

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

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 Elsworth 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 Elsworth 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.

Signed "*Fred Woods*"

Fred Woods  
President and CEO

May 12, 2010

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Midnight should be read in conjunction with the unaudited interim Consolidated Financial Statements and accompanying notes for the three months ended March 31, 2010 and 2009 and the audited Consolidated Financial Statements, related notes and Management's Discussion and Analysis for the years ended December 31, 2009 and 2008.

**Basis of Presentation** – The financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The reporting and the measurement currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas is converted to a barrel equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil unless otherwise stated. The following MD&A compares the results of the three months ended March 31, 2010 ("Q1 2010") to the three months ended March 31, 2009 ("Q1 2009") and the results of the three months ended December 31, 2009 ("Q4 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)	Q1 2010	Q1 2009	Q4 2009
Cash flow from operations	2,388	3,371	2,897
Abandonment expenditures	18	30	-
Changes in non-cash working capital	1,282	(1,639)	(566)
Funds from operations	3,688	1,762	2,331

**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 in the rate of depletion, depreciation and accretion; the estimated future contractual obligations of the Company; the future liquidity and financial capacity of the Company; and, Midnight's ability to fund its working capital and forecasted capital expenditures the estimated production of Pace Oil & Gas Ltd.; the estimated reserves of Pace Oil & Gas Ltd.; the estimated pro-forma funds from operation of Pace Oil & Gas Ltd.; the expected credit facility available to Pace Oil & Gas Ltd.; the anticipated court, stock exchange, regulatory and security holder approvals of the transaction with Provident Energy Trust, and the anticipated closing of the transaction with Provident Energy Trust.

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: which include volatility in market prices for oil and natural gas; counterparty credit risk; access to capital; changes or fluctuations in production levels; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; stock market volatility and market valuation of Midnight stock; geological, technical, drilling and processing problems; limitations on insurance; changes in environmental or legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; and the other factors discussed under "Risk Factors" in our Annual Information Form filed on SEDAR. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward looking statements contained in this document speak only as of the date of this document and Midnight does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws. This Management's Discussion and Analysis is dated as of May 12, 2010.

### **Combination of Midnight with Provident Energy Trust's Upstream Assets**

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 Oil") that will have a more balanced commodity mix and exposure to a large portfolio of resource plays.

Pace Oil will have production of approximately 13,000 boe/d (34% oil and natural gas liquids), 60 million boe of proved plus probable reserves (43% oil and natural gas liquids) and over 500 identified drilling locations to pursue. Pace Oil will be run by the current management team of Midnight, led by Mr. Fred Woods, current President and CEO of Midnight. The combination will be effected by way of a plan of arrangement under the Business Corporations Act (*Alberta*) (the "Arrangement"). The Board of Directors of Midnight and Provident have both unanimously approved the Arrangement.

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 expected \$220 million combined credit facility. Midnight shareholders will own approximately 19% of Pace Oil with Provident unitholders owning approximately 81%.

The proposed combination allows Midnight shareholders and Provident unitholders to participate in a new, growth oriented, commodity balanced, intermediate producer. The combined entity has significant resource exposure and access to a suite of low-risk development opportunities. Midnight's expansive Deep Basin resource opportunities and PERI's long-life, low decline assets will provide critical mass and cash flow to allow Pace Oil to aggressively exploit its prolific resource inventory.

The board of directors of Midnight and Provident have unanimously approved the Arrangement and have concluded that the transaction is in the best interest of Midnight shareholders and Provident unitholders, respectively, and each has resolved to recommend that shareholders of Midnight and unitholders of Provident, respectively, vote their respective shares/units in favour of the proposed transaction. The management and board of Midnight and board of Provident have agreed to vote their securities in favour of the proposed combination. Both Midnight and Provident have agreed that they will not solicit or initiate any discussions concerning the sale of material assets or the pursuit of any other business combination. 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 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)	2010		2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Petroleum and natural gas sales	\$ 7,529	\$ 6,148	\$ 5,506	\$ 6,371	\$ 5,148	\$ 7,828	\$ 14,930	\$ 15,576	
Cash flow from operations	2,388	2,897	2,603	97	3,371	7,563	7,031	3,802	
Funds from operations	3,688	2,331	1,581	2,054	1,762	4,682	7,923	8,684	
Per share									
– Basic	0.05	0.03	0.03	0.04	0.04	0.10	0.17	0.18	
– Diluted	0.05	0.03	0.03	0.04	0.04	0.10	0.17	0.18	
Net income (loss)	\$ (1,301)	\$ (2,071)	\$ (3,190)	\$ (3,668)	\$ (1,907)	\$ 760	\$ 1,647	\$ 2,174	
Per share									
– Basic	(0.02)	(0.03)	(0.06)	(0.06)	(0.04)	0.02	0.03	0.05	
– Diluted	(0.02)	(0.03)	(0.06)	(0.06)	(0.04)	0.02	0.03	0.05	
Petroleum and natural gas additions	\$ 15,316	\$ 5,091	\$ 4,043	\$ 4,081	\$ 24,285	\$ 13,423	\$ 6,417	\$ 4,695	
Property disposition	(400)	-	-	-	-	(30,371)	-	-	
Net debt	23,913	12,667	9,907	23,944	30,804	8,730	29,536	31,042	
Total assets	184,946	165,250	166,386	169,471	183,219	177,056	172,180	172,905	
Shares outstanding									
Basic	75,335	75,335	75,335	57,885	46,175	46,175	47,423	47,423	
Diluted	79,791	78,294	80,664	62,053	50,353	50,318	53,591	53,543	
<b>Operations</b>									
Average daily production									
Natural gas (mcf/d)	8,524	6,904	7,064	9,004	4,867	5,465	6,097	5,799	
Oil & NGLs (bbls/d)	591	565	635	688	708	803	941	942	
Combined (boe/d)	2,011	1,715	1,812	2,189	1,519	1,714	1,957	1,908	
Operating netback (\$/boe)	\$ 24.51	\$ 21.24	\$ 15.90	\$ 16.34	\$ 17.29	\$ 28.96	\$ 54.12	\$ 57.66	

Midnight is a junior oil and gas company with a portfolio of light oil and sweet natural gas opportunities. Midnight's properties are primarily focused within two core areas in Alberta: (i) the Deep Basin in the Peace River Arch where the Company has its multi-year natural gas resource play and, (ii) in Red Earth where the Company has its light oil production and development opportunities. Since Q4 2007, the Company has increased its exposure to the natural gas resource targets in the Deep Basin and has compiled a significant land base through farmins. During 2009, the Company entered into additional farmin agreements that have further expanded its Deep Basin prospect inventory. In 2009, the Company completed two equity financings – one that closed on April 9, 2009 and the other that closed on September 30, 2009, which raised aggregate net proceeds of \$25.5 million. The proceeds of these offerings were used to finance the Company's capital programs.

On April 19, 2010, the Company announced its strategic combination with PERI. The combination will allow additional funds to be directed to Midnight's Deep Basin opportunities and significantly increases the Company's oil opportunities and oil weighting. The Company's increased size will allow for critical mass to reduce capital costs and should provide the Company with a better cost of capital.

The Company's net income and funds from operations have fluctuated with the changes in commodity prices and production levels. Petroleum and natural gas sales and funds from operations are derived from the combination of increased oil and natural gas production and increased commodity prices. Lower commodity prices in the current period have had a negative

impact on the Company's funds from operations and net income. In Q4 2008, Midnight disposed of its low working interest non-core West Central assets to help fund its Deep Basin capital program. The Company increased production in Q2 2009 by 44%, after delaying the start up of the 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 were minimized in Q4 2009 with activity picking up late in the quarter. Natural production declines from bringing on flush production in Q2 2009 resulted in lower production volumes in the following two quarters. Average production for Q1 2010 increased to 2,011 boe/d with five additional wells coming on-stream in the quarter.

Commodity prices over the last two years have been extremely volatile. The Company's oil price received peaked in July 2008 at \$136.27/bbl and subsequently plummeted to its lowest price of \$41.10/bbl in January 2009; the monthly gas price received also peaked in July 2008 at \$10.91/mcf and 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 reduced available cash flow for re-investment and development and increased uncertainty in various aspects of our business. The Company's combination with PERI provides critical mass and cash flow to Midnight's resource opportunities and positions the Company well for future opportunities.

## Production

Production for Q1 2010 averaged 2,011 boe/d 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. Production increased from Q4 2009 as new wells were placed on production. The majority of new production was added in the month of March of 2010 and the Company exceeded its production estimates of 1,800 to 1,900 boe/d for the quarter and exited the quarter producing in excess of 2,500 boe/d. Production increased over Q1 2009 as the Company delayed putting new wells on production in 2009 until Q2 2009 to take advantage of the royalty incentive program for new production as of April 1, 2009. The Company's new production additions were all natural gas with natural gas production increasing 75% over Q1 2009 and 23% over Q4 2009. Oil production decreased from Q1 2009 based on expected declines but increased slightly over Q4 2009 with the completion of workover optimizations. Midnight drilled one new oil well in the quarter that was placed on stream during April 2010 at a rate of over 200 boe/d. With this well, the Company's oil production is expected to exceed 600 bbls/d in Q2 2010.

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

<b>Production</b>	<b>Q1 2010</b>	<b>Q1 2009</b>	<b>Q4 2009</b>
Natural Gas (mcf/d)	<b>8,524</b>	4,867	6,904
Oil (bbls/d)	<b>467</b>	584	457
NGLs (bbls/d)	<b>124</b>	124	108
<b>Total (boe/d)</b>	<b>2,011</b>	1,519	1,715

## 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. As a result, the U.S. domestic market dynamics significantly affect Canadian natural gas prices. A combination of the global economic crisis that 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 offsetting the lower activity level and has negatively impacted North American natural gas prices. The natural gas price continued to move downward through the first three quarters of 2009 as storage levels continued to rise. Storage levels were drawn down in December when colder than normal weather brought the storage levels in line with the 5 year average but continued to climb during the first quarter 2010 and ended March at higher than expected levels.

Midnight markets substantially all of its gas in Alberta with a mix of daily and monthly pricing and therefore has a high correlation to a blend of Alberta spot prices and Monthly Index Prices. During Q1 2010 our gas sold at a slight premium to the index as we sold a portion of the gas at the monthly index in a decreasing price environment which yielded a higher price. Overall the gas price has tracked to the index.

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. In 2009, the crude oil prices increased throughout the year from approximately \$40 US at the beginning of the year to \$78 US by the end of the year and has increased to more than \$85 US in 2010, as supply declined faster than 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 high quality light, sweet crude that has tracked appropriately to the Edmonton par benchmark. Midnight's realized oil price was \$77.10/bbl for Q1 2010, \$47.35 for Q1 2009 and \$74.12/bbl for Q4 2009 compared to the Edmonton benchmark prices of \$80.35/bbl, \$50.27/bbl and \$76.73/bbl for the respective periods.

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's liquid blend has a higher percentage of ethane whose price tracks more closely to natural gas.

Midnight has not bought or sold any commodity or currency hedges and did not have any outstanding hedges at March 31, 2010.

Midnight's realized prices for commodities has tracked with the appropriate benchmark prices. The following table outlines benchmark prices compared to Midnight's realized prices:

<b>Prices and Marketing</b>	<b>Q1 2010</b>	<b>Q1 2009</b>	<b>Q4 2009</b>
<b>Benchmark Prices</b>			
Alberta spot (\$/mcf)	\$ 4.78	\$ 4.79	\$ 4.50
WTI oil (\$US/bbl)	78.84	43.18	78.91
Cdn/US average exchange rate	0.962	0.804	0.947
Edmonton Par (\$/bbl)	\$ 80.35	\$ 50.27	\$ 76.73
<b>Midnight's Realized Prices</b>			
Natural gas (\$/mcf)	\$ 4.84	\$ 5.26	\$ 4.20
Oil (\$/bbl)	77.10	47.35	74.12
NGLs (\$/bbl)	37.72	28.76	27.52
Combined oil & NGLs (\$/bbl)	68.83	44.08	65.19
Total (\$/boe)	\$ 41.59	\$ 37.64	\$ 38.96

### **Petroleum and Natural Gas Sales**

Petroleum and natural gas sales totalled \$7.5 million for Q1 2010 compared to \$5.1 million in Q1 2009 and \$6.1 million in Q4 2009. Of the \$2.4 million increase in sales from Q1 2010 to Q1 2009, 70% of the increase was due to higher production volumes, with the remaining 30% increase due to higher commodity prices. Q1 2010 increased from Q4 2009 by \$1.4 million with 66% of the increase due to higher production volumes and the remaining due to higher realized commodity prices.

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

<b>Petroleum and Natural Gas Sales (000's)</b>	<b>Q1 2010</b>	<b>Q1 2009</b>	<b>Q4 2009</b>
Natural Gas	\$ 3,710	\$ 2,302	\$ 2,667
Oil	3,239	2,488	3,113
NGLs	421	322	274
Royalty income	159	36	94
Total	\$ 7,529	\$ 5,148	\$ 6,148

## 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 by the Alberta government. The NRF calculates royalty rates based on an individual well's production, depth and the commodity reference price. The minimum Crown rate under the NRF is 5% and the maximum royalty rate is 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 and also for new on-stream after April 1, 2009. Some new wells in Midnight's program are subject to gross overriding royalties to third parties which will increase the overall rate on these wells above 5%.

Midnight's Q1 2010 royalties were 19.4% of revenue compared to 18.4% of revenue in Q4 2009 and 25.6% in Q1 2009. In Q1 2009 Midnight delayed putting on new production in order to take advantage of the new well incentives and as such the Q1 2009 royalty rate is higher than Q1 2010 as the existing well's royalties were at the full rate. The Company's natural gas rate remained low in Q1 2010 at 7% due to the low natural gas prices and the new well incentives have kept royalty rates low. The Q4 2009 royalty rate for natural gas was lower due to adjustments to the NRF and capital cost allowance which were taken into consideration. Oil and NGL rates have been consistent across the comparative period and have remained in the 30% range with robust commodity prices and no new well incentives to lower the effective rate.

The Company expects natural gas royalties to remain low in 2010 on its current portfolio as production added after March 31, 2009 is subject to the new well royalty credit and most of the Company's planned drilling in the Deep Basin qualifies for the Natural Gas Deep Drilling Credits. Oil royalties are expected to be approximately 27% for Q2 2010 as the Company's new oil well will initially have a 5% royalty rate which will reduce the overall oil royalty rate.

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, and the depth of new wells drilled along with the application of incentives received.

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

<b>Royalties by Type</b> (000's)	<b>Q1 2010</b>	Q1 2009	Q4 2009
Crown	\$ 1,277	\$ 1,197	\$ 960
Gross overriding and other	186	123	174
<b>Total</b>	<b>\$ 1,463</b>	<b>\$ 1,320</b>	<b>\$ 1,134</b>
\$/boe	\$ 8.08	\$ 9.65	\$ 7.19
% of revenue	19.4	25.6	18.4

<b>Royalties by Commodity</b>	<b>Q1 2010</b>	Q1 2009	Q4 2009
<b>Natural Gas</b>			
000's	\$ 258	\$ 550	\$ 64
% of revenue	7.0	23.9	2.4
<b>Oil</b>			
000's	\$ 1,091	\$ 672	\$ 1,001
% of revenue	33.7	27.0	32.2
<b>NGLs</b>			
000's	\$ 114	\$ 98	\$ 69
% of revenue	27.1	30.4	25.2

## Operating and Transportation Expenses

Operating and transportation expenses totaled \$1.6 million for Q1 2010 and \$9.00/boe. Q1 2009 expenses were \$1.5 million and \$10.70/boe while Q4 2009 expenses were \$1.7 million and \$10.53/boe. On a per unit basis, expenses decreased 15% from Q4 2009 as the Company had higher production volumes in the quarter and the incremental costs associated with the

new production were offset by reduced repairs and maintenance costs in the quarter resulting in similar total costs, but a reduction in the per unit costs. Expenses per boe were down 16% year over year as new natural gas production additions from Q1 2010 have generally come on-stream at lower operating rates which have reduced costs on a per unit basis.

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

<b>Operating and Transportation Expenses (000's)</b>	<b>Q1 2010</b>	Q1 2009	Q4 2009
Operating	\$ 1,578	\$ 1,413	\$ 1,631
Transportation	51	51	31
<b>Total</b>	<b>\$ 1,629</b>	\$ 1,464	\$ 1,662
Operating (\$/boe)	\$ 8.72	\$ 10.33	\$ 10.33
Transportation (\$/boe)	0.28	0.37	0.20
<b>Total (\$/boe)</b>	<b>\$ 9.00</b>	\$ 10.70	\$ 10.53

## Interest Expense

Interest expense totalled \$97,000 in Q1 2010 compared to \$132,000 in Q4 2009 and \$54,000 in Q1 2009. Bank debt averaged approximately \$11.1 million in the quarter for an effective interest rate of approximately 3.5%. Midnight's effective interest rate was lower in Q1 2010 compared to Q4 2009 as the Company's debt to cash flow ratio as calculated for its credit facility was lower in Q4 2009 which resulted in lower spreads per its pricing grid on its credit facility. Despite record low interest rates, Canadian banks in general have increased their stamp fees or "spreads" which has partially reduced the benefit of the lower rates. In addition, Midnight's stamp fees are based on a pricing grid which is dependent on its debt to cash flow ratio which is dependent in part on commodity prices. In 2009, the Company raised gross proceeds of \$27.3 million on two equity offerings that closed on April 9, 2009 and September 30, 2009, respectively. The long-term debt was redrawn to fund our 2009 and 2010 capital programs.

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. Midnight's credit facility was last reviewed 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 with Provident.

<b>Interest Expenses (000's)</b>	<b>Q1 2010</b>	Q1 2009	Q4 2009
Interest	\$ 97	\$ 54	\$ 132
<b>Total (\$/boe)</b>	<b>\$ 0.54</b>	\$ 0.40	\$ 0.84

## General and Administration Expenses

Direct general and administration ("G&A") expenses totalled \$1.8 million for Q1 2010, Q4 2009 and Q1 2009. Direct costs did not change materially as Midnight has not had significant changes to its operations and staff levels. Cash G&A totalled \$0.7 million for Q1 2010 compared to \$0.6 million for Q1 2009 and \$0.9 million for Q4 2009. Cash G&A decreased from Q4 2009 with higher operating recoveries and capitalized G&A associated with the Company's operated Q1 2010 capital program of \$15 million and the Company having a higher percentage of capitalized technical staff in the current year. Cash G&A increased slightly over Q1 2009 as that period had higher recoveries and capitalized G&A associated with the large capital program of \$24 million. The largest portion of Midnight's cash G&A is comprised of salaries and benefits and, as such, Midnight's cash G&A will depend on the staffing levels in 2010 along with any changes to salaries and bonuses.

Non-cash expenses related to stock-based compensation expense were \$0.1 million for Q1 2010 and Q1 2009 and were \$0.2 million for Q4 2009. 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 options and capitalizes amounts consistent with

employees' salaries that are capitalized. No options have been exercised since inception of the Company. During the fourth quarter of 2009, all options were standardized to a three year life resulting in 2,640,000 options expiring and an increase to stock based compensation expense of \$0.1 million. During Q1 2010, 1,697,500 options were granted at an average exercise price of \$1.06/option. These options were granted with a three year life and one third vests every nine months. Midnight's unamortized portion of stock-based compensation expense is \$1.0 million at March 31, 2010. Midnight had 4,426,000 options outstanding with a weighted average exercise price of \$1.12/option at March 31, 2010 of which 964,000 were exercisable with a weighted average exercise price of \$1.40/option.

The components of general and administration expense are as follows:

<b>General and Administration Expenses</b> (000's)	<b>Q1 2010</b>	<b>Q1 2009</b>	<b>Q4 2009</b>
Direct G&A	\$ 1,753	\$ 1,796	\$ 1,759
Overhead recoveries	(374)	(609)	(272)
Capitalized G&A	(727)	(616)	(598)
<b>Cash G&amp;A</b>	<b>\$ 652</b>	<b>\$ 571</b>	<b>\$ 889</b>
Stock-based compensation	71	142	219
<b>Net G&amp;A</b>	<b>\$ 723</b>	<b>\$ 713</b>	<b>\$ 1,108</b>
<b>Cash G&amp;A</b> (\$/boe)	<b>\$ 3.60</b>	<b>\$ 4.17</b>	<b>\$ 5.63</b>
Stock-based compensation (\$/boe)	0.39	1.04	1.39
<b>Net G&amp;A</b> (\$/boe)	<b>\$ 3.99</b>	<b>\$ 5.21</b>	<b>\$ 7.02</b>

## Depletion, Depreciation and Accretion

For Q1 2010, depletion, depreciation and accretion ("DD&A") was \$5.3 million compared to \$4.7 million for Q1 2009 and Q4 2009 with the increase based on the higher production volumes. Midnight has excluded \$16.2 million from the depletion base related to unproved properties in Q1 2010 and has added \$30.3 million to its base for future development capital related to proved reserves. On a per boe basis, Midnight's charge decreased 2% from Q4 2009 and 14% from Q1 2009 as the Company has added additional proved reserves at a lower cost than its historical DD&A rate. The components of DD&A are as follows:

<b>Depletion, Depreciation and Accretion</b> (000's)	<b>Q1 2010</b>	<b>Q1 2009</b>	<b>Q4 2009</b>
Depletion and Depreciation	\$ 5,272	\$ 4,615	\$ 4,688
Accretion	49	43	45
<b>Total</b>	<b>\$ 5,321</b>	<b>\$ 4,658</b>	<b>\$ 4,733</b>
Depletion and Depreciation (\$/boe)	\$ 29.13	\$ 33.75	\$ 29.70
Accretion (\$/boe)	0.27	0.31	0.29
<b>Total</b> (\$/boe)	<b>\$ 29.40</b>	<b>\$ 34.06</b>	<b>\$ 29.99</b>

## 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. 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. Seismic sales make up the balance of other income in all of the corresponding periods.

## Taxes

Midnight had a future tax reduction of \$0.4 million for Q1 2010 compared to a reduction of \$0.6 million for Q4 2009 and a reduction of \$0.7 million for Q1 2009. The difference between the expected rate of 29.0% and the effective rate of 24% for 2010 relates primarily to the difference in tax rates between the expected rate and the rate when temporary differences are expected to reverse and from the permanent differences arising from stock-based compensation.

During Q1 2010 the future income tax effect and reduction of share capital of \$2.8 million was recorded when the Company filed the renouncement documents with tax authorities.

Midnight does not expect to become taxable on an income tax basis in 2010 and has approximately \$143 million in tax pools to shelter taxable income in the future.

### Funds from Operations and Net Income (Loss)

For Q1 2010, funds from operations totalled \$3.7 million or \$0.05 per basic and diluted share. Funds from operations for Q4 2009 and Q1 2009 totalled \$2.3 million and \$1.8 million or \$0.03 and \$0.04 per basic and diluted share respectively.

For Q1 2010 the Company had a net loss of \$1.3 million (\$0.02 loss per basic and diluted share) compared to a net loss of \$2.1 million (\$0.03 loss per basic and diluted share) for Q4 2009 and a net loss of \$1.9 million (\$0.04 loss per basic and diluted share) in Q1 2009.

The changes in non-cash working capital and abandonment expenditures are added back to cash flow from operations to arrive at funds from operations.

The following table summarizes the net income (loss) on a barrel of oil equivalent basis for the periods indicated:

(\$/boe)	Q1 2010	Q1 2009	Q4 2009
Sales price	\$ 41.59	\$ 37.64	\$ 38.96
Royalties	8.08	9.65	7.19
Operating expenses	8.72	10.33	10.33
Transportation expenses	0.28	0.37	0.20
<b>Operating netback</b>	<b>\$ 24.51</b>	<b>\$ 17.29</b>	<b>\$ 21.24</b>
General and administration	3.60	4.17	5.63
Interest	0.54	0.40	0.84
Other income	-	(0.17)	-
<b>Cash flow netback</b>	<b>\$ 20.37</b>	<b>\$ 12.89</b>	<b>\$ 14.77</b>
Depletion, depreciation and accretion	29.40	34.06	29.99
Stock-based compensation	0.39	1.04	1.39
Gain on investments	-	(3.50)	-
Future tax (reduction)	(2.23)	(4.77)	(3.49)
<b>Net income (loss)</b>	<b>\$ (7.19)</b>	<b>\$ (13.94)</b>	<b>\$ (13.12)</b>

The following table provides reconciliations to the change in funds from operations and net income for Q1 2010 to Q4 2009 and for Q1 2010 to Q1 2009:

Change in Funds from Operations and Net Income (Loss) (000's)	Q1 2010 to Q1 2009		Q1 2010 to Q4 2009	
	Funds from Operations	Net Income (Loss)	Funds from Operations	Net Income (Loss)
Comparative period	\$ 1,762	\$ (1,907)	\$ 2,331	\$ (2,071)
Increase (decrease) in revenue:				
Change in production volumes	1,667	1,667	905	905
Change in prices	714	714	476	476
Change in royalties	(143)	(143)	(329)	(329)
Change in other income	(23)	(23)	-	-
(Increase) decrease in expenses:				
Operating	(165)	(165)	53	53
Transportation	-	-	(20)	(20)
Interest	(43)	(43)	35	35
Cash general and administration	(81)	(81)	237	237
Stock-based compensation	-	71	-	148
Depletion, depreciation and accretion	-	(663)	-	(588)
Gain on investments	-	(479)	-	-
Taxes	-	(249)	-	(147)
Current period	<b>\$ 3,688</b>	<b>\$ (1,301)</b>	<b>\$ 3,688</b>	<b>\$ (1,301)</b>

## Capital Expenditures

Q1 2010 capital expenditures totalled \$14.9 million and the Company maintained its focus on drilling, completing, equipping and tie-ing in gas resource targets in the Deep Basin and also drilled a light oil well at Red Earth. In Q1 2010, the Company drilled and/or re-entered and deepened 4 gross (2.4 net) wells including 3 gross (1.4 net) wells in the Deep Basin all on the Company's Chinook Ridge property and 1 gross (1.0 net) oil well at Red Earth. The Company also completed and put on stream wells from its 2009 drilling program which completed its earning obligations on its Bilbo farm where the Company drilled and completed a total of seven wells on the lands. The Company's successful oil well at Red Earth was placed on production in mid April 2010 and had an initial production rate of over 200 boe/d. The Company has completed one of the three Chinook Ridge wells and expects the well to be placed on stream early in Q3 2010. Additional operations on the remaining two Chinook Ridge wells are scheduled for Q4 2010. Drilling continued to make up the largest percentage of capital spending and was 53% of expenditures. During the quarter, the Company also sold its interest in a minor undeveloped property for \$0.4 million and increased its 3D seismic data base with a seismic purchase on its Deep Basin lands. In Q1 2009, the Company had an intensive capital program of \$24.3 million with 47% of the costs incurred for drilling. Q1 2010 expenditures reflect the completion of the winter program as timing of some of the projects were delayed until later in Q4 2009 causing a heavier weighting in the current quarter.

In addition to the cash capital expenditures discussed above, Midnight has capitalized a portion of its stock-based compensation and the related future tax liability consistent with the exploration salaries that we have added to our property base. Midnight had approximately 120,500 net acres of undeveloped land at March 31, 2010.

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

<b>Capital Expenditures</b> (000's)	<b>Q1 2010</b>	Q1 2009	Q4 2009
Land	\$ 57	\$ 77	\$ 159
Geological and geophysical	1,668	642	598
Drilling	7,989	11,430	2,845
Completions	4,245	7,555	835
Facilities, pipelines and equipment	1,242	4,515	653
Office and other	115	66	1
Total expenditures	\$ 15,316	\$ 24,285	\$ 5,091
Property disposition	(400)	-	-
Total net expenditures	\$ 14,916	\$ 24,285	\$ 5,091

## Equity

In 2009, the Company completed two "bought deal" financings and issued a total of 18,600,000 common shares and 10,560,000 flow through common shares which raised gross proceeds of approximately \$27.3 million. The offerings were both done by way of short form prospectus. The Company was required to incur and renounce \$11.0 of eligible expenditures under the terms of the flow-through share agreements and had completed all of its obligations at March 31, 2010.

During Q1 2010, Midnight granted 1,697,500 options, 180,000 options were forfeited and 50,000 options expired. No options were exercised or cancelled. At May 12, 2010, the Company had 75,335,129 common shares and 4,216,500 stock options outstanding. The average exercise price of stock options outstanding is \$1.09/option.

<b>Share Information</b> (000's)	<b>Q1 2010</b>	Q1 2009	Q4 2009
Shares outstanding			
Basic	75,335	46,175	75,335
Diluted	79,761	50,353	78,294
Weighted average shares outstanding			
Basic	75,335	46,175	75,335
Diluted	75,335	46,175	75,335

## Liquidity and Capital Resources

Midnight Oil Exploration Ltd. is listed as a senior issuer on the Toronto Stock Exchange trading under the symbol "MOX". The Company's market capitalization at March 31, 2010 was approximately \$83.6 million. At May 12, 2009 the market capitalization was approximately \$77.6 million.

Trading History on the TSX	Q1 2010	Q1 2009	Q4 2009
High	\$ 1.26	\$ 0.99	\$ 1.17
Low	\$ 1.02	\$ 0.67	\$ 0.95
Close	\$ 1.11	\$ 0.80	\$ 1.00
Volume (000's)	10,305	1,608	10,135

At March 31, 2010, Midnight had drawn \$20.0 million on its \$35 million credit facility and had a working capital deficit of \$3.9 million for a net debt position of \$23.9 million. As previously mentioned, on April 19, 2010, Midnight announced it had entered into an arrangement agreement with Provident Energy Trust to combine the upstream assets of Provident with Midnight. The proposed combination allows Midnight shareholders and Provident unitholders to participate in a new, growth oriented, commodity balanced, intermediate producer. The combined entity has significant resource exposure and access to a suite of low-risk development opportunities. Midnight's expansive Deep Basin resource opportunities and Provident Upstream's long-life, low decline assets will provide critical mass and cash flow to allow Pace Oil to aggressively exploit its prolific resource inventory. The new entity is expected to have a \$220 million syndicated credit facility and will use this credit facility to pay Provident \$120 million and to inherit Midnight's debt position at closing. The transaction is expected to close on or about June 30, 2010. Midnight's exiting credit facility has been extended to June 30, 2010 to coincide with the expected closing of the transaction.

The global economic downturn caused uncertainty in the capital markets which in turn limited access to both debt and equity in all industries. Midnight anticipates that it and the new entity going forward will have adequate liquidity to fund future working capital and forecasted capital expenditures in 2010 through a combination of cash flow and additional use of its existing and expected credit facility. Midnight has been successful in obtaining equity financing and increased its debt facility in 2009. Midnight will still be able to modify its capital program in response to changes in commodity prices and cash flows. Should the Company choose to expand its capital program; actual funding alternatives will be influenced by the then current market environment and the ability to access capital on reasonable terms, balanced with the 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	\$ 19,998	\$ -	\$ 19,998	\$ -	\$ -
Asset retirement obligations	5,304	121	263	278	4,642
Total Contractual Obligations	\$ 25,302	\$ 121	\$ 20,261	\$ 278	\$ 4,642

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 estimates of expenditures to be made in future periods. Actual amounts and the year in which they 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 farmin 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 the normal course of operations for active oil and gas companies and therefore are not included in the table above.

As part of the Company's equity issuances 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 committed to spend this amount on qualifying exploration expenditures. At March 31, 2010, the Company had spent all of its qualifying expenditures.

### **Relationship with Daylight Energy Ltd. ("Daylight")**

Midnight and Daylight were 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 is deemed to exist, 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 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 Midnight's business activities and operations.

In Q1 2010, Daylight charged Midnight \$0.2 million for marketing services and premise costs. At March 31, 2010, Midnight had a receivable balance of approximately \$11.4 million due from Daylight which includes amounts for joint venture and commodity marketing. At March 31, 2010 Midnight also had \$2.7 million due to Daylight for unexpended cash calls.

### **Outlook**

Over the past few years the oil and gas industry in North America has changed dramatically. The application of new technologies has brought quantum shifts to our business opening up new areas and marginalizing other areas. Midnight was very much an "early mover" on identifying the potential of these technologies and positioning ourselves in the Deep Basin area of the Peace River Arch where we saw significant potential from these new technologies. We were very successful through a program of land sales, farmin and acreage swaps assembling a very large and highly prospective acreage holding in this area. The Deep Basin is a top tier resource area in all of North America that has and is being aggressively pursued and developed by major international energy companies. In each of our Deep Basin areas, we are partnered with and/or surrounded by the aggressive drilling activities of these multinational energy companies. We are at the early stages of our development but in each of these areas (Elmworth, Bilbo and Chinook Ridge) our partners have evolved to full scale exploitation and development including downspacing to multiple wells per sections and horizontal drilling into the Cadomin and Nikanassin.

Midnight has accumulated a substantial resource platform to grow from. The merger with the Provident upstream assets will provide the Midnight shareholders the continued ability to participate in the opportunities previously identified by Midnight. In addition, Pace Oil will be more diversified, have a higher percentage of oil and liquids and have more a more stable lower decline production base. As a larger entity we will have a combined capital program of \$110 to \$120 million to be executed over the next twelve to eighteen months which is budgeted to match the associated cash flow from the properties.

For accounting purposes, the Arrangement will be accounted for as a reverse takeover where the continuing reporting entity will be the former PERI. As such, it is anticipated that the carve out statements as presented in appendix H of the Information Circular will be our historical financial information going forward.

### **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. The Company is exposed to credit, liquidity and market risk from its use of financial instruments. A description of these risks as they relate to Midnight is disclosed in Note 5 of the interim Consolidated Financial Statements.

### **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 interim 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 Q1 2010.

### **Internal Control over Financial Reporting ("ICFR")**

Midnight's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting related to the Company to provide reasonable assurance regarding the reliability of Midnight's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The control framework the officers used to design Midnight's ICFR is the Internal Control- Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission. As at March 31, 2010 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 weaknesses noted in controls during Q1 2010 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, 2009 and 2008. 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. The following discussion identifies the critical accounting policies and practices of the Company and helps assess the likelihood of materially different results being reported.

### **Financial Reporting Update**

#### ***International Financial Reporting Standards ("IFRS")***

In October 2009, the Accounting Standards Board ("AcSB") issued a third and final IFRS Omnibus Exposure Draft confirming that publicly accounting enterprises will be required to apply IFRS, in full and without modification, for financial periods beginning on January 1, 2011. The adoption date of January 1, 2011 will require Midnight to restate amounts reported in 2010 including its opening balance sheet at January 1, 2010 for comparative purposes.

Midnight had started the process to transition from Canadian GAAP to IFRS. The Company completed a high level review of the major differences between Canadian GAAP and IFRS and had commenced the detailed assessment of individual differences, policy choices and the impacts to the Company's financial statements and business processes. Provident had laid out a project plan consisting of three phases: initiation, detailed assessment and design and implementation. In 2009, Provident was engaged in the detailed assessment and design phase of the project including a comprehensive analysis of the impact of the IFRS differences identified in the initial scoping assessment. In Q1 2010 the implementation phase began for Provident. Pace Oil will inherit the documentation and analysis of the work done to date on the carve out financial statements of Provident and will move forward to analyze the various accounting policy choices available and will implement those determined to be the most appropriate for the new entity. As the Company has not yet finalized its accounting policy choices, it is unable to quantify the impact on the financial statements at this time. In addition, due to anticipated changes to IFRS and International Accounting Standards prior to adoption of IFRS, management's plans are subject to change based on new facts and circumstances that arise after the date of this MD&A. The Company plans to have an opening January 1, 2010 balance sheet, which will be in accordance with IFRS in the latter part of the year as the Arrangement is not anticipated to close on or about June 30, 2010.

### ***Business combinations***

In December 2008, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. Under this standard, the purchase price used in a business combination is based on the fair value of shares exchanged at the market price of the shares at the closing date. Under the current standard, the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is announced. In addition, the new standard requires all acquisition costs to be expensed while the current standard allows for the capitalization of certain of these costs as part of the purchase price. This section replaces Section 1581, Business Combination and harmonizes the Canadian standards with IFRS.

### ***Consolidated financial statements and non-controlling interest***

In 2009, Section 1601 and Section 1602 were issued which replace the existing guidance under section 1600, Consolidated Financial Statements. These standards provide guidance for preparing consolidated financial statements and for accounting for non-controlling interest in a subsidiary subsequent to a business combination. These standards are effective for business combinations occurring on or after January 1, 2011, with early adoption permitted.

### **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 are provided in our Annual Information Form dated March 11, 2010 and our Joint Information Circular dated May10, 2010 filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Additional Information**

Additional information relating to Midnight is filed on SEDAR and can be viewed at [www.sedar.com](http://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](mailto:ir@midnightoil.ca) or by accessing the website at [www.midnightoil.ca](http://www.midnightoil.ca).

## Consolidated Balance Sheets

(000's) (unaudited)

	March 31, 2010	December 31, 2009
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 20,951	\$ 11,123
Deposits and prepaid expenses	828	753
	<b>21,779</b>	11,876
Petroleum and natural gas assets (note 1)	<b>163,167</b>	153,374
	<b>\$ 184,946</b>	\$ 165,250
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 25,694	\$ 15,636
Long-term debt (note 2)	<b>19,998</b>	8,907
Future taxes	<b>4,477</b>	2,084
Asset retirement obligations (note 3)	<b>2,177</b>	2,084
Shareholders' equity:		
Share capital (note 4)	<b>132,838</b>	135,611
Contributed surplus (note 4)	<b>6,800</b>	6,665
Deficit	<b>(7,038)</b>	(5,737)
	<b>132,600</b>	136,539
Subsequent event (note 7)		
	<b>\$ 184,946</b>	\$ 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
<b>Revenues:</b>		
Petroleum and natural gas sales	\$ 7,529	\$ 5,148
Royalties	(1,463)	(1,320)
Gain on investments	-	479
Other income	-	23
	<b>6,066</b>	<b>4,330</b>
<b>Expenses:</b>		
Operating and transportation	1,629	1,464
Interest	97	54
General and administration	723	713
Depletion, depreciation and accretion	5,321	4,658
	<b>7,770</b>	<b>6,889</b>
Loss before taxes	<b>(1,704)</b>	<b>(2,559)</b>
Future taxes (reduction)	<b>(403)</b>	<b>(652)</b>
Net loss and comprehensive income loss	<b>(1,301)</b>	<b>(1,907)</b>
Retained earnings (deficit), beginning of period	<b>(5,737)</b>	5,099
<b>Retained earnings (deficit), end of period</b>	<b>\$ (7,038)</b>	<b>\$ 3,192</b>
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
<b>Cash provided by (used in):</b>		
<b>Operations:</b>		
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
<b>Financing:</b>		
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)
<b>Investing:</b>		
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	-	-
<b>Cash, end of period</b>	<b>\$ -</b>	<b>\$ -</b>
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	
<b>Financial</b> (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	
<b>Operations</b>												
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	

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

FRED N. WOODS - CHAIRMAN  
President & Chief Executive Officer  
Midnight Oil Exploration Ltd.

PETER T. HARRISON <sup>1,2,3,4</sup>  
Manager, Common Stocks (North America)  
CN Investments

ANTHONY M. LAMBERT <sup>2,3,4</sup>  
President & Chief Executive Officer  
Daylight Energy Ltd.

THOMAS J. SIMONS  
President & Chief Executive Officer  
Canadian Energy Services & Technology Corp.

JAY D. SQUIERS <sup>1,2,3,4</sup>  
Senior Vice President  
CSG Investments

ROBERT J. ZAKRESKY <sup>1,2,3,4</sup>  
President & Chief Executive Officer  
Crocotta Energy Inc.

1. Audit Committee Member
2. Compensation Committee Member
3. Reserves Committee Member
4. Corporate Governance Committee Member

## OFFICERS

FRED N. WOODS  
President & Chief Executive Officer

JUDY A. STRIPLING  
Executive Vice President & Chief Financial Officer

DALE A. MILLER  
Vice President & Chief Operating Officer

TOM F. MOSLOW  
Senior Vice President, Exploration

ANDREW D. WELDON  
Vice President, Business Development

CHAD L. KALMAKOFF  
Vice President, Finance

PETER R. O'LEARY  
Vice President, Geology

E. MARTIN SAIZEW  
Vice President, Engineering

CHRIS VON VEGESACK, Corporate Secretary  
Partner  
Burnet, Duckworth & Palmer LLP

## AUDITORS

KPMG LLP  
Calgary, Alberta

## BANK

CIBC  
Calgary, Alberta

## EVALUATION ENGINEERS

GLJ PETROLEUM CONSULTANTS LTD.  
Calgary, Alberta

## LEGAL COUNSEL

BURNET, DUCKWORTH & PALMER LLP  
Calgary, Alberta

## REGISTRAR & TRANSFER AGENT

Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be directed to:

VALIANT TRUST COMPANY  
Suite 310, 606 - 4th Street SW  
Calgary, Alberta T2P 1T1

## STOCK TRADING

TORONTO STOCK EXCHANGE  
Trading Symbol: MOX

## ABBREVIATIONS

bbls	barrels
bcf	billion cubic feet
boe	barrels of oil equivalent
GJ	gigajoules
/d	per day
mmbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mm	million
mmbbls	million barrels
mmcf	million cubic feet
NGLs	natural gas liquids
3D	three dimensional

## UNIT CONVERSIONS

1.0 bbl	= 0.159 cubic metres
6.29 bbls	= 1.0 cubic metre
1.0 foot	= 0.3048 metres
3.281 feet	= 1 metre
1.0 mcf	= 28.3 cubic metres
0.035 mcf	= 1.0 cubic metre
Natural gas is equated to oil on the basis of 6 mcf: 1 bbl	

## OFFICE ADDRESS

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