	31	179	51	
Netback	\$ 6,341	\$ 10,012	\$ 9,745	\$ 4,566	\$ 30,664	\$ 2,364	\$ 3,254	\$ 2,651	\$ 3,352	\$ 11,621	\$ 4,437	
G&A – cash charge	811	1,017	1,453	1,012	4,293	571	1,066	897	889	3,423	652	
Interest	396	350	369	257	1,372	54	150	173	132	509	97	
Other income	(103)	(39)	-	(1,385)	(1,527)	(23)	(16)	-	-	(39)	-	
Funds from operations	\$ 5,237	\$ 8,684	\$ 7,923	\$ 4,682	\$ 26,526	\$ 1,762	\$ 2,054	\$ 1,581	\$ 2,331	\$ 7,728	\$ 3,688	
Per share – Basic	0.11	0.18	0.17	0.10	0.56	0.04	0.04	0.03	0.03	0.13	0.05	
– Diluted	0.11	0.18	0.17	0.10	0.56	0.04	0.04	0.03	0.03	0.13	0.05	
Net income (loss)	\$ 8	\$ 2,174	\$ 1,647	\$ 760	\$ 4,589	\$(1,907)	\$(3,668)	\$(3,190)	\$(2,071)	\$(10,836)	\$ (1,301)	
Per share – Basic	0.00	0.05	0.03	0.02	0.10	(0.04)	(0.06)	(0.06)	(0.03)	(0.18)	(0.02)	
– Diluted	0.00	0.05	0.03	0.02	0.10	(0.04)	(0.06)	(0.06)	(0.03)	(0.18)	(0.02)	
Petroleum and natural gas additions	\$ 11,632	\$ 4,695	\$ 6,417	\$ 13,423	\$ 36,167	\$ 24,285	\$ 4,081	\$ 4,043	\$ 5,091	\$ 37,500	\$15,316	
Property dispositions	-	-	-	(30,371)	(30,371)	-	-	-	-	-	(400)	
Net debt	34,996	31,042	29,536	8,730	8,730	30,804	23,944	9,907	12,667	12,667	23,913	
Total assets	169,706	172,905	172,180	177,056	177,056	183,219	169,471	166,386	165,250	165,250	184,946	
Shares outstanding												
Basic	47,423	47,423	47,423	46,175	46,175	46,175	57,885	75,335	75,335	75,335	75,335	
Diluted	52,430	53,543	53,591	50,318	50,318	50,353	62,053	80,634	78,294	78,294	79,761	
Operations												
Average daily production												
Natural gas (mcf/d)	5,239	5,799	6,097	5,465	5,651	4,867	9,004	7,064	6,904	6,966	8,524	
Oil & NGLs (bbls/d)	883	942	941	803	892	708	688	635	565	649	591	
Combined (boe/d)	1,756	1,908	1,957	1,714	1,834	1,519	2,189	1,812	1,715	1,810	2,011	
Average prices received												
Natural gas (\$/mcf)	\$ 7.95	\$ 10.44	\$ 8.64	\$ 6.96	\$ 8.53	\$ 5.26	\$ 3.45	\$ 2.85	\$ 4.20	\$ 3.79	\$ 4.84	
Oil & NGLs (\$/bbl)	91.88	116.87	114.18	58.54	96.81	44.08	56.56	62.52	65.19	56.57	68.83	
Combined (\$/boe)	\$ 70.35	\$ 89.71	\$ 82.91	\$ 49.65	\$ 73.87	\$ 37.64	\$ 31.99	\$ 33.02	\$ 38.96	\$ 35.09	\$ 41.59	
Royalties	15.90	20.54	17.61	9.61	16.08	9.65	6.49	8.03	7.19	7.70	8.08	
Operating expenses	13.48	10.85	10.74	10.67	11.41	10.33	8.89	8.83	10.33	9.52	8.72	
Transportation expenses	1.30	0.66	0.44	0.41	0.69	0.37	0.27	0.26	0.20	0.27	0.28	
Operating netback (\$/boe)	\$ 39.67	\$ 57.66	\$ 54.12	\$ 28.96	\$ 45.69	\$ 17.29	\$ 16.34	\$ 15.90	\$ 21.24	\$ 17.60	\$ 24.51	