



Q3 2009 MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 and nine months ended September 30, 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 nine months ended September 30, 2009 ("YTD 2009") to the nine months ended September 30, 2008 ("YTD 2008") and the results of the three months ended September 30, 2009 ("Q3 2009") to the three months ended September 30, 2008 ("Q3 2008") and the results of the three months ended June 30, 2009 ("Q2 2009").

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)	Q3 2009	Q3 2008	Q2 2009	YTD 2009	YTD 2008
Cash flow from operations	2,603	7,031	97	6,071	19,290
Abandonment expenditures	-	-	73	103	70
Changes in non-cash working capital	(1,022)	892	1,884	(777)	2,484
Funds from operations	1,581	7,923	2,054	5,397	21,844

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; the Company's future commodity mix; future commodity prices; the Company's expectations regarding future royalty rates and the realization of royalty incentives; Midnight's expectation of future operating costs on a per unit basis; the relationship of Midnight's interest expense and the Bank of Canada interest rates; future general and administrative expenses; 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 estimated future capital expenditures of the Company; 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 November 5, 2009.

Selected Quarterly Information

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

Financial (000's, except for per share amounts)	2009			2008			2007	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Petroleum and natural gas sales	\$ 5,506	\$ 6,371	\$ 5,148	\$ 7,828	\$ 14,930	\$ 15,576	\$ 11,243	\$ 10,811
Cash flow from operations	2,603	97	3,371	7,563	7,031	3,802	8,457	6,026
Funds from operations	1,581	2,054	1,762	4,682	7,923	8,684	5,237	4,898
Per share								
– Basic	0.03	0.04	0.04	0.10	0.17	0.18	0.11	0.10
– Diluted	0.03	0.04	0.04	0.10	0.17	0.18	0.11	0.10
Net income (loss)	\$ (3,190)	\$ (3,668)	\$ (1,907)	\$ 760	\$ 1,647	\$ 2,174	\$ 8	\$ (19)
Per share								
– Basic	(0.06)	(0.06)	(0.04)	0.02	0.03	0.05	0.00	(0.00)
– Diluted	(0.06)	(0.06)	(0.04)	0.02	0.03	0.05	0.00	(0.00)
Petroleum and natural gas additions	\$ 4,043	\$ 4,081	\$ 24,285	\$ 13,423	\$ 6,417	\$ 4,695	\$ 11,632	\$ 8,092
Property disposition	-	-	-	(30,371)	-	-	-	-
Net debt	9,907	23,944	30,804	8,730	29,536	31,042	34,996	28,374
Total assets	166,386	169,471	183,219	177,056	172,180	172,905	169,706	164,681
Shares outstanding								
Basic	75,335	57,885	46,175	46,175	47,423	47,423	47,423	47,595
Diluted	80,664	62,053	50,353	50,318	53,591	53,543	52,430	52,600
Operations								
Average daily production								
Natural gas (mcf/d)	7,064	9,004	4,867	5,465	6,097	5,799	5,239	5,573
Oil & NGLs (bbls/d)	635	688	708	803	941	942	883	1,036
Combined (boe/d)	1,812	2,189	1,519	1,714	1,957	1,908	1,756	1,965
Operating netback (\$/boe)	\$ 15.90	\$ 16.34	\$ 17.29	\$ 28.96	\$ 54.12	\$ 57.66	\$ 39.67	\$ 34.39

Midnight is a junior oil and gas company with a 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. In Q4 2007 the Company announced its strategy to further increase its exposure to sweet natural gas prospects in the high potential Deep Basin. The first half of 2008 was focused on acquiring a land and opportunity base to exploit with the commencement of the most active drilling program in the Company's history during the winter of 2008/2009. This capital program was funded through the West Central property disposition, farm-outs, funds from operations and recently with two equity financings – one that closed on April 9, 2009 and the other that closed on September 30, 2009, which raised net proceeds of \$25.5 million.

The Company's net income and funds from operations have fluctuated with the changes in commodity prices and production levels. Growth in petroleum and natural gas sales and funds from operations are derived by the combination of increased oil and natural gas production and increased commodity prices. Lower commodity prices in the current environment have had a negative impact on the Company's funds from operations and net income. Q2 2009 production averaged 2,189 boe/d a 44% increase from Q1 2009 as production from our tight gas resource play was put on stream. Production for Q3 2009 declined to 1,812 boe/d as flush production from Q2 2009 declined. On October 31, 2008, Midnight disposed of its low working interest non-core West Central assets that produced approximately 550 boe/d of production and accounts for the majority of the decrease in production from Q3 2008 to Q1 2009. In Q2 2009, Midnight experienced its lowest commodity price in the last eight quarters with combined revenue averaging only \$31.99/boe, this contrasts to Q2 2008 where commodity prices peaked and the Company realized a combined revenue price of \$89.71/boe for the quarter. Natural gas prices remained weak in Q3 2009 and the Company had its lowest realized gas price since its inception of \$2.85/mcf. Oil prices on the other hand showed some strength in Q3 2009 and the Company realized a price of \$68.62/boe which is the highest realized oil price since Q3 of 2008. The latest quarter represents the seventh consecutive quarter where Midnight has decreased its operating and transportation costs declining from \$16.30/boe in Q4 2007 down to \$9.09/boe in Q3 2009. Commodity prices over the last two years have been extremely volatile with a record average monthly oil price received of \$136.27/bbl in July 2008 which subsequently plummeted to its lowest price of \$41.10/bbl in January 2009; and a monthly gas price received of \$10.91/mcf in July 2008 which also plummeted to its lowest realized price of \$2.75/mcf in September

2009. The financial crisis that started in the U.S, created a global economic recession that caused a reduction in the demand for energy resulting in a reduction in commodity prices which is a key element to our business. Reduced commodity prices have reduced available cash flow for re-investment and development and have increased uncertainty in various aspects of our business. Although field activity in the Western Canadian Sedimentary Basin has seen some of its lowest levels in years, Midnight has had one of its busiest winter programs in terms of capital deployment. The Company has focused its activities on its Deep Basin resource plays and has built a foundation to produce significant growth.

Production

Production for Q3 2009 averaged 1,812 boe/d, a 17% decrease from Q2 2009 as initial flush production from additions in Q2 2009 declined during the quarter as forecasted. Production for Q3 2009 decreased only 7% from the comparative period in 2008 which included approximately 550 boe/d of production from the West Central assets which were sold in Q4 2008. Removing the impact of these assets, production increased 29%. YTD 2009 production of 1,841 boe/d is 39% higher than YTD 2008 once the impact of the West Central assets are removed. The Company's production mix has changed from 2008 as it has focused its efforts on its gas resource plays in the Deep Basin. In Q3 2009 natural gas production was 65% of total production. In response to the low natural gas prices, Midnight restricted both capital and operating cost investments and also delayed certain field operations that would add to or increase existing production to avoid selling additional gas at the low prices received during the quarter. The following table outlines our production volumes for the periods indicated below:

Production	Q3 2009	Q3 2008	Q2 2009	YTD 2009	YTD 2008
Natural Gas (mcf/d)	7,064	6,097	9,004	6,986	5,713
Oil (bbls/d)	537	792	560	560	778
NGLs (bbls/d)	98	149	128	117	144
Total (boe/d)	1,812	1,957	2,189	1,841	1,874

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 produces more natural gas than it consumes and exports to the U.S. a large portion of its production and as a result, the U.S. domestic market dynamics significantly affects Canadian natural gas prices. A combination of the global economic crisis that has reduced U.S. domestic demand and recent technological advancements in drilling and completion techniques applied to large scale tight gas and shale gas developments in numerous areas in the U.S. has significantly increased U.S. domestic supply and has negatively impacted North American natural gas prices.

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 \$2.85/mcf in Q3 2009 and \$3.66/mcf for YTD 2009 compared to the Alberta daily index price of \$2.83/mcf and \$3.64/mcf respectively. The premium to the daily index price is partly a result of the heating content of our natural gas and is largely the 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 that is a high quality crude and has tracked appropriately to the Edmonton par benchmark. Midnight's realized oil price was \$68.62/bbl for Q3 2009 and \$59.54/bbl for YTD 2009 compared to the Edmonton benchmark prices of \$71.71/bbl for Q3 2009 and \$62.82/bbl for YTD 2009.

Prices for Natural Gas Liquids (“NGLs”) have their own market dynamic. NGLs include condensate, pentane, butane, propane and ethane. While prices for condensate and pentane have a relatively strong correlation to oil prices, prices for butane, propane and ethane trade at varying discounts due to the local market conditions of supply and demand. The change in product mix of liquids can cause significant variations in the realized liquids price.

Midnight did not buy or sell any commodity or currency hedges during 2009 or 2008 and did not have any outstanding hedges at September 30, 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	Q3 2009	Q3 2008	Q2 2009	YTD 2009	YTD 2008
Benchmark Prices					
Alberta spot (\$/mcf)	\$ 2.83	\$ 7.69	\$ 3.30	\$ 3.64	\$ 8.50
WTI oil (\$US/bbl)	68.14	118.23	59.69	57.21	113.54
Cdn/US average exchange rate	0.912	0.961	0.858	0.858	0.971
Edmonton Par (\$/bbl)	\$ 71.71	\$ 122.74	\$ 66.11	\$ 62.82	\$ 115.83
Midnight’s Realized Price					
Natural gas (\$/mcf)	\$ 2.85	\$ 8.64	\$ 3.45	\$ 3.66	\$ 9.03
Oil (\$/bbl)	68.62	121.45	63.30	59.54	114.54
NGLs (\$/bbl)	29.02	75.48	27.10	28.22	72.82
Combined oil & NGLs (\$/bbl)	62.52	114.18	56.56	54.14	108.01
Total (\$/boe)	\$ 33.02	\$ 82.91	\$ 31.99	\$ 33.87	\$ 81.30

Petroleum and Natural Gas Sales

Q3 2009 petroleum and natural gas sales decreased 14% from Q2 2009 and were down 63% from Q3 2008. Lower commodity prices heavily impacted sales in Q3 2009 as \$8.3 million of the \$9.4 million decrease in sales from Q3 2008 was due to lower commodity prices. The 14% decrease in sales from Q2 2009 corresponds with the 17% decrease in production for the period. YTD 2009 sales of \$17.0 million were 59% lower than YTD 2008 largely due to lower commodity prices. Midnight’s average realized price per boe for YTD 2009 declined 62% from YTD 2008 which equates to a \$23.8 million reduction in sales with the remaining \$0.9 million decrease due to lower production volumes in the period.

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

Petroleum and Natural Gas Sales (000’s)	Q3 2009	Q3 2008	Q2 2009	YTD 2009	YTD 2008
Natural Gas	\$ 1,851	\$ 4,844	\$ 2,826	\$ 6,979	\$ 14,140
Oil	3,392	8,852	3,225	9,105	24,402
NGLs	261	1,033	316	899	2,880
Royalty income	2	201	4	42	327
Total	\$ 5,506	\$ 14,930	\$ 6,371	\$ 17,025	\$ 41,749

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 payable or provide drilling incentives in the form of royalty reductions for capital expenditures on qualifying wells. Midnight will benefit from these programs including the natural gas deep drilling program, the new well royalty reduction for wells coming on production after April 1 and the drilling incentives for wells drilling between April 1, 2009 and March 31, 2011. For new wells spud on or after April 1, 2009 and rig released before April 1, 2011 the Company may receive a royalty credit of \$200/metre drilled. These credits are applied to the Company's corporate royalty payments and can be used to shelter up to 50% of Midnight's Alberta Crown royalty payments and will be accounted for as a reduction to capital expenditures when they are applied. A new well incentive program was also announced for new wells which come on production between April 1, 2009 and March 31, 2011. 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 bringing on new Q1 production from a number of wells from its winter drilling program until April. 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 Q3 2009 royalties were 24.3% of revenue while YTD 2009 royalties were 23.2% 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. Due to the royalty incentives implemented by the Alberta Government, and the continuing low natural gas price, Midnight's natural gas royalties have remained low throughout the year and were 5.7% of natural gas revenue in Q3 2009 taking into consideration incentive adjustments relating to prior quarters. Natural gas royalties YTD 2009 have averaged 14.7% of natural gas revenue. The Company expects natural gas royalties to remain low as production added after March 31, 2009 is subject to the new well royalty credit and most of the Company's planned drilling qualifies for the Natural Gas Deep Drilling Credits. Midnight's overall royalty rate is dominated by its oil royalties as oil royalties have made up approximately 70% of royalties paid in 2009. Oil royalties increased to 35.4% of revenue in the quarter as the average Crown par price increased from Q2 2009 which increased the price component of the oil royalties. YTD 2009 oil royalties have been 29.6% of revenue with the continued strength in the oil price and are expected to increase again in Q4 with the continued strong oil price. NGL royalties have averaged 25.7% of NGL revenue for the YTD 2009 and 12.7% of revenue for Q3 2009. During Q3 2009 the Company received NGL royalty credits from prior periods that reduced royalties below expected rates. NGL royalties accounted for approximately 6% of royalties paid for YTD 2009 and are expected to be a small portion of total royalties for the remainder of the year.

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)	Q3 2009	Q3 2008	Q2 2009	YTD 2009	YTD 2008
Crown	\$ 1,198	\$ 2,792	\$ 1,063	\$ 3,458	\$ 8,317
Gross overriding and other	142	379	230	495	962
Total	\$ 1,340	\$ 3,171	\$ 1,293	\$ 3,953	\$ 9,279
\$/boe	\$ 8.03	\$ 17.61	\$ 6.49	\$ 7.86	\$ 18.07
% of revenue	24.3	21.2	20.3	23.2	22.2

Royalties by Commodity	Q3 2009	Q3 2008	Q2 2009	YTD 2009	YTD 2008
Natural Gas					
000's	\$ 105	\$ 792	\$ 374	\$ 1,029	\$ 2,298
% of revenue	5.7	16.4	13.2	14.7	16.3
Oil					
000's	\$ 1,202	\$ 2,253	\$ 819	\$ 2,693	\$ 6,179
% of revenue	35.4	25.5	25.4	29.6	25.3
NGLs					
000's	\$ 33	\$ 126	\$ 100	\$ 231	\$ 802
% of revenue	12.6	12.2	31.6	25.7	27.8

Operating and Transportation Expenses

As a result of a focused and concentrated program targeting operating cost reductions Midnight has for the seventh consecutive quarter decreased operating and transportation on a per boe basis from the previous quarters. Operating and transportation expenses totalled \$1.5 million (\$9.09/boe) in Q3 2009 compared to \$2.0 million (\$11.18/boe) for Q3 2008 and \$1.8 million (\$9.16/boe) in Q2 2009. YTD 2009 operating and transportation costs have averaged \$9.56/boe compared to \$12.41/boe for the comparative period in 2008. In addition to the Company's focused effort on cost reduction, three additional factors have contributed to the lower costs including: the increase in production that came on stream with lower operating costs, reduced transportation costs due to the water handling facilities at Red Earth and the sale of the higher operating costs West Central properties. The Company expects its operating costs in 2009 to decrease on a boe basis compared to 2008 from the above mentioned factors.

The following table details the Company's operating and transportation expenses:

Operating and Transportation Expenses (000's)	Q3 2009	Q3 2008	Q2 2009	YTD 2009	YTD 2008
Operating	\$ 1,472	\$ 1,934	\$ 1,770	\$ 4,655	\$ 5,971
Transportation	43	80	54	148	401
Total	\$ 1,515	\$ 2,014	\$ 1,824	\$ 4,803	\$ 6,372
Operating (\$/boe)	\$ 8.83	\$ 10.74	\$ 8.89	\$ 9.26	\$ 11.63
Transportation (\$/boe)	0.26	0.44	0.27	0.30	0.78
Total (\$/boe)	\$ 9.09	\$ 11.18	\$ 9.16	\$ 9.56	\$ 12.41

Interest Expense

YTD 2009 interest expense totalled \$0.4 million which is lower than YTD 2008 interest expense of \$1.1 million as average bank debt for YTD 2009 was approximately \$11.4 million compared to \$30.0 million for YTD 2008. During Q1 2009 and Q4 2008 the Company sold its Daylight Resources Trust Units for proceeds of \$29.6 million and used the proceeds to initially pay down long-term debt which was redrawn to fund our exploration program. The Company also raised gross proceeds of \$27.3 million on its two equity offerings that closed on April 9, 2009 and September 30, 2009. Q3 2009 interest expense totalled \$0.2 million compared to \$0.4 million for the comparative period in 2008. Interest expense was lower in Q3 2009 as average debt was lower than Q3 2008. 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. Credit renewal fees have also increased and have been recorded as part of interest expense. Record low prime rates have reduced the impact of the increased fees but should prime rates increase, Midnight's effective interest rate will be higher than in past quarters.

General and Administration Expenses

YTD 2009 direct general and administration ("G&A") reduced 9% to \$5.3 million compared to \$5.8 million for YTD 2008. Q3 2009 direct G&A charges were also lower at \$1.7 million which compares to \$1.8 million for Q2 2009 and \$2.4 million for Q3 2008. Direct G&A costs decreased as a result of a reduction in bonus levels accrued in 2009 versus cash and stock bonuses paid out in the third quarter of 2008. Cash G&A for YTD 2009 decreased 23% to \$2.5 million from \$3.3 million largely due to lower direct charges and higher overhead recoveries from the Company's operated drilling program. 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 and salary levels in 2009. In addition, Midnight has assumed all services previously handled by Daylight Energy Ltd. that will continue to cause direct G&A to increase slightly for the balance of 2009. The G&A per boe cost will be significantly affected by future production volumes.

Non-cash expenses related to stock-based compensation expense totalled \$0.4 million in YTD 2009 which was consistent with YTD 2008 expense of \$0.4 million. 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 September 30, 2009. Midnight has 2,533,166 options that have vested with a weighted average exercise price of \$2.45.

The components of general and administration expense are as follows:

General and Administration Expenses (000's)	Q3 2009	Q3 2008	Q2 2009	YTD 2009	YTD 2008
Direct G&A	\$ 1,672	\$ 2,390	\$ 1,804	\$ 5,272	\$ 5,784
Overhead recoveries	(164)	(51)	(140)	(913)	(372)
Capitalized G&A	(611)	(886)	(598)	(1,825)	(2,131)
Cash G&A	\$ 897	\$ 1,453	\$ 1,066	\$ 2,534	\$ 3,281
Stock-based compensation	139	143	137	418	407
Net G&A	\$ 1,036	\$ 1,596	\$ 1,203	\$ 2,952	\$ 3,688
Cash G&A (\$/boe)	\$ 5.38	\$ 8.07	\$ 5.35	\$ 5.04	\$ 6.39
Stock-based compensation (\$/boe)	0.83	0.79	0.69	0.83	0.79
Net G&A (\$/boe)	\$ 6.21	\$ 8.86	\$ 6.04	\$ 5.87	\$ 7.18

Depletion, Depreciation and Accretion

For YTD 2009, depletion, depreciation and accretion ("DD&A") was \$17.1 million compared to \$16.1 million for YTD 2008. Midnight has excluded \$20.2 million from the depletion base related to unproved properties in Q3 2009 and has added \$24.1 million to its base for future development capital related to proved reserves. On a per boe basis, Midnight's charge for Q3 2009 of \$34.04/boe is consistent with its Q2 2009 charge of \$33.81/boe. These charges are higher than the charges in 2008 as the disposition of the West Central assets in Q4 2008 had a higher historical carrying cost than the reduction to the depletable base of \$20.26/boe, causing an increase in the Company's go forward DD&A rate. Going forward the Company's drilling program is focused in the Deep Basin where historically the Company has been able to add reserves at a lower finding and development cost. 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)	Q3 2009	Q3 2008	Q2 2009	YTD 2009	YTD 2008
Depletion and Depreciation	\$ 5,631	\$ 5,447	\$ 6,688	\$ 16,934	\$ 15,960
Accretion	45	54	47	135	159
Total	\$ 5,676	\$ 5,501	\$ 6,735	\$ 17,069	\$ 16,119
Depletion and Depreciation (\$/boe)	\$ 33.77	\$ 30.25	\$ 33.58	\$ 33.69	\$ 31.08
Accretion (\$/boe)	0.27	0.30	0.23	0.27	0.31
Total (\$/boe)	\$ 34.04	\$ 30.55	\$ 33.81	\$ 33.96	\$ 31.39

Investments and Other Income

Investments were comprised of the Daylight Resources Trust Units (TSX-DAY.UN) received from the disposition of the West Central assets. At December 31, 2008 Midnight held 2,690,200 Trust Units with a fair value of \$21.0 million 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 \$21.5 million and recorded a gain of \$0.5 million. The proceeds from the sale were used to reduce long-term debt. In Q4 2008, the Company recorded \$1.4 million 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 YTD 2009, the future tax reduction was \$2.8 million compared to a future tax expense of \$1.5 million for YTD 2008. The difference in the expected rate of 29% and the effective rate relates primarily to the tax rate differences, permanent differences from stock-based compensation expense and gains on the sale of investments. The Q3 2009 future tax reduction was \$1.0 million compared to a future tax reduction of \$1.2 million in Q2 2009 and a future tax expense of \$0.6 million in Q3 2008.

Midnight has approximately \$140 million in tax pools to shelter taxable income in the future. The tax pools will be reduced by \$11.0 million when the flow-through share renunciations are filed, which is expected in early 2010, this would reduce the estimated Q3 2009 balance of cumulative exploration expenses to approximately \$47 million. 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

For Q3 2009, funds from operations totalled \$1.6 million; \$0.03 per basic and diluted share. Funds from operations for Q3 2008 totalled \$7.9 million; \$0.17 per basic and diluted shares and totaled \$2.1 million for Q2 2009; \$0.04 per basic and diluted share. YTD 2009 funds from operations totalled \$5.4 million; \$0.10 per basic and diluted share compared to \$21.8 million for YTD 2008; \$0.46 per basic and diluted share. The Q3 2009 net loss was \$3.2 million; (\$0.06) per basic and diluted share, compared to a net loss of \$3.7 million; (\$0.06) per basic and diluted share in Q2 2009 and net income of \$1.6 million \$0.03 per basic and diluted share for Q3 2008. The YTD 2009 net loss was \$8.8 million; (\$0.16) per basic and diluted share, while the net income for YTD 2008 was \$3.8 million; \$0.08 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)	Q3 2009	Q3 2008	Q2 2009	YTD 2009	YTD 2008
Sales price	\$ 33.02	\$ 82.91	\$ 31.99	\$ 33.87	\$ 81.30
Royalties	8.03	17.61	6.49	7.86	18.07
Operating expenses	8.83	10.74	8.89	9.26	11.63
Transportation expenses	0.26	0.44	0.27	0.30	0.78
Operating netback	\$ 15.90	\$ 54.12	\$ 16.34	\$ 16.45	\$ 50.82
General and administration	5.38	8.07	5.35	5.04	6.39
Interest	1.04	2.05	0.76	0.75	2.17
Other income	-	-	(0.08)	(0.08)	(0.28)
Cash flow netback	\$ 9.48	\$ 44.00	\$ 10.31	\$ 10.74	\$ 42.54
Depletion, depreciation and accretion	34.04	30.55	33.81	33.96	31.39
Stock-based compensation	0.83	0.79	0.69	0.83	0.79
Gain on investments	-	-	-	(0.95)	-
Future tax (reduction)	(6.26)	3.51	(5.77)	(5.66)	2.90
Net income (loss)	\$ (19.13)	\$ 9.15	\$ (18.42)	\$ (17.44)	\$ 7.46

The following table provides reconciliations to the change in funds from operations and net income for Q3 2009 to Q3 2008 and for Q3 2009 to Q2 2009.

Change in Funds from Operations and Net Income (Loss) (000's)	Q3 2009 to Q3 2008		Q3 2009 to Q2 2009	
	Funds from Operations	Net Income (Loss)	Funds from Operations	Net Income (Loss)
Comparative period	\$ 7,923	\$ 1,647	\$ 2,054	\$ (3,668)
Increase (decrease) in revenue:				
Change in production volumes	(1,104)	(1,104)	(1,037)	(1,037)
Change in prices	(8,320)	(8,320)	172	172
Change in royalties	1,831	1,831	(47)	(47)
Change in other income	-	-	(16)	(16)
(Increase) decrease in expenses:				
Operating	462	462	298	298
Transportation	37	37	11	11
Interest	196	196	(23)	(23)
Cash general and administration	556	556	169	169
Stock-based compensation	-	4	-	(2)
Depletion, depreciation and accretion	-	(175)	-	1,059
Taxes	-	1,676	-	(106)
Current period	\$ 1,581	\$ (3,190)	\$ 1,581	\$ (3,190)

Capital Expenditures

YTD 2009 capital expenditures have totalled \$32.4 million and have been focused on drilling the Company's gas resource targets in the Deep Basin. Midnight's 2009 capital program includes farm-ins and farm-outs and the net wells presented reflect the Company's after earned interest. Midnight has drilled 6 gross (2.3 net) wells in the Deep Basin in 2009 and is currently drilling its 7th well (0.3 net) and drilled 11 gross (4.4 net) in total for the 2008/09 winter program. In addition Midnight drilled 1 gross (0.20 net) well on one of its minor properties. Drilling expenditures have accounted for 44% of all of the capital expenditures incurred this year with completions accounting for an additional 30% and related facilities for 18%. For YTD 2008, Midnight drilled 17 gross (3.4 net) wells. Capital expenditures for YTD 2009 (which included our very active Q1 2009 capital program) are 42% higher than YTD 2008 as we have had a more capital intensive program and a number of the wells drilled were farm-ins where we paid larger percentage of capital to earn a promoted working interest in the lands. In Q3 2009, the Company completed 2 gross (0.6 net) wells, drilled 1 (0.2 net) well, spud its last Bilbo commitment well incurring approximately \$4.0 of capital expenditures. Capital expenditures in Q3 2009 were 37% lower than Q3 2008 of \$6.4 million. The Q4 2009 capital program is expected to be approximately \$9 million for staged investments in drilling, completion and tie-ins related to our Deep Basin program. Midnight plans to drill an additional 2 gross (0.8 net) wells and to complete an additional 3 gross (0.9 net) wells.

In addition to the cash capital expenditures discussed above, we have capitalized \$0.3 million of non-cash stock-based compensation and the related future tax liability of \$0.1 million for YTD 2009 consistent with the exploration salaries that we have added to our property base.

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

Capital Expenditures (000's)	Q3 2009	Q3 2008	Q2 2009	YTD 2009	YTD 2008
Land	\$ 349	\$ 844	\$ 232	\$ 658	\$ 1,165
Geological and geophysical	614	1,566	606	1,862	3,302
Drilling	308	1,465	2,646	14,384	7,897
Completions	1,797	2,170	270	9,622	6,068
Facilities, pipelines and equipment	974	372	292	5,781	4,292
Office and other	1	-	35	102	20
Total net expenditures	\$ 4,043	\$ 6,417	\$ 4,081	\$ 32,409	\$ 22,744

Equity

On September 30, 2009 the Company closed a "bought deal" financing with a syndicate of underwriters and 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 to raise gross proceeds of approximately \$17.6 million. The offering was done by way of short form prospectus.

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 YTD 2009, the Company granted 1,228,500 options and 72,500 options were forfeited. No options were exercised or cancelled. At September 30, 2009 the Company had 5,298,500 options outstanding with a weighted average exercise price of \$1.92 and a weighted average remaining life of 2.6 years.

On November 7, 2008, Midnight filed a second notice with the TSX to make a normal course issuer bid "NCIB". 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. The Company's NCIB expires on November 11, 2009.

At November 5, 2009 the Company had 75,335,129 common shares and 5,298,500 stock options outstanding. The average exercise price of stock options outstanding is \$1.92 per share.

Share Information (000's)	Q3 2009	Q3 2008	Q2 2009	YTD 2009	YTD 2008
Shares outstanding					
Basic	75,335	47,423	57,885	75,335	47,423
Diluted	80,634	53,591	62,053	80,634	53,591
Weighted average shares outstanding					
Basic	57,885	47,423	56,727	53,639	47,433
Diluted	57,885	47,609	56,727	53,639	47,519

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 September 30, 2009 was approximately \$75.3 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 in October 2008. . At November 5, 2009 the market capitalization was approximately \$82.9 million.

Trading History on the TSX	Q3 2009	Q3 2008	Q2 2009	YTD 2009	YTD 2008
High	\$ 1.18	\$ 2.49	\$ 1.60	\$ 1.60	\$ 2.49
Low	\$ 0.90	\$ 1.22	\$ 0.80	\$ 0.67	\$ 0.93
Close	\$ 1.00	\$ 1.35	\$ 1.00	\$ 1.00	\$ 1.35
Volume (000's)	8,534	13,332	6,581	16,723	28,443

At September 30, 2009, Midnight had drawn \$12.2 million on its \$35 million credit facility and had a working capital surplus of \$2.3 million for a net debt position of \$9.9 million. Midnight's borrowing base was increased 25% to \$35.0 million on May 29, 2009 during its annual review. The Company has used the net proceeds from its two equity offerings of approximately \$25.5 million to reduce its bank debt and fund its capital program. Midnight's credit facility is available on a revolving basis until May 29, 2010. 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 \$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 May 29, 2009 with the next one scheduled for on or prior to November 29, 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 with two major oil and gas companies where the Company agreed to drill and complete six wells. At September 30, 2009 the Company has completed its drilling obligation respecting the six wells of which five have been completed. Midnight has elected to drill and complete another commitment well under the farm-in which will also earn all option lands under this agreement – this well spud on September 25, 2009. Midnight has a partner in this farm-in, sharing 50% of the farm-in obligations. Midnight spent approximately \$32 million to September 30, 2009 under this farm-in and expects to incur an additional \$3.5 million to \$4.5 million in the balance of 2009 to fulfill this commitment. The Company expects that these expenditures will also fulfill part of its flow through share obligations as well. The Company expects that it will fulfill the remainder of its flow through share obligation in 2010 with funds available on its credit facility and through cash flows.

The global economic downturn has caused uncertainty in the capital markets which has in turn limited access to both debt and equity in all industries. As a result, Midnight anticipates that junior oil and gas companies will be faced with restricted access to capital; an increased cost of capital and an increased cost of borrowing. Accordingly, operating results and capital investment decisions will be impacted. Despite the tougher economic times, Midnight had a busy and successful 2008/09 winter. The Company drilled 11 gross (4.4 net) wells and has increased its reserve and production base and significantly expanded its opportunity base. 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 limited its production optimization due to low gas prices. The successful winter drilling program allows the Company, when the price environment dictates, to increase production growth and corresponding cash flow from new production. It is anticipated that this will increase shareholder value and support larger and more extensive capital investment. Midnight anticipates that it will have adequate liquidity to fund future working capital and forecasted capital expenditures in 2009 and 2010 through a combination of cash flow and additional drawing on its existing credit facility. Further increases to its capital expenditure program may be funded through a combination of farm-outs, property dispositions or future share issuances. 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	\$ 12,174	\$ -	\$ 12,174	\$ -	\$ -
Asset retirement obligations	4,854	113	262	259	4,220
Total Contractual Obligations	\$ 17,028	\$ 113	\$ 12,436	\$ 259	\$ 4,220

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 8 to the Q3 2009 Consolidated Financial Statements and previously in the MD&A our expected future expenditures on the Bilbo farm-in. The Company estimates it will incur \$3.5 million to \$4.5 million in additional expenditures to fulfill this obligation.

As part of the Company's equity issuance on April 9, 2009 and September 30, 2009, the Company issued a total of 10,560,000 flow-through common shares for approximately \$11.0 million and has committed to spend this amount on qualifying exploration expenditures. The Company has until December 31, 2010 to incur these expenditures. Approximately \$0.7 million expenditures have been incurred at September 30, 2009.

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 9 to the Q3 2009 Consolidated Financial Statements.

Outlook

Midnight's 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 reservoirs 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 increased our production for Q2 2009 by 44%, 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. In response to the continued low natural gas prices, the Company continued to limit investment and restrict and defer production additions during Q3 2009. Further production additions and optimization has been minimized due to the low natural gas prices. Initially, the Company had a number of routine operations planned to grow production including plans to remove the bottom hole choke on wells, complete the uphole zones and add pipelining and/or compression to increase gas

production. These operations are now planned for late Q4 2009 or early Q1 2010 and production increases are anticipated in Q1 2010. The Company currently expects its 2009/10 winter capital program to be approximately \$30 million but will be flexible to respond to changes in gas prices and capital market conditions. The Company is not anticipating any production additions until late Q4 2009 when we complete construction of facilities and pipelines for the wells we completed this summer and when we anticipate performing some production optimizations. With this delay and current capacity restrictions at Bilbo, Q4 2009 average production is expected to decline and the forecasted exit rate of approximately 2,500 to 3,000 boe/d will be deferred into the first quarter of 2010. The Q4 2009 capital program is expected to be approximately \$9 million for staged investments in drilling, completion and tie-ins related to our Deep Basin program. Midnight plans to drill an additional 2 gross (0.8 net) wells and to complete an additional 3 gross (0.9 net) wells. The Company anticipates that 0.6 net of these wells will be on-stream prior to year end. Midnight's results from its Deep Basin Tight Gas initiative have validated our thesis of the resource potential of this area and put in place a solid foundation for material long-term growth.

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 Q3 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 September 30, 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 Q3 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.

The Company has identified the main conversion risks and will spend the majority of their time focused on these areas. One of the major changes will be the transition from full cost accounting, which the Company currently uses, to accounting for petroleum and natural gas assets under IFRS. There are certain options and interpretations of the existing IFRS standards, and the Company is currently evaluating these.

In July 2009 an amendment to IFRS 1 First Time Adoption of International Reporting Standards was issued that applies to oil and gas assets. The amendment allows an entity that used full costs accounting under its previous GAAP to elect to measure oil and gas assets including exploration and evaluation assets and development and production assets at values determined under their previous GAAP with development and production assets being allocated pro rata using reserve volumes or reserve values as of the date of adoption, providing that all assets are tested for impairment on adoption. Midnight expects that it will use this exemption.

Future accounting changes

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures," to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective on December 31, 2009.

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.