

## **Midnight Continues Successful Deep Basin Program, Building Towards its Transformation into an Intermediate Producer (“Pace Oil & Gas Ltd.”)**

**Calgary, Alberta** (Marketwire – May 12, 2010) – Midnight Oil Exploration Ltd. (TSX: MOX) (“Midnight or the “Company”) today announces its financial and operating results for the three months ended March 31, 2010.

Midnight is pleased to report a highly successful winter program that focused on exploiting the multi-zone stacked gas resource plays on our Deep Basin lands and developing our Red Earth light oil property where we drilled a 200 barrels of oil per day well. Midnight’s winter activities significantly increased production and reserves with a number of vertical Cadomin/Nikanassin wells, a high rate horizontal development well in the Cadomin formation and our first horizontal Nikanassin well. We had very strong results from our program and despite the early spring break-up that restricted our planned activities; we exceeded our production target exiting the quarter at over 2,500 boe/d with production averaging 2,011 boe/d for the quarter. This represents a 17% increase over the previous quarter’s average production. This winter’s activity and our results continue to reaffirm that Midnight’s Deep Basin lands and opportunity base are in the top tier among resource plays in North America.

On April 19, 2010, Midnight entered into an agreement to acquire Provident Energy Trust’s upstream oil and gas business unit to create a new, growth oriented, intermediate sized producer, Pace Oil & Gas Ltd. (“Pace”). Pace will be listed on the TSX under the symbol PCE and will have production of approximately 13,000 boe/d (34% oil weighted), reserves of approximately 60 million boe on a proved plus probable basis (43% oil weighted), annualized cash flow of approximately \$90 million with an identified drilling inventory of over 500 locations. We are extremely excited about this next phase in the corporate evolution of Midnight. This transaction is highly beneficial to Midnight shareholders as it materially increases our reserves, our production and our oil weighting. This transaction also enables us to invest more aggressively in our Deep Basin resource plays and exposes us to an expanded oil prospect inventory with increased oil production.

### **Operating Results**

Our active winter program continued during the first quarter 2010 when we drilled 4 gross (2.4 net) wells (100% success) and finished drilling 2 wells that were spudded in December 2009. During the quarter, a total of 5 gas wells (1.95 net) were tied-in and placed on production. Midnight was an early mover in identifying the potential and the technologies involved in the natural gas resource play in the Deep Basin. Our operations have progressively improved as we have reduced our drilling times, drilled longer laterals and have modified and improved our completion techniques. At

Elmworth we drilled and completed another horizontal Cadomin well (55% Midnight). This well was drilled as an 800 meter horizontal, completed with a 10 stage frac and produced only from the horizontal Cadomin, without compression, at an average restricted rate of over 10 Mmcf/d for the first 30 days. After 60 days, production from the well is over 6.5 Mmcf/d. We continue to limit some of our natural gas investments during soft gas prices and have deferred the completion of more than 6 uphole opportunities that exist both in this well and in the offset horizontal Cadomin well that Midnight drilled in 2009. We intend to complete the uphole zones in both of these wells when natural gas prices are more favorable. Midnight (average 55% W.I.) has the opportunity to drill over 25 additional horizontal and/or vertical Cadomin wells at Elmworth as downspacing on our lands has been approved permitting four Cadomin wells per section.

At Bilbo, we completed a horizontal Nikanassin well drilled the previous quarter (30% Midnight) which fulfilled our 7 well earning obligation under the Bilbo farmin. Initial production from this well exceeded our expectations producing at over 5 Mmcf/d after the multi-stage frac. A number of operators were very active in the Bilbo area this winter, drilling multiple vertical Cadomin/Nikanassin wells as this area continues to develop and deliver strong results. Midnight's drilling program and state of the art completion techniques at Bilbo have delineated additional highly prospective uphole zones that are now targets for further exploitation under our resource development plans.

During our winter program we were most active in our Chinook Ridge property where we conducted four drilling operations. The early spring break-up and limited access to completion equipment restricted our activity in this area this winter. We were able to finish the 4 (2.75 net) drilling operations but only completed 1 (0.25 net) well. The first of our four wells was the second option well under an earlier farmin, spud during Q4 2009. This well (Midnight 25%) was completed in the Cadomin, Nikanassin and several uphole conventional zones. The well is equipped and tied-in (producing at test rates in excess of 5 Mmcf/d) and is expected to be placed on-stream during the summer. Midnight also re-entered and deepened a pre-existing well (Midnight 50%) to the Nikanassin. This well identified five potential productive zones and will be completed later in the year when surface access permits.

Still at Chinook Ridge, Midnight drilled two wells under a farmin with a major company that will earn Midnight an average 45% working interest in over 25 sections of land adding significantly to Midnight's Deep Basin resource fairway and drilling inventory. These sweet gas wells were targeted using 3D seismic to locate the more tectonically active and disturbed portion of the Cretaceous interval of the Deep Basin and the underlying thickened sandstones of the Nikanassin formation. The first well (Midnight 40%) was re-entered and whipstocked into a highly fractured upper Nikanassin. This well is standing cased and scheduled for completion in the Gething, Cadomin and Nikanassin. Assuming normal weather conditions and access to services we estimate this well will be completed and on-stream prior to the fourth quarter of 2010. Midnight's second farmin well in this area (Midnight 50%) was also drilled through the Upper Nikanassin and identified a number of uphole zones including the Gething and Cadomin in addition to a highly fractured Nikanassin. Due to access restrictions this well will be completed next winter. We are excited about the results and potential from our Chinook Ridge program and are planning to drill two (0.90 net) horizontal Nikanassin wells in this area during our summer program.

Midnight's Deep Basin prospects in the multi-layered resource fairway include both the conventional high productivity sweet gas targets in the Cadotte, Notikewin, Falhers, and Bluesky/Gething and the large, extensive resource play characteristics of the deeper Cadomin and Nikanassin zones. Midnight has identified the tremendous resource potential of the Deep Basin and have through an aggressive

land assembly and drilling program, acquired an interest in over 138 gross sections of land on this high potential regionally extensive play extending from Elsworth in the north to Chinook Ridge, Red Rock, and Bilbo in the south.

In Red Earth, Midnight drilled and completed an oil well (100% WI) that was placed on production in the second quarter at a rate of over 200 barrels of oil per day. We have an extensive 3D seismic data base in this area and have identified several follow up locations for drilling as soon as weather and ground conditions permit. The well also encountered oil in an uphole zone that is being pursued regionally as an oil resource play. We are monitoring area activity for potential future development of this prospect.

Q1 2010 capital expenditures totaled \$14.9 million which includes the drilling, completion and tie-in activities described above. Our winter activities provided strong production growth that averaged 2,011 boe/d for the quarter consisting of 8,524 mcf/d of natural gas and 591 boe/d of oil and natural gas liquids ("NGLs"). Production for the period increased 32% over the comparative period in 2009 and 17% from Q4 2009. As previously mentioned, we experienced an unusually shortened season due to weather conditions and an early spring break-up that was further complicated by restricted access to completion services. Despite the delays to our program we were able to exceed our production estimates of 1,800 to 1,900 boe/d for the quarter. Substantially all of the production was added during March of 2010 and we exited the quarter producing in excess of 2,500 boe/d.

## **Outlook**

Our winter program focused on drilling both horizontal development wells and vertical delineation wells. Through detailed geotechnical analyses and by integrating our extensive 3D seismic data, we successfully identified and targeted "sweet spots" within our Deep Basin resource fairway. The potential of this area continues to grow and expand. We are reducing our costs and improving our results on this play in the "sweet spot" of multi-layered gas resource play of the Deep Basin. New technologies continue to evolve in horizontal drilling and multi-staged, hydraulic fracture techniques to improve the productive capability and potential recovery of our wells. The excellent results from our Deep Basin program are further supported by the activity and announced results of a number of industry majors which further validates this area as a top tier resource play in North America.

The acquisition of Provident Energy Trust's upstream assets in Q2 2010 will provide us with additional oil opportunities, oil resource plays and a stable production base to pursue a more balanced portfolio of oil and natural gas opportunities while also allowing us to accelerate our exploitation of the Deep Basin. The new company, Pace Oil & Gas Ltd., will have the requisite size and scale to exploit a variety of oil and gas opportunities under the direction of our existing high-end team with proven technical expertise and strong business execution skills. This transaction provides tremendous value and opportunity to Midnight shareholders. The synergy from the combination of the two entities creates a win/win transaction for both groups of equity holders. The transaction is highly accretive to Midnight shareholders on per share metrics and represents excellent value in the context of recent transactions. Pace's free cash flow and increased size will better enable us to efficiently and effectively develop our Deep Basin resource opportunities which were a challenge at our existing size and given current natural gas prices. The assets provide access to an extensive network of gas plants and processing infrastructure. Pace will also be more commodity balanced with one third of production being oil and NGLs, reserves being 43% weighted to oil and NGL's and from additional oil resource plays identified. With this enhanced asset base, Midnight will accelerate the

pace of its activities including the exploitation of its world class resources. We look forward to unlocking the vast opportunities that we have amassed to enhance shareholder value.

The plan of arrangement was filed on SEDAR on May 10, 2010 with the shareholder vote scheduled for June 28, 2010 at 10:30 am (Calgary time) at the Sun Life Conference Centre. We will continue to hold Midnight's 2010 Annual and Special Shareholder's meeting on Thursday, May 20, 2010 at 10:00 am (Calgary time) at the Sun Life Conference Centre, Plus 15 Level, Sun Life Plaza, 140 -4<sup>th</sup> Avenue SW Calgary, Alberta and invite all shareholders to attend.

On behalf of the directors of Midnight, I would like to express our gratitude for the support you have given us over the years and ask that you continue that support as we move to transform into Pace Oil & Gas Ltd. We would also like to thank our employees, who have worked hard on getting us to this spot and we look forward to the next step as a growth oriented intermediate producer.

Q1 2010 financial and operational highlights with comparative data are as follows:

<b>Financial</b> (\$000's, except for per share amounts)	<b>Q1 2010</b>	Q4 2009	Q1 2009
Petroleum and natural gas sales	<b>\$ 7,529</b>	\$ 6,148	\$ 5,148
Royalties	<b>1,463</b>	1,134	1,320
Operating expenses	<b>1,578</b>	1,631	1,413
Transportation expenses	<b>51</b>	31	51
Operating netback	<b>\$ 4,437</b>	\$ 3,352	\$ 2,364
G&A – cash charge	<b>652</b>	889	571
Interest expense	<b>97</b>	132	54
Other income	<b>-</b>	-	(23)
Funds from operations	<b>\$ 3,688</b>	\$ 2,331	\$ 1,762
Gain on investments	<b>-</b>	-	(479)
Depletion, depreciation and accretion	<b>5,321</b>	4,733	4,658
Stock-based compensation	<b>71</b>	219	142
Future taxes (reduction)	<b>(403)</b>	(550)	(652)
Net loss	<b>\$(1,301)</b>	\$(2,071)	\$(1,907)
Funds from operations per share			
Basic	<b>\$ 0.05</b>	\$ 0.03	\$ 0.04
Diluted	<b>\$ 0.05</b>	\$ 0.03	\$ 0.04
Net loss per share			
Basic	<b>\$(0.02)</b>	\$(0.03)	\$(0.04)
Diluted	<b>\$(0.02)</b>	\$(0.03)	\$(0.04)
Petroleum and natural gas additions, net	<b>\$14,916</b>	\$ 5,091	\$ 24,285
Net debt	<b>23,913</b>	12,667	30,804
Shares outstanding			
Basic	<b>75,335</b>	75,335	46,175
Diluted	<b>79,761</b>	78,294	50,353

<b>Operations</b>	<b>Q1 2010</b>	<b>Q4 2009</b>	<b>Q1 2009</b>
Average daily production			
Natural gas (mcf/d)	<b>8,524</b>	6,904	4,867
Oil (bbls/d)	<b>467</b>	457	584
Natural gas liquids ("NGLs") (bbls/d)	<b>124</b>	108	124
Combined (boe/d)	<b>2,011</b>	1,715	1,519
Average prices received			
Natural gas (\$/mcf)	<b>\$ 4.84</b>	\$ 4.20	\$ 5.26
Oil (\$/bbl)	<b>77.10</b>	74.12	47.35
NGLs (\$/bbl)	<b>37.72</b>	27.52	28.76
Combined (\$/boe)	<b>\$41.59</b>	\$ 38.96	\$ 37.64
Royalties	<b>8.08</b>	7.19	9.65
Operating expenses	<b>8.72</b>	10.33	10.33
Transportation expenses	<b>0.28</b>	0.20	0.37
Operating netback (\$/boe)	<b>\$24.51</b>	\$ 21.24	\$ 17.29
G&A – cash charge	<b>3.60</b>	5.63	4.17
Interest expense	<b>0.54</b>	0.84	0.40
Other income	-	-	(0.17)
Funds from operations (\$/boe)	<b>\$20.37</b>	\$ 14.77	\$ 12.89

Midnight is a Calgary based, junior energy company primarily focused on natural gas exploration, development and production in the Deep Basin portion of northwest Alberta. Common Shares of Midnight are listed on the Toronto Stock Exchange under the symbol "MOX".

Copies of the interim consolidated financial statements and Management's Discussion and Analysis in respect thereof for the three months ended March 31, 2010 will be filed on SEDAR today and can be accessed at [www.sedar.com](http://www.sedar.com) or by visiting Midnight's website at [www.midnightoil.ca](http://www.midnightoil.ca).

**Forward Looking Statements** – Certain statements contained within this press release, and in certain documents incorporated by reference into this press release including our interim consolidated financial statements for the three months ended March 31, 2010 and the Management's Discussion and Analysis thereon, 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 press release and the documents incorporated by reference within contain 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 to 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 this press release and the documents incorporated by reference, 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 press release should not be unduly relied upon. These statements speak only as of the date of this press release or as of the date specified in the documents incorporated by reference into this press release, 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 including: 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 press release 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.

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