



FIRST QUARTER REPORT

2010

Corporate Highlights

(\$ 000's, except operational and share and per share amounts)	Q1 2010	Q4 2009	Q1 2009
Petroleum and natural gas revenue	6,269	3,682	2,978
Funds from operations	2,525	82	590
Basic and diluted per share	0.04	0.00	0.04
Net earnings (loss)	(891)	(2,318)	137
Basic and diluted per share	(0.01)	(0.04)	0.01
Working capital (deficiency) ⁽¹⁾	(7,416)	(8,383)	356
Bank debt	20,443	4,155	13,024
Capital expenditures	21,180	37,661	488
Total assets	130,217	111,211	60,290
Weighted average shares			
Basic and diluted (000's)	62,236	55,855	13,405
Common shares outstanding			
Basic (000's)	62,370	61,445	13,405
Diluted (000's)	65,370	64,445	14,674
Average production:			
Natural gas (mcf/d)	4,417	3,783	5,076
Oil and NGL's (bbl/d)	630	321	189
Oil equivalent (boe/d 6 : 1)	1,366	951	1,035
Average realized prices:			
Natural gas (\$/mcf)	5.02	4.57	4.79
Oil and NGL's (\$/bbl)	75.08	70.09	46.58
Oil equivalent (boe/d 6 : 1)	50.84	41.79	31.96
Netback (\$/boe)			
Petroleum and natural gas revenue	50.84	41.79	31.96
Royalties	5.93	3.94	5.77
Operating expenses	15.82	16.79	13.26
Operating netback	29.09	21.06	12.93

(1) Excludes the fair value of financial instruments and current portion of bank debt.

HIGHLIGHTS

- Closed two previously announced acquisitions in Garrington increasing the Company's position in the Cardium light oil play to over 43 net sections of contiguous rights and 100 percent ownership of an oil battery and truck terminal that provides necessary take-away capacity for Midway's crude oil volumes associated with our drilling program;
- Drilled 4 operated (3.4 net) Cardium horizontal wells, two of which commenced production in the second quarter;
- Increased oil weighting to 52 percent from 36 percent in Q4 2009 and management expects this trend to continue to increase quarter over quarter;
- Continued to improve production results while reducing drilling and completion costs;
- Revenue for the quarter increased to \$6.3 million, an increase of 70 percent over the fourth quarter of 2009, which generated funds from operations for the period of \$2.5 million; and
- Midway's credit facility was increased to \$40 million, providing additional capital to supplement Midway's expected funds from operations for the year to finance the Company's remaining 2010 capital expenditure program.

MESSAGE TO SHAREHOLDERS

The focus of the new management team is to grow the Company into an oil-weighted entity through the development of repeatable, low risk drilling opportunities. Our goal is to continually add to the base of low risk drilling opportunities while simultaneously adding oil production through the development of our assets.

During the first quarter of 2010, Midway continued its program at Garrington, drilling 4 gross (3.4 net) horizontal oil wells for a total of seven (6.1 net) wells drilled in the Cardium to date. Five of the wells commenced production in the first quarter of 2010 while the final two wells commenced production in April, 2010.

Midway is encouraged by the early production results with average first month production of 255 barrels of oil equivalent per day ("boepd") for the 7 wells, exceeding our internal forecast. In addition, the production results are showing an upward trend as Midway continues to improve the drilling, completion and production techniques for the Garrington Cardium wells.

Management is also pleased with the lower costs we are experiencing in the execution of our drilling program. The first three wells drilled in the fourth quarter of 2009 were drilled and completed for an average cost of \$2.5 million per well. The average horizontal length for these wells was 925 meters and they were completed with an average of 9 fracs per well. The four wells drilled in the first quarter of 2010 were drilled and completed at an average cost of \$2.3 million. These costs decreased despite the fact that the average horizontal length for these four wells increased to 1,200 meters and an average of 12 fracs were placed per well.

The Company's 2010 capital budget is unchanged from previous guidance and Midway anticipates drilling a total of 12 gross operated wells in Garrington and participating in several lower working interest, non-operated opportunities in the area. Management expects that capital expenditures in 2010 (including acquisitions in the first quarter) will be approximately \$39 to \$41 million, focused on acquisitions, development drilling and facilities in Garrington. These capital expenditures are expected to result in exit production of 2,200 to 2,300 boepd (65 percent weighted to crude oil and NGLs) for 2010. Average production for the year is expected to generate approximately \$22 to \$24 million of funds from operations using estimated prices for crude oil of US\$80 per barrel WTI and CAD\$4.75 per GJ at AECO for natural gas.

On behalf of the Board of Directors
"M. Scott Ratushny"

M. Scott Ratushny
Chairman and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for Midway Energy Ltd. ("Midway" or the "Company") for the three months ended March 31, 2010 and 2009 and should be read in conjunction with the unaudited financial statements of Midway for the three months ended March 31, 2010 and 2009 and the audited financial statements of Midway for the year ended December 31, 2009. This MD&A is dated May 3, 2010.

All figures in tables are stated in thousands of Canadian dollars, except for share, per share, per boe amounts and operational data.

Description of Company

Midway, is a Calgary, Alberta based oil and natural gas exploration, production and development company, with operations in the Canadian provinces of Alberta and British Columbia. Midway was established in April 2006 and trades on the Toronto Stock Exchange ("TSX") under the symbol MEL.

Non-GAAP Financial Measures

Midway uses the following terms for measurement within the MD&A that do not have a standardized prescribed meaning under Canadian generally accepted accounting principles ("GAAP") and these measurements may not be comparable with the calculation of similar measurements of other entities.

The terms "funds from operations", "funds from operations per share" and "operating netback" in this MD&A are not recognized measures under GAAP. Management of Midway believes that in addition to net earnings and cash flow from operating activities as defined by GAAP, these terms are useful supplemental measures to evaluate operating performance and assess leverage. Funds from operations per share are calculated using the weighted average shares outstanding used in calculating earnings per share. Users are cautioned; however, that these measures should not be construed as an alternative to net earnings or cash flow from operating activities determined in accordance with GAAP as an indication of Midway's performance.

Midway considers funds from operations to be an important measure of Midway's ability to generate the funds necessary to finance capital expenditures and repay debt. All references to funds from operations throughout this MD&A are based on cash provided by operating activities before the change in non-cash working capital and actual asset retirement expenditures since Midway believes the timing of collection, payment or incurrence of these items involves a high degree of discretion and as such may not be useful for evaluating Midway's operating performance. Midway's method of calculating funds from operations may differ from that of other companies and, accordingly, may not be comparable to measures used by other companies.

A reconciliation of cash provided by operating activities to funds from operations is as follows:

Funds from operations (\$)	Q1 2010	Q4 2009	Q1 2009
Cash provided by operating activities	1,204	467	714
Asset retirement expenditures	-	-	-
Change in non-cash working capital	1,321	(385)	(124)
Funds from operations	2,525	82	590

Midway also uses "operating netbacks" as a key performance indicator. Operating netback is utilized by Midway to evaluate the operating performance of its petroleum and natural gas assets. Operating netbacks are determined by deducting royalties and operating expenses from petroleum and natural gas sales revenue.

Frequently Used Terms

In this document certain terms are used frequently. For instance barrels of oil equivalent are regularly noted with the term “boe”.

Term or abbreviation

“bbl”	Barrel
“boe”	Barrel(s) of oil equivalent
“boe/d”	Barrel(s) of oil equivalent per day
“mcf”	Thousand cubic feet
“GJ”	Gigajoule
“m” preceding a volumetric measure	1,000 units of the volumetric measure
“mm” preceding a volumetric measure	1,000,000 units of the volumetric measure
“NGL”	Natural gas liquids

Boe Presentation

In conformity with National Instrument 51-101, *Standards for Disclosure of Oil and Gas Activities* (“NI 51-101”), natural gas volumes have been converted to barrels of oil equivalent using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. **This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that the term “boe” may be misleading, particularly if used in isolation.**

Financial Markets

Recovery in the financial, credit and commodity markets began in mid-2009 as the financial crisis started to subside. Activity in the equity and debt capital markets increased throughout the year and into 2010 as investors became more optimistic about the economy and eager to invest low yielding cash investments into higher return prospects. Crude oil markets have steadily improved since the spring of 2009 as WTI reached highs over US\$80.00 per barrel in the first quarter of 2010 while the spot price of natural gas decreased throughout the quarter after increases in prices for the winter of 2009/10.

Commodity Markets

Business Environment

The global recession had a significant impact on crude oil demand in 2009 however prices have steadily improved into 2010. Some economists believe the recession has ended in North America; however, others believe the economic recovery is still fragile. In contrast, China and other Asian economies appear to be moving out of the recession at a faster pace than developed countries and many economists forecast this will result in an increase in global oil demand during 2010.

In contrast to crude oil, natural gas prices generally declined in 2009 before recovering somewhat in the fourth quarter and then declining again in the first quarter of 2010. The demand for natural gas in North America was negatively impacted by the global recession, most specifically by lower demand from the U.S. industrial sector. Cold North American weather near the end of 2009 increased the demand for natural gas and reduced storage to normal levels, however higher temperatures later in the winter resulted in lower prices later in the first quarter and into the second quarter of 2010.

Crude Oil

In the first quarter of 2010, WTI crude oil prices averaged US\$81.98 per barrel compared to US\$53.87 per barrel in the first quarter of 2009. Constraints on capital spending by Non-OPEC oil producers will likely keep supply from increasing which could cause OPEC’s spare capacity to diminish over the foreseeable future thereby providing support for prices to remain at least at current levels.

Natural Gas

In the first quarter of 2010, the AECO 5A Index averaged \$4.87 per mcf compared to \$4.85 per mcf in the first quarter of 2009. Temperatures increased midway through the quarter and storage exited the quarter at levels similar to 2009 which resulted in a decrease in prices towards the end of the quarter.

Results of Operations

Production

Production averaged 1,366 boe/d for the first quarter of 2010 compared to 1,035 boe/d for the corresponding period in 2009 and 951 boe/d for the fourth quarter of 2009 representing increases of 32% and 44%, respectively. Production for the first quarter of 2010 was weighted approximately 46% to crude oil and NGL's and 54% to natural gas. Midway closed two acquisitions in its core area of Garrington, Alberta during the quarter. The first acquisition was an oil battery and truck terminal which provides take-away infrastructure to handle our additional crude oil volumes and the second was light crude oil and natural gas assets producing an average of approximately 100 boe/d. Management is continuing to focus on increasing the crude oil and NGL weighting of its production mix through acquisitions and development drilling in Garrington. Midway's first quarter exit rate, excluding the two wells that commenced production in the first few days of April 2010, was 1,850 boe/d.

Production by Product	Q1 2010	Q4 2009	Q1 2009
Light Oil and NGL's (bbls/d)	596	291	147
Heavy Oil (bbls/d)	34	30	42
Total Oil and NGL's (bbls/d)	630	321	189
Natural Gas (mcf/d)	4,417	3,783	5,076
Total (boe/d) (6:1)	1,366	951	1,035

Production by Area (boe/d)	Q1 2010	Q4 2009	Q1 2009
Garrington, Alberta	660	284	-
MacKay, Alberta	321	327	444
Grouard, Alberta	220	181	415
House Mountain, Alberta	64	68	114
Cypress, British Columbia	50	52	62
Other non-core	51	39	-
Total (boe/d) (6:1)	1,366	951	1,035

Garrington

Midway established a core area in Garrington following the acquisition of certain properties producing light crude oil and associated natural gas and natural gas liquids from two private companies in September and October 2009. Average production for the first quarter of 2010 was 660 boe/d, weighted 77% to light crude oil and NGL's compared to 284 boe/d for the fourth quarter of 2009. During the first quarter of 2010 the Company continued its drilling program at Garrington, successfully drilling and completing four operated (3.4 net) horizontal wells in addition to the three wells drilled in 2009, with five wells commencing production in the quarter and the other two early in the second quarter.

MacKay

The decrease in first quarter production from the first quarter of 2009 is due to natural field decline and the impact of limited capital expenditures and is relatively consistent with production from the fourth quarter of 2009.

Grouard

First quarter production decreased from the first quarter of 2009 and increased compared to the fourth quarter of 2009. The decrease from the first quarter of 2009 is due to natural field decline and the impact of limited capital expenditures. The increase compared to the fourth quarter of 2009 results from Midway replacing the area compressor with a more efficient and cost effective unit limiting downtime as well as selected recompletions of various shut-in wells in the area.

House Mountain ("House")

Production from the 3-36 well in House averaged 64 bbls/d for the first quarter of 2010 compared to 68 bbls/d in the fourth quarter of 2009 and 114 bbls/d in the first quarter of 2009.

Cypress

Production in this area for all periods is relatively consistent.

The B-65-C Cypress farm-out well was completed during the third quarter of 2009 and results were not encouraging. The operator subsequently recompleted the upper Montney and Doig Phosphate zones in the first quarter of 2010 with initial production commencing from the recompleted zones in early March 2010. The production from the recompleted zones has averaged 1 MMcf/d gross (80 mcf/d net to Midway) and is continuing to produce frac fluid used in the completion. Midway will continue to monitor the results of this well to determine if any higher working-interest shut-in wells in the area should also be considered for recompletion.

Commodity Prices

<u>Midway Realized Prices</u>	<u>Q1 2010</u>	<u>Q4 2009</u>	<u>Q1 2009</u>
Light Crude Oil and NGL's (\$/bbl)	75.73	71.24	49.75
Heavy Crude Oil (\$/bbl)	63.40	59.50	35.44
Total Oil and NGL's (\$/bbl)	75.08	70.09	46.58
Natural Gas (\$/mcf)	5.02	4.57	4.79
<u>\$/boe (6:1)</u>	<u>50.84</u>	<u>41.79</u>	<u>31.96</u>

<u>Market Prices</u>	<u>Q1 2010</u>	<u>Q4 2009</u>	<u>Q1 2009</u>
Oil WTI (US\$/bbl)	81.98	80.49	53.87
Edmonton Par (\$/bbl)	80.11	76.58	49.81
Bow River (\$/bbl)	81.91	77.24	53.31
Gas AECO (\$/mcf)	4.87	4.44	4.85
<u>Exchange Rate (US\$/CAD\$)</u>	<u>0.961</u>	<u>0.947</u>	<u>0.803</u>

Crude Oil

Crude oil prices are generally influenced by global supply and demand conditions and the world economic/geopolitical environment. Midway's realized light oil price has a high correlation to the US benchmark West Texas Intermediate at Cushing, Oklahoma ("WTI") price and the Canadian to US dollar exchange rate. Canadian light oil prices correlate to refinery postings, which include the Edmonton par price that adjusts WTI for the Canadian to US dollar exchange rate as well as transportation costs and quality adjustments.

Midway's realized price for light crude oil during the first quarter of 2010 and fourth quarter of 2009 was a 5% and 7% discount to Edmonton Par, respectively. Heavy oil prices are generally lower than light oil prices as heavy oil requires increased refining and other costs, which reduce the realized price. Midway's realized heavy crude oil price for the first quarter of 2010 was a 23% discount to Bow River (23% discount in the fourth quarter of 2009) while the discount for the first quarter of 2009 was 33%.

Natural Gas

Market prices for natural gas are influenced by North American supply and demand, seasonal weather conditions, storage levels, transportation capacity and US and Canadian dollar exchange rates. Midway's realized natural gas prices have a high correlation to the Alberta benchmark price ("AECO") which provides pricing for natural gas based on heating value. Changes in Midway's realized prices are consistent with the changes in the benchmark.

Revenue

Petroleum and natural gas revenue was \$6.3 million for the first quarter of 2010, compared to \$3.0 million for the first quarter of 2009 and \$3.7 million for the fourth quarter of 2009. Compared to the first quarter of 2009 an increase in crude oil production and commodity prices offset a decrease in natural gas production. The increase compared to the fourth quarter of 2009 is due to an increase in crude oil and natural gas production and an increase in commodity prices.

Crude oil revenue was \$4.3 million for the first quarter of 2010 compared to \$788,000 for the first quarter of 2009 and \$2.1 million for the fourth quarter of 2009. The increase in oil revenue compared to the first quarter of 2009 is primarily due to the acquisitions in Garrington in the third and fourth quarters of 2009 and our drilling program which increased our light oil production volumes. The increase compared to the fourth quarter of 2009 is primarily due to increased production at Garrington.

Natural gas revenue was \$2.0 million for the first quarter of 2010 and includes \$36,000 realized on the Company's physical delivery contracts compared to \$2.2 million for the first quarter of 2009 and \$1.6 million during the fourth quarter of 2009. The decrease in natural gas revenue compared to the first quarter of 2009 is due to lower production partially offset by higher prices. The increase in natural gas revenue compared to the fourth quarter of 2009 is due to higher prices and production increases in Garrington and Grouard.

Revenues (\$)	Q1 2010	Q4 2009	Q1 2009
Oil & NGL's	4,255	2,076	788
Natural Gas	1,995	1,582	2,188
Sub total	6,250	3,658	2,976
Royalty revenue	19	24	2
Petroleum and natural gas revenue	6,269	3,682	2,978
\$/boe (6:1)	50.84	41.79	31.96

Royalties

Royalty expense consists of royalties paid to provincial governments, freehold land owners and overriding royalty owners. For the first quarter of 2010 total royalty expense was \$729,000 (11.7% of revenue) compared to \$524,000 (17.6% of revenue) in the first quarter of 2009 and \$345,000 (9.4% of revenue) in the fourth quarter of 2009. Royalty expense includes the impact of Gas Cost Allowance ("GCA"), which is a reduction of royalties payable to the Government of Alberta (the "Province"), to recognize capital and operating expenditures incurred in the gathering and processing of the Province's royalty share of natural gas production. The increase in total royalties is primarily due to the increase in crude oil production and compared to the first quarter of 2009 lower gas royalties reflect decreases in natural gas production net of GCA received. Royalties in the first quarter include the effect of the maximum 5% crown royalty rate on the first 12 months of production on new wells drilled.

Royalties (\$)	Q1 2010	Q4 2009	Q1 2009
Oil & NGL's	657	361	200
Natural Gas	72	(16)	324
Total Royalties	729	345	524
As a % of oil and gas revenue	11.7	9.4	17.6
\$/boe (6:1)	5.93	3.94	5.63

On January 1, 2009 the Government of Alberta implemented its New Royalty Framework ("NRF") and subsequently introduced a Transitional Royalty Framework ("TRF") for new wells producing subsequent to January 1, 2009 until December 31, 2013. Both the NRF and TRF are sensitive to commodity prices and production levels, therefore Midway's corporate royalty rates will fluctuate with commodity prices, well production rates, decline of existing wells, performance and the location of new wells drilled. Depending upon future commodity prices and drilling plans, it is possible that the NRF and TRF could increase future royalty rates with a corresponding decrease to future operating netbacks, funds from operations and the net present value of reserves. Future reserve and production addition activities could be impacted by the NRF and TRF.

On June 25, 2009, the Government of Alberta announced an extension of previously announced royalty incentive programs by one year to March 2011 in light of global economic conditions. The programs included a drilling

royalty credit for new conventional oil and natural gas wells and a new well royalty incentive program. Under the drilling royalty credit program, a \$200 per meter royalty credit will be available on new conventional oil and natural gas wells drilled between April 1, 2009 and March 31, 2011, subject to certain maximum amounts. The maximum credits available will be determined by the Company's production level in 2008 and its drilling activity.

On March 11, 2010, in connection with its competitiveness review, the Government of Alberta amended the new well incentive program that applied to wells commencing production of conventional oil or natural gas on or after April 1, 2009 that was scheduled to expire on March 31, 2011 so that the program was permanent. The incentive provides for a maximum 5% royalty rate for the first 12 months of production, up to a maximum of 50,000 barrels of crude oil or 500 MMcf of natural gas.

Interest Income

For the first quarter of 2010, Midway had interest income of \$1,000 compared to interest income of \$1,000 for the fourth quarter of 2009 and \$72,000 of interest income for the first quarter of 2009. Interest income in the first quarter of 2009 was due to interest received on 2008 year-end outstanding GST amounts owed to Midway.

Interest and Other Income (\$)	Q1 2010	Q4 2009	Q1 2009
Interest and Other Income	1	1	72

Operating Expenses

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat and store production and transportation costs. For the first quarter of 2010, operating expenses were \$1.9 million or \$15.82 per boe compared to operating expenses of \$1.2 million or \$13.26 per boe for the first quarter of 2009 representing an increase of 19% on a boe basis. Operating expenses compared to the fourth quarter of 2009 decreased 6% on a boe basis. The increase in total operating costs compared to the prior periods is due to increased production in the Company's Garrington core area and one-time costs related to recompletions of shut-in wells in Grouard that totaled \$170,000. The decrease in unit costs compared to the fourth quarter of 2009 is due to increased production in Garrington associated with our successful drilling program which lowered unit operating costs in the area 23% from the fourth quarter of 2009 to \$11.24 per boe.

Transportation costs for natural gas for the first quarter of 2010 were \$115,000 or \$0.94 per boe compared to \$78,000 (\$0.89 per boe) for the fourth quarter of 2009 and \$77,000 (\$0.83 per boe) for the first quarter of 2009. Unit transportation costs are consistent for all periods.

Operating Expenses (\$)	Q1 2010	Q4 2009	Q1 2009
Operating Expenses	1,945	1,470	1,235
Transportation Costs ⁽¹⁾	115	78	77
Operating Expenses \$/boe (6:1)	15.82	16.79	13.26
Transportation Costs \$/boe (6:1)	0.94	0.89	0.83

1) Transportation costs are included in operating expenses.

Operating Netback

Midway's operating netback per boe (defined as petroleum and natural gas revenue net of royalties and operating expenses all on a per boe basis) was \$29.09 per boe for the first quarter of 2010. This represents a 123% increase from the first quarter of 2009 and a 38% increase from the fourth quarter of 2009. The increase in operating netback from the first quarter of 2009 and the fourth quarter of 2009 is primarily due to higher commodity prices.

Operating Netback (\$/boe)	Q1 2010	Q4 2009	Q1 2009
Petroleum and natural gas revenue	50.84	41.79	31.96
Royalties	5.93	3.94	5.63
Operating expenses	15.82	16.79	13.26
Operating Netback	29.09	21.06	13.07

General and Administrative Expenses

General and administrative expenses (“G&A”) net of overhead recoveries for the first quarter of 2010 were \$971,000 or \$7.90 per boe compared to \$593,000 or \$6.37 per boe for the first quarter of 2009 and \$1.7 million or \$19.50 per boe for the fourth quarter of 2009. The increase in total net G&A expenses compared to the first quarter of 2009 is primarily due to additional personnel to manage the Company’s drilling program and other activities and one-time fees incurred in connection with the credit facility that totaled \$120,000. The decrease in total net G&A and G&A per boe compared to for the fourth quarter of 2009 is due to employee bonuses that were paid in the fourth quarter of 2009 and increased production. Midway is fully staffed for future growth and therefore management expects that net G&A per boe will continue to decrease.

G & A Expenses (\$)	Q1 2010	Q4 2009	Q1 2009
Gross G&A Expenses	1,102	1,861	715
Capitalized G&G Expenses	-	(30)	(114)
Overhead Recovery	(131)	(124)	(8)
Net G&A Expenses	971	1,707	593
\$/boe (6:1)	7.90	19.50	6.37

Stock-Based Compensation

For the first quarter of 2010, Midway recorded \$263,000 of stock-based compensation expense for dilutive equity instruments outstanding during the period as compared to \$59,000 for the first quarter of 2009 and \$216,000 for the fourth quarter of 2009. The increase in stock-based compensation expense compared to first quarter of 2009 is due to the expense associated with incentive warrants issued in the third quarter of 2009. Stock-based compensation for the quarter was calculated using the Black-Scholes pricing model using a risk-free rate of 3.2%, volatility of 68%, expected life of five years and a zero dividend yield.

Stock-based Compensation (\$)	Q1 2010	Q4 2009	Q1 2009
Stock-based Compensation	263	216	59
\$/boe (6:1)	2.14	2.47	0.63

Interest Expense

Interest expense for 2010 represents interest on the Company’s \$40 million credit facility (the “Credit Facility”) and for comparative periods includes an estimate of Part XII.6 tax payable on Midway’s prior period flow-through commitments. For the first quarter of 2010, the Company recorded interest expense of \$94,000 compared to \$108,000 for the first quarter of 2009 and \$72,000 for the fourth quarter of 2009. The increase in interest expense compared to the fourth quarter of 2009 is primarily due to higher average outstanding amounts under the Credit Facility. As at March 31, 2010, Midway had \$20.4 million of bank debt outstanding under the Credit Facility.

Interest Expense (\$)	Q1 2010	Q4 2009	Q1 2009
Interest Expense	94	72	108
\$/boe (6:1)	0.76	0.82	1.16
Bank debt at the end of period	20,443	4,155	13,024

Depletion, Depreciation and Accretion

DD&A Expense (\$)	Q1 2010	Q4 2009	Q1 2009
Depletion and Depreciation	3,038	2,090	2,097
Accretion	121	101	30
Total	3,159	2,191	2,127

DD&A Expense (\$/boe – 6:1)	Q1 2010	Q4 2009	Q1 2009
Depletion and Depreciation	24.71	23.88	22.52
Accretion	0.98	1.15	0.32
Total \$/boe (6:1)	25.69	25.03	22.84

Depletion, depreciation and accretion

Depletion and depreciation of property, plant and equipment ("DD&A") is calculated based upon capital expenditures, production rates and proved reserves. In calculating the depletable base for DD&A, Midway excludes unproved property costs (undeveloped land) and salvage values and includes future development costs.

Midway recorded \$3.2 million or \$25.69 per boe of DD&A in the first quarter of 2010 compared to \$2.1 million or \$22.84 per boe in the first quarter of 2009 and \$2.2 million or \$25.03 per boe during the fourth quarter of 2009. The increase in DD&A per boe in the first quarter of 2010 compared to the first quarter of 2009 is due to increased costs associated with proved reserves on acquisitions, an increase in accretion and the transfer of unproved property costs that were considered to be impaired to the depletable base during the fourth quarter of 2009. Compared to the fourth quarter of 2009 the increase per boe is primarily due to the acquisition of the Garrington terminal which did not increase proved reserves.

Accretion expense for the first quarter of 2010 was \$121,000 (\$0.98 per boe) compared to \$30,000 (\$0.32 per boe) for the first quarter of 2009 and \$101,000 (\$1.15 per boe) for the fourth quarter of 2009. The increase compared to 2009 is primarily due to the acquisitions of producing properties in Garrington.

Income Taxes

The Company has a future income tax asset of \$3.2 million as at March 31, 2010. This amount has not been recognized in the financial statements, as the Company does not consider it more likely than not that the benefit associated with the asset will be realized.

The Company has \$132.3 million of tax pools available to be applied against future income for tax purposes. Based on the available pools and current commodity prices, Midway does not expect to pay current income taxes in 2010 or 2011. Taxes payable beyond 2011 will be primarily a function of commodity prices, capital expenditures and production volumes.

Net Earnings (Loss), Funds from Operations, and Cash Provided by Operating Activities

	Q1 2010	Q4 2009	Q1 2009
Net earnings (loss) (\$)	(891)	(2,318)	137
\$/share			
Basic and diluted	(0.01)	(0.04)	0.01
Cash provided by operating activities (\$)	1,204	467	714
\$/share			
Basic and diluted	0.02	0.01	0.05
Funds from operations (\$)	2,525	82	590
\$/share			
Basic and diluted	0.04	0.00	0.04

In the first quarter of 2010 the Company incurred a net loss of \$891,000 compared to net earnings of \$137,000 for the first quarter of 2009 and a net loss of \$2.3 million for the fourth quarter of 2009. The increase in net loss for the first quarter of 2010 compared to the first quarter of 2009 is mainly due to the recognition of a favorable future income tax reduction of \$1.7 million in the first quarter of 2009. The net loss decreased compared to the fourth quarter of 2009 due to increased production, an improvement in commodity prices and lower net G&A.

Funds from operations for the first quarter of 2010 totaled \$2.5 million compared to an inflow of \$590,000 in the first quarter of 2009 and an inflow of \$82,000 in the fourth quarter of 2009. The increases are primarily due to increased production and improved commodity prices and, compared to the fourth quarter of 2009, lower G&A expenses.

Sensitivities

The following sensitivities are provided to demonstrate the potential impact on funds from operations based on annualized results of the three months ended March 31, 2010 from changes in commodity prices, production and interest rates.

Change of (\$)	Change	Impact on funds from operations	
		Amount (\$)	\$/share
Price per mcf of natural gas	\$0.20	310	0.00
Natural gas production	200 mcf/d	350	0.01
Price per bbl of crude oil	2.00	390	0.01
Crude oil production	20 bbls/d	470	0.01
Interest rate	0.5%	60	0.00

Capital Expenditures

Midway invested \$21.2 million on its capital expenditure program during the first quarter of 2010 compared to \$488,000 in the first quarter of 2009 and \$37.7 million during the fourth quarter of 2009. Capital expenditures for the first quarter of 2010 were focused on development drilling and acquisitions in Garrington. The significant increase in capital expenditures in the first quarter of 2010 compared to the first quarter of 2009 is due to the Company's activities in its Garrington core area.

Capital Expenditures ⁽¹⁾ (\$)	Q1 2010	Q4 2009	Q1 2009
Cash expenditures:			
Land	465	245	172
Seismic	68	10	50
Drilling and completion	9,214	8,418	194
Equipment facilities and pipelines	1,693	1,300	72
Total E&D expenditures	11,440	9,973	488
Other assets	180	15	-
Acquisitions and dispositions	6,515	27,686	-
Total cash capital expenditures	18,135	37,674	488
Non-cash expenditures:			
Acquisitions	3,045	(13)	-
Total capital expenditures	21,180	37,661	488

(1) Capital expenditures exclude non-cash expenditures for asset retirement expenditures and capitalized stock-based compensation.

Business Risks

Some of the risks that Midway is exposed to which impact management's ability to execute the Company's business plan include, but are not limited to:

Development and Production Risk

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. Our long-term commercial success depends on our ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves we may have at any particular time, and the production therefrom will decline over time as these reserves are exploited. Future increases in our reserves will depend not only on our ability to explore and develop any properties we may have, but also on our ability to select and acquire suitable producing properties or prospects.

Commodity Price Risk

Commodity price fluctuations are among Midway's most significant risks. Crude oil prices are influenced by worldwide factors such as OPEC actions, supply and demand fundamentals, and geopolitical events. Natural gas prices are influenced by the price of alternative fuel sources such as oil or coal, and by North American natural gas supply and demand fundamentals. In accordance with policies approved by our Board of Directors, we may, from time to time, manage these risks through the use of physical delivery contracts, swaps, collars or other financial instruments not to exceed 40% of net commodity production (after royalties).

Credit Risk

Credit risk is the risk of loss if purchasers or counterparties do not fulfill their contractual obligations. Our receivables are principally with customers in the oil and natural gas industry and are generally subject to normal industry credit risk including the right to recover unpaid receivables by receiving the partner's share of production where Midway operates the production. For oil and natural gas sales (including physical delivery contracts and financial derivatives), Midway follows a risk procedure whereby counterparties are reviewed on a regular basis and the Company attempts to transact only with counterparties who have investment grade ratings.

As at March 31, 2010, Midway's maximum exposure to credit risk was \$4.8 million (December 31, 2009 - \$3.2 million) being the carrying value of the accounts receivable and cash and cash equivalents. Management continuously monitors credit risk and credit policies to ensure exposures to customers are controlled and records provisions for potential credit related losses as necessary. Midway manages the credit risk exposure related to cash and cash equivalents by selecting counterparties based on credit ratings and by avoiding complex investment vehicles with higher risk such as asset-backed commercial paper.

Liquidity Risk

Liquidity risk is the risk that Midway will be unable to meet its financial liabilities as they come due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual and quarterly capital expenditure budgets, which are regularly monitored and updated as considered necessary and include a continuous review of debt forecasts to ensure the Credit Facility is sufficient relative to forecast debt levels and that financial covenants will be met. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. In the short term, liquidity is managed through daily cash management activities. The contractual maturities of accounts payable and accrued liabilities are due within one year.

The Company's bank debt totaling \$20.4 million is shown as a current liability since the Credit Facility is a demand loan facility. The Company manages the risk associated with the Credit Facility by regularly updating its capital expenditure budgets using forward strip commodity prices published by its lender and other sources to ensure that budgets allow for a sufficient amount of un-drawn capacity under the Credit Facility should commodity prices weaken. In addition, Midway maintains flexibility in its capital expenditure program to ensure bank debt under the Credit Facility is prudently managed.

Foreign currency and interest rate risk

World oil and gas prices are quoted in United States dollars and the price received is therefore affected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. In recent years, the Canadian dollar has increased materially in value against the United States dollar. Material increases in the value of the Canadian dollar negatively impact commodity prices valued in Canadian dollars thereby reducing our oil and natural gas revenues and impact the future value of our reserves as determined by independent evaluators.

An increase in interest rates could result in an increase in the amount we pay to service debt, which could negatively impact the Company's performance.

Environmental and climate change risk

The oil and gas industry has a number of environmental risks and hazards and is subject to regulation by all levels of government. Environmental legislation includes, but is not limited to, operational controls, site restoration requirements and increasing restrictions on emissions of various substances produced in association with oil and natural gas operations. Compliance with such legislation could require additional expenditures and a failure to comply may result in fines and penalties which could, in the aggregate and under unlikely assumptions, become material. We continuously monitor our responsibilities to minimize the environmental impact from our operations, allocate sufficient capital to reclamation and other activities and are committed to mitigating the impact to the areas in which we operate.

Physical Delivery Contracts

In September 2009, the Company entered into a physical delivery fixed price contract for 500 GJ of natural gas per day at \$4.425 per GJ for the period October 1, 2009 to October 31, 2010. In December 2009, the Company entered into a physical delivery fixed price contract for 500 GJ of natural gas per day at \$5.75 per GJ for the period January 1, 2010 to December 31, 2011. There were no other physical delivery contracts or financial instruments outstanding. For the three months ended March 31, 2010, Midway's revenues were \$36,000 higher than the Company would have received had the physical contracts not been in place.

Liquidity and Capital Resources

As at March 31, 2010, Midway had a working capital deficiency of \$7.4 million, excluding the current portion of bank debt totaling \$20.4 million. Midway uses a combination of funds from operations, bank debt and equity to finance its capital expenditure program and anticipates a capital expenditure budget of \$39 to \$41 million for 2010 that will generate approximately \$22 to \$24 million in funds from operations using estimated prices for crude oil of US\$80 per barrel WTI and CAD\$4.75 per GJ at AECO for natural gas. Midway's 2010 capital expenditure program has sufficient discretion that we can effectively manage our liquidity.

Midway has a \$40 million Credit Facility, which is a revolving demand loan facility, with an Alberta based financial institution. The Credit Facility bears interest at market rates plus applicable margins and is secured by a general security agreement. The borrowing base is subject to periodic review based upon annual independent engineering reports with the next scheduled review under the increased Credit Facility to be completed by April 30, 2011. There can be no assurance that amounts available under the Credit Facility will be increased at the next scheduled review.

Under the Credit Facility, the Company must maintain a working capital ratio of not less than 1 : 1. The working capital ratio is defined as current assets (plus the undrawn availability under the Credit Facility) to current liabilities (less any amount drawn under the Credit Facility).

Midway monitors capital based on the ratio of net debt to annualized forecasted funds from operations. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus working capital, divided by forecasted funds from operations before changes in non-cash working capital and asset retirement expenditures, annualized.

As at March 31, 2010, \$20.4 million (2009 - \$13.0 million) was drawn against the Credit Facility, and letters of credit in the amount of \$238,000 were held against the Credit Facility. For the three months ended March 31, 2010 the effective interest rate was 3.70% (2009 - 4.25%).

Off-Balance-Sheet Financing

Midway was not involved in any off-balance-sheet financing for the three months ended March 31, 2010, other than those summarized in Commitments and Contractual Obligations.

Commitments and Contractual Obligations

Midway has various contractual obligations and commitments arising in the normal course of operations and financing activities. These obligations and commitments have been considered when assessing the cash requirements in the above discussion of liquidity and capital resources.

Midway has a \$40 million Credit Facility with an Alberta based financial institution (see *Liquidity and Capital Resources*).

The Company has operating lease commitments for two office premises expiring December 31, 2010 and December 31, 2015, respectively that total \$400,000 in 2010 and approximately \$380,000 annually for the remaining term. Midway also has an operating lease commitment for field compression equipment expiring October 5, 2013 that totals \$286,000 annually.

Pursuant to a consulting agreement dated October 6, 2009, the Company is committed to a stock appreciation rights ("SAR") payment based on 200,000 SAR's that vest over a three year period from the commencement date of the contract and to the extent earned are not payable until the third anniversary of the commencement date. The amount payable is equal to the number of SAR's that have vested multiplied by the then current market price. The SAR's were valued at March 31, 2010 based on the Company's closing stock price and \$106,000 (December 31, 2009 - \$87,000) was recorded in accounts payable and accrued liabilities.

Outstanding Share Trading Data

Midway's Class A voting common shares trade on the TSX under the symbol MEL. A summary of Midway's trading history on the TSX is as follows:

\$ Per Share	Q1 2010	Q4 2009	Q1 2009
High	3.93	2.99	0.75
Low	2.82	1.20	0.30
Close	3.28	2.97	0.58
Average Daily Volume	388,890	233,817	36,273

As at March 31, 2010, Midway had 62.4 million Class A voting common shares, 3.0 million incentive warrants and 4.1 million stock options to purchase common shares outstanding. The incentive warrants have an exercise price of \$1.05 per share and the stock options have a weighted average price of \$1.48 per share. As at May 3, 2010, there were no changes in Midway's outstanding Class A voting common shares, incentive warrants or stock options.

The stock options granted are not exercisable pending shareholder approval. Concurrent with the granting of the stock options, the Board of Directors adopted a contingent stock appreciation rights ("SAR") plan and granted an equivalent number of SAR's at equivalent exercise prices on the condition that the stock options are not approved.

In the event that shareholders and the Toronto Stock Exchange approve the stock options, all conditional SAR's granted will immediately terminate without payment. Had the 2,074,500 stock options outstanding at December 31, 2009 and those granted during the three months ended March 31, 2010 been approved and fair valued, the stock options would have been assigned an average fair value of \$0.90 and \$1.87, respectively, per stock option. Midway will fair value these stock options or, if required, the contingent SAR's, on the date of the next shareholder's annual and special meeting when approval of the stock options is requested.

ADDITIONAL INFORMATION

Disclosure Controls and Procedures ("DC&P")

Midway's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that information required to be disclosed by Midway is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's CEO and CFO concluded based on their evaluation as at March 31, 2010 that disclosure controls and procedures were effective, and provide reasonable assurance that material information related to Midway is made known to them by others within the Company.

Internal Controls Over Financial Reporting (“ICOFR”)

There were no changes made to the Company's ICOFR during the three months ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's ICOFR.

Because of their inherent limitations, ICOFR and DC&P may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives of the controls are met.

Accounting Changes and Pronouncements

In January 2009, the CICA issued Section 1582 - “Business Combinations”. This standard provides guidance which states that the purchase price is to be based on trading data at the closing date of the acquisition, not the announcement date of the acquisition, and that most acquisition costs are to be expensed as incurred. Midway adopted this standard on January 1, 2010.

In January 2009, the CICA issued Section 1601 – “Consolidated Financial Statements” and Section 1602 – “Non-Controlling Interest”. These sections outline standards for preparing consolidated financial statements and the treatment of non-controlling interests in a business combination. Midway adopted this standard on January 1, 2010.

Future Accounting Pronouncements

In January 2006, the Canadian Accounting Standards Board (the “AcSB”) announced its decision to replace GAAP with IFRS for all Canadian Publicly Accountable Enterprises (“PAEs”). On February 13, 2008, the AcSB confirmed January 1, 2011 as the changeover date for PAEs to commence reporting under IFRS. Although IFRS is principles-based and uses a conceptual framework similar to GAAP, there are significant differences and choices in accounting policies, as well as increased disclosure requirements under IFRS.

In July 2009, the International Accounting Standards Board (“IASB”) issued amendments to IFRS 1 “First-time adoption to IFRS” allowing additional exemptions for first-time adopters. The following are the key exemptions that Midway is planning to adopt under IFRS 1:

- Oil and gas companies can elect to use historical cost under GAAP as the deemed cost for oil and gas assets on the transition date. Oil and gas properties will be classified as property, plant and equipment (“PP&E”) or Exploration and Evaluation assets (“E&E”) with E&E valued at the amount determined under GAAP. For the development and production assets in PP&E the remaining full cost pool, before any adjustment for changes in asset retirement obligations under IFRS, is allocated to the cash generating units based on reserve volumes or reserve values. Under this exemption any change in the measurement of the asset retirement obligation is recorded in retained earnings.
- For business combinations that were completed prior to the transition date, companies can elect not to restate the business combinations according to the requirements of IFRS.
- For stock-based compensation, companies can elect to adjust stock-based compensation prospectively only to awards that vest after the transition date.

In 2010, we moved into the implementation phase of our IFRS project which focused on accounting policy decisions, modifications to IT systems and accounting processes as well as reviewing our internal controls over financial reporting. Certain IT systems were converted during the fourth quarter of 2009 and we plan to test our new IT systems in the second quarter.

Possible significant accounting differences between our current accounting policies under Canadian GAAP and expected accounting policies under IFRS include the following:

- Depletion and depreciation of (“PP&E”) will be based on significant components. Depletion of resource properties will generally continue to be calculated using the unit-of-production method; however, under IFRS there is an option to base production volumes before royalties on total proved reserves or total proved plus probable reserves. Depreciation of all other assets will be calculated on a straight-line basis over their estimated useful life.
- E&E assets will be measured at cost and are classified according to the nature of the expenditures and whether or not technical feasibility and commercial viability of extracting oil and gas from the property has been demonstrated. E&E assets will include undeveloped land and other exploratory costs.

- E&E costs will be reclassified to PP&E, to the extent they are not impaired, when proved reserves have been assigned to the asset. If proved reserves will not be established through the completion of E&E activities and there are no future plans for development activity, then the E&E expenditures are reviewed for impairment. Any impairment of E&E costs is charged to income.
- Impairment testing on oil and gas properties will be performed at a lower level than under current Canadian GAAP. Under IFRS, the impairment test compares the carrying value of the D&P and E&E assets to the greater of the fair value of the assets and the value-in-use of the assets, which is a discounted cash flow measure. Future impairment tests will be required when management determines that indicators of impairment exist. Should impairment losses be recorded in accordance with IFRS, certain of those losses can reverse in the future if facts and circumstances change.
- Under IFRS, gains and losses are recognized in net earnings on the disposal of petroleum and natural gas assets. The amount of the gain or loss is determined by comparing the proceeds from disposal with the carrying amount.
- Share-based payments under IFRS are expensed based on a graded vesting schedule and a forfeiture rate must be applied. In addition, the definition of an employee differs under Canadian GAAP and IFRS.
- Discount rates used in calculating the asset retirement obligation are currently under review by the IASB as there is diversity in practice when selecting a rate. Future changes to the standards and further interpretations of the guidance could lead to a material change in this provision upon adoption of IFRS.

We are currently in the process of evaluating the impact of the above noted accounting policy choices and the effect they will have on our financial statements. We will disclose additional information on the impact of the changes throughout 2010. Any amendments to existing IFRS standards or implementation of new IFRS standards could lead to additional changes.

Related-Party Transactions

Legal services are provided by a firm in which two Directors of the Company are partners (the "Firm"). An accrual of \$103,000 for legal services provided by the Firm but not billed at March 31, 2010, (2009 – \$12,000) is included in Midway's total accounts payable and accrued liabilities balance.

The related party transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties.

Outlook

The focus of the new management team is to grow the Company into an oil-weighted entity through the development of repeatable, low risk drilling opportunities. Our goal is to continually add to the base of low risk drilling opportunities while simultaneously adding oil production through the development of our assets.

During the first quarter of 2010, Midway continued its program at Garrington, drilling 4 gross (3.4 net) horizontal oil wells for a total of seven (6.1 net) wells drilled in the Cardium to date. Five of the wells commenced production in the first quarter of 2010 while the final two wells commenced production in April 2010.

Midway is encouraged by the early production results with average first month production of 255 barrels of oil equivalent per day ("boepd") for the 7 wells, exceeding our internal forecast. In addition, the production results are showing an upward trend as Midway continues to improve the drilling, completion and production techniques for the Garrington Cardium wells.

Management is also pleased with the lower costs we are experiencing in the execution of our drilling program. The first three wells drilled in the fourth quarter of 2009 were drilled and completed for an average cost of \$2.5 million per well. The average horizontal length for these wells was 925 meters and they were completed with an average of 9 fracs per well. The four wells drilled in the first quarter of 2010 were drilled and completed at an average cost of \$2.3 million. These costs decreased despite the fact that the average horizontal length for these four wells increased to 1,200 meters and an average of 12 fracs were placed per well.

The Company's 2010 capital budget is unchanged from previous guidance and Midway anticipates drilling a total of 12 gross operated wells in Garrington and participating in several lower working-interest, non-operated opportunities in the area. Management expects that capital expenditures in 2010 (including acquisitions in the first quarter) will be approximately \$39 to \$41 million focused on acquisitions, development drilling and facilities in Garrington. These capital expenditures are expected to result in exit production of 2,200 to 2,300 boepd (65 percent weighted to crude oil and NGLs) for 2010. Average production for the year is expected to generate approximately \$22 to \$24 million of funds from operations using estimated prices for crude oil of US\$80 per barrel WTI and CAD\$4.75 per GJ at AECO for natural gas.

Our lender has increased the amount of our credit facility to \$40 million. This additional capital supplements Midway's expected funds from operations for the year to finance the Company's remaining 2010 capital expenditure program.

Forward-Looking Statements

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "expect", "may", "will", "project", "should", or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating, but not limited to:

- drilling and development plans and the timing of drilling, completion and tie-in of wells;
- plans to consolidate the Company's land position and pursue future acquisitions;
- forecast capital expenditures, the allocation of the Company's capital expenditures and the method of financing thereof;
- anticipated exit and average production rates and production mix, including performance characteristics of Midway's oil and natural gas properties;
- anticipated funds from operations for 2010 and average realized commodity prices;
- anticipated expenses and other financial and operating results;
- Midway's business strategy and management focus;
- future liquidity and the ability to raise capital to continually add reserves;
- access to sufficient debt and equity capital;
- Midway's asset base and future prospects for development and growth;
- expectations regarding the business environment, industry conditions and future commodity prices;
- expectations regarding Midway's tax horizon;
- the timing and impact of the adoption of International Financial Reporting Standards ("IFRS") and other accounting policies and standards;
- the impact of any changes to the Company's Credit Facility resulting from periodic review;
- treatment under governmental and other regulatory regimes and tax, environmental and other laws.

Forward-looking statements regarding Midway are based on certain key expectations and assumptions of Midway concerning anticipated financial performance, business prospects, strategies, regulatory developments, current

commodity prices and exchange rates, applicable royalty rates, tax laws, future well production rates and reserve volumes, future operating costs, the performance of existing wells, the success of its exploration and development activities, the sufficiency and timing of budgeted capital expenditures in carrying out planned activities, the availability and cost of labor and services, the impact of increasing competition, conditions in general economic and financial markets, availability of drilling and related equipment effects of regulation by governmental agencies, the ability to obtain financing on acceptable terms which are subject to change based on commodity prices, market conditions, drilling success and potential timing delays.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond Midway's control. Such risks and uncertainties include, without limitation: the impact of general economic conditions; volatility in market prices for crude oil and natural gas; industry conditions; currency fluctuations; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition from other producers; the lack of availability of qualified personnel, drilling rigs or other services; changes in income tax laws or changes in royalty rates and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; and ability to access sufficient capital from internal and external sources.

Management has included the above summary of assumptions and risks related to forward-looking statements provided in this MD&A in order to provide readers with a more complete perspective on Midway's future operations and such information may not be appropriate for other purposes. Midway's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Midway will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this MD&A and Midway disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws. However, in the event that subsequent events are reasonably likely to cause actual results to differ materially from material forward-looking information previously disclosed by Midway for a period that is not yet complete, Midway will provide disclosure on such events and the anticipated impact of such events.

Additional information regarding Midway is available under the Company's profile on SEDAR at www.sedar.com or on the Company's website at www.midwayenergy.com.

Selected Quarterly Data

	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Production:								
Natural gas (mcf/d)	4,417	3,783	4,401	4,988	5,076	4,940	5,967	6,034
Oil and NGL's (bbl/d)	630	321	154	149	189	145	69	95
Oil equivalent (boe/d 6 : 1)	1,366	951	887	980	1,035	969	1,064	1,100
Financial:								
Revenue	6,269	3,682	2,053	2,558	2,978	3,552	4,757	6,798
Net earnings (loss)	(891)	(2,318)	(3,503)	(1,432)	137	(1,364)	280	1,497
Per share (\$)	(0.01)	(0.04)	(0.14)	(0.11)	0.01	(0.10)	0.02	0.12
Basic and diluted								
Funds from (used in) operations	2,525	82	(1,513)	274	590	815	1,770	4,200
Per share (\$)	0.04	0.00	(0.06)	0.02	0.04	0.06	0.13	0.33
Basic and diluted								
Cash provided by (used in) operating activities	1,204	467	(1,107)	327	714	533	3,330	2,536
Total assets	130,217	111,211	71,347	59,260	60,290	63,502	62,724	58,950
Bank debt ⁽¹⁾	20,443	4,155	13,288	13,156	13,024	13,050	7,409	6,612
Working capital (deficiency) ⁽²⁾	(7,416)	(8,383)	(313)	827	356	280	(3,268)	1,294
Total long-term liabilities ⁽¹⁾	5,925	4,786	3,355	1,984	2,013	15,052	9,381	8,491
Shareholders' equity	91,132	88,726	52,908	42,742	44,099	45,607	46,909	46,511
Share information (000's):								
Common shares outstanding	62,370	61,445	32,493	13,405	13,405	13,405	13,405	13,405
Dilutive equity instruments	3,000	3,000	3,000	1,269	1,269	1,269	1,269	1,269
Weighted average shares								
Basic and diluted	62,236	55,855	24,246	13,405	13,405	12,629	13,405	12,629
Per Unit:								
Oil and NGL revenue (\$/bbl)	75.08	70.09	63.43	60.39	46.58	43.08	100.68	103.29
Natural gas revenue (\$/mcf)	5.02	4.57	2.85	3.83	4.79	6.55	7.50	10.76
Oil equivalent (\$/boe)	50.84	41.79	25.14	28.75	31.96	39.85	48.54	67.81
Operating netback (\$/boe)	29.09	21.07	5.10	15.74	13.07	15.13	24.56	47.83

(1) Bank debt was included in total long-term liabilities prior to 2009 Q1.

(2) Excludes the fair value of financial instruments and current portion of bank debt.

Except for the current quarter, the Company has maintained average quarterly production in the range of approximately 900 to 1,100 boe per day. Production increased in the current quarter due to additional volumes associated with the Company's Garrington property. Quarterly petroleum and natural gas revenue has fluctuated directly with commodity prices. Quarterly revenue peaked in Q2 2008 at \$6.8 million compared to \$6.3 million for the most recent quarter. Operating expenses have been maintained in the range of \$10 to \$15 per boe with the exception of the third quarter of 2009. Changes in netbacks per boe are primarily due to changes in commodity prices. Funds from operations peaked at \$4.2 million during Q2 2008 but rapidly declined with lower natural gas prices until the current quarter as production and commodity prices increased. Since Q4 of 2008 the Company has operated at a loss of approximately \$1.5 million; however, Q1 2009 includes a tax reduction of \$1.7 million relating to \$6.9 million of flow-through shares issued in 2008 and renounced in the quarter, Q3 2009 includes severance paid to the prior staff of Midway and Q4 2009 includes employee bonus payments.

Midway Energy Ltd.**Balance Sheets***Thousands of Dollars**(unaudited)*

	March 31, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ -	\$ 1,478
Accounts receivable	4,828	3,193
Prepaid expenses and deposits	473	490
	5,301	5,161
Deposits	-	300
Property, plant and equipment (notes 3 and 4)	124,916	105,750
	\$ 130,217	\$ 111,211
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,717	\$ 13,544
Bank debt (note 5)	20,443	4,155
	33,160	17,699
Tenant inducement	153	159
Asset retirement obligations (note 6)	5,772	4,627
	39,085	22,485
Shareholders' equity		
Share capital (note 7)	99,586	96,552
Warrants (note 7)	3	3
Contributed surplus (note 7)	2,293	2,030
Deficit	(10,750)	(9,859)
	91,132	88,726
Commitments (note 11)		
	\$ 130,217	\$ 111,211

See accompanying notes to the financial statements

Midway Energy Ltd.**Statements of Operations, Comprehensive Income (Loss) and Deficit**

*Thousands of Dollars, except per share amounts
(unaudited)*

	Three months ended March 31, 2010	Three months ended March 31, 2009
Revenues		
Petroleum and natural gas	\$ 6,269	\$ 2,978
Royalties	(729)	(524)
Interest	1	72
	5,541	2,526
Expenses		
Operating	1,945	1,235
General and administrative	971	593
Stock-based compensation (note 7)	263	59
Interest	94	108
Depletion, depreciation and accretion	3,159	2,127
	6,432	4,122
Earnings (loss) before income taxes	(891)	(1,596)
Future income tax reduction	-	1,733
Net earnings (loss) and comprehensive income (loss)	(891)	137
Deficit, beginning of period	(9,859)	(2,743)
Deficit, end of period	\$ (10,750)	\$ (2,606)
Earnings (loss) per share (note 7)		
Basic and diluted	\$ (0.01)	\$ 0.01

See accompanying notes to the financial statements

Midway Energy Ltd.
Statements of Cash Flows

Thousands of Dollars
(unaudited)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Cash provided by (used in)		
Operating activities		
Net earnings (loss)	\$ (891)	\$ 137
Items not involving cash:		
Depletion, depreciation and accretion	3,159	2,127
Stock-based compensation	263	59
Future income tax reduction	-	(1,733)
Amortization of tenant inducement	(6)	-
Change in non-cash working capital (note 9)	(1,321)	124
	1,204	714
Financing activities		
Increase (decrease) in bank debt	16,288	(26)
Share issue costs	(11)	-
	16,277	(26)
Investing activities		
Acquisition of property, plant and equipment	(11,620)	(488)
Acquisitions (note 3)	(6,693)	-
Deposits on acquisitions	300	-
Change in non-cash working capital (note 9)	(946)	(200)
	(18,959)	(688)
Change in cash	(1,478)	-
Cash, beginning of period	1,478	-
Cash, end of period	\$ -	\$ -

Cash is defined as cash and cash equivalents

See accompanying notes to the financial statements

Midway Energy Ltd.

Notes to Financial Statements

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of dollars, except share and per share amounts)

(unaudited)

1. Nature of Operations and Basis of Presentation

Midway Energy Ltd. ("Midway" or the "Company"), is involved in the acquisition, exploration, development and production of petroleum and natural gas in Alberta and British Columbia.

The unaudited interim financial statements for Midway have been prepared by management in accordance with accounting principles generally accepted in Canada, following the same accounting policies and methods of computation as the audited financial statements of Midway for the year ended December 31, 2009, with the exception of the changes in accounting policies below (see note 2). The disclosures provided below are incremental to those included with the annual financial statements and certain disclosures which are normally required to be included in the notes to the annual financial statements, have been condensed or omitted. These unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2009.

The financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. The timely preparation of financial statements requires management to make estimates and assumptions, and use judgment regarding assets, liabilities, revenues and expenses. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Certain prior period comparative figures have been reclassified to conform to the current period presentation.

2. Changes in Accounting Policies

In January 2009, the CICA issued Section 1582 - "Business Combinations". This standard provides guidance which states that the purchase price is to be based on trading data at the closing date of the acquisition, not the announcement date of the acquisition, and that most acquisition costs are to be expensed as incurred. Midway adopted this standard on January 1, 2010.

In January 2009, the CICA issued Section 1601 - "Consolidated Financial Statements" and Section 1602 - "Non-Controlling Interest". These sections outline standards for preparing consolidated financial statements and the treatment of non-controlling interests in a business combination. Midway adopted this standard on January 1, 2010.

3. Acquisitions

On January 7, 2010, Midway acquired all of the issued and outstanding common shares of a private company whose primary asset was an oil battery and truck terminal. The acquisition was accounted for using the purchase method with results of operations included with the Company commencing January 8, 2010. The consideration provided was \$1,177,900 of net cash and 769,231 Class A voting common shares for total consideration of \$3,734,900 and was allocated to the net assets acquired and liabilities assumed at fair value with \$177,900 allocated to working capital and \$42,000 to asset retirement obligations.

Midway Energy Ltd.

Notes to Financial Statements

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of dollars, except share and per share amounts)

(unaudited)

On February 12, 2010, Midway acquired petroleum and natural gas properties that constituted a business. The acquisition was accounted for using the purchase method with results of operations included with the Company commencing February 13, 2010. The consideration provided was \$5.5 million in cash and 155,279 Class A voting common shares for total consideration of \$6.0 million and was allocated to the net assets acquired and liabilities assumed at fair value with associated asset retirement obligations of \$890,000.

On July 31, 2009, the Company acquired all of the issued and outstanding common shares of EET Management Corp. ("EET"), a private oil and gas company with producing properties in Alberta. The acquisition was accounted for using the purchase method with results of operations included with the Company commencing August 1, 2009. The consideration provided consisted of \$375,000 in transaction costs and 3,317,003 Class A voting common shares for total consideration of \$2.7 million and was allocated to the net assets acquired and liabilities assumed at fair value.

4. Property, Plant and Equipment

	Cost	Accumulated Depletion & Depreciation	Net Book Value
March 31, 2010			
Petroleum and natural gas properties	\$ 152,925	\$ 28,437	\$ 124,488
Leaseholds and office furniture	553	125	428
	<u>\$ 153,478</u>	<u>\$ 28,562</u>	<u>\$ 124,916</u>
December 31, 2009			
Petroleum and natural gas properties	\$ 130,901	\$ 25,421	\$ 105,480
Leaseholds and office furniture	373	103	270
	<u>\$ 131,274</u>	<u>\$ 25,524</u>	<u>\$ 105,750</u>

For the three months ended March 31, 2010, the Company did not capitalize general and administrative expenses and related stock-based compensation (March 31, 2009 - \$114,000 and \$29,000, respectively). As at March 31, 2010, \$3.4 million (2009 - \$8.7 million) of costs related to unproved property costs were excluded from costs subject to depletion. Future development costs of \$38.1 million (2009 - \$1.8 million) were included in the costs subject to depletion and depreciation.

During the year ended December 31, 2009, the Company closed several acquisitions of certain interests in petroleum and natural gas properties for cash consideration, after adjustments, of \$34,671,000 and share consideration of \$825,000 with associated asset retirement obligations of \$1,271,000.

5. Bank Debt

Midway has a \$40 million revolving demand loan facility (the "Credit Facility") with an Alberta based financial institution (the "Lender"). As the Credit Facility is a demand loan facility the entire amount of bank debt outstanding is included in current liabilities.

Midway Energy Ltd.

Notes to Financial Statements

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of dollars, except share and per share amounts)

(unaudited)

Bank debt bears interest at the Lender's prime lending rate plus an applicable margin which is dependent on the Company's debt-to-trailing cash flow ratio. The borrowing base is subject to re-determination annually, with the next scheduled review to be completed on or before April 30, 2011. As the available lending limits of the Credit Facility are based on the Lender's interpretation of the Company's reserves and future commodity prices there can be no assurance that the amount of the Credit Facility will not decrease at the next scheduled review. The Credit Facility is secured by a general security agreement and the Company must maintain a working capital ratio of not less than 1 to 1 at all times. The working capital ratio is defined as current assets (including the undrawn availability under the Credit Facility) to current liabilities (excluding any current portion of bank debt). Midway is also required to pay the Lender a fee on the unused amount of the Credit Facility.

At March 31, 2010, \$20.4 million was drawn against the Credit Facility, and letters of credit in the amount of \$238,000 were issued under the Credit Facility. For the three months ended March 31, 2010 the effective interest rate on the Company's bank debt was 3.70% (March 31, 2009 – 4.25%).

6. Asset Retirement Obligations

At March 31, 2010, the total estimated amount to settle Midway's asset retirement obligations on an uninflated and undiscounted basis was \$13.1 million (December 31, 2009 - \$9.1 million) and on an inflated and undiscounted basis was \$14.6 million (December 31, 2009 - \$11.9 million). The asset retirement obligations were determined by applying an inflation factor of 2% (2009 – 2%) and discounting the inflated amount using credit-adjusted rates of 8% and 10% (2009 – 8% and 10%) over the expected average life of the underlying assets of 12 years. Future cash flows from operating activities are expected to fund these obligations. The following schedule reconciles the changes in Midway's asset retirement obligations:

	Three months ended March 31, 2010	Year ended December 31, 2009
Balance, beginning of period	\$ 4,627	\$ 2,002
Changes in estimates	-	1,211
Liabilities incurred on acquisitions	932	1,554
Liabilities incurred	92	40
Asset retirement expenditures	-	(399)
Accretion	121	219
Balance, end of period	\$ 5,772	\$ 4,627

7. Share Capital

Authorized

An unlimited number of Class A voting common shares

An unlimited number of voting common shares

An unlimited number of non-voting common shares

An unlimited number of first preferred shares, issuable in series

Midway Energy Ltd.**Notes to Financial Statements**

For the three months ended March 31, 2010 and 2009

*(tabular amounts in thousands of dollars, except share and per share amounts)**(unaudited)***Issued and outstanding**

Class A voting Common Shares	Number	Amount
Balance, December 31, 2008	-	\$ -
Issued to voting common shareholders on reorganization (iii)	11,163,590	41,043
Issued to non-voting common shareholders on reorganization (iii)	2,241,291	3,865
Issued to EET shareholders on acquisition (iii)	3,317,003	2,321
Issued to EILP unit holders on acquisition (iii)	10,683,000	7,478
Issued pursuant to the exercise of Series A Arrangement warrants (iv)	4,468,287	3,128
Issued pursuant to property acquisition (v)	620,301	825
Issued pursuant to short-form prospectus (vi)	22,000,000	27,500
Issued pursuant to a private placement (vii)	6,952,000	13,209
Share issue costs	-	(2,817)
Balance, December 31, 2009	61,445,472	\$ 96,552
Issued pursuant to acquisition (i)	769,231	2,538
Issued pursuant to acquisition (ii)	155,279	507
Share issue costs	-	(11)
Balance, March 31, 2010	62,369,982	99,586

Common Shares, voting		
Balance, December 31, 2008	11,163,590	\$ 42,776
Future taxes on flow-through common shares	-	(1,733)
Shares exchanged for class A voting shares (iii)	(11,163,590)	(41,043)
Balance, December 31, 2009 and March 31, 2010	-	\$ -

Common Shares, non-voting		
Balance, December 31, 2008	2,241,291	\$ 3,865
Shares exchanged for class A voting shares (iii)	(2,241,291)	(3,865)
Balance, December 31, 2009 and March 31, 2010	-	\$ -

Total Share Capital	62,369,982	\$ 99,586
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- (i) On January 7, 2010, Midway issued 769,231 Class A voting common shares with a total value of \$2,538,000 as partial consideration for the acquisition of a private company whose primary asset was an oil battery and truck terminal (see note 3).
- (ii) On February 12, 2010, Midway issued 155,279 Class A voting common shares with a total value of \$507,000 as partial consideration for producing oil and natural gas properties acquired pursuant to a purchase and sale agreement (see note 3).
- (iii) On July 31, 2009, Midway closed the acquisition of EET pursuant to a Plan of Arrangement (the "Arrangement") and in connection with the acquisition reorganized the capital of the Company. Midway issued Class A voting common shares in exchange for the voting common shares and non-voting common shares then outstanding. In addition, the Company issued 3,317,003 Class A voting common shares at an ascribed value of \$0.70 to shareholders of EET (see note 3). One-third of the new common shares issued to EET shareholders who were directors, officers, employees or consultants of EET or 1,011,001 Class A voting common shares are subject to a twelve-month hold period and an additional one-third of the new common shares are subject to a twenty-four month hold period with the balance having no restrictions.

Midway Energy Ltd.

Notes to Financial Statements

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of dollars, except share and per share amounts)

(unaudited)

Energy Investment Limited Partnership ("EILP") was acquired by the Company pursuant to the Arrangement. Insiders of Midway subscribed for 2,874,571 of the units issued by EILP for gross proceeds of \$2,012,200. Midway issued 10,683,000 Class A voting common shares at an ascribed value of \$0.70 for all of the issued and outstanding partnership units of EILP.

- (iv) On August 31, 2009, Midway issued 4,468,287 Class A voting common shares to shareholders that exercised their Arrangement Warrants for gross proceeds of \$3,127,801.
- (v) On September 15, 2009, Midway issued 620,301 Class A voting common shares with a total value of \$825,000 as partial consideration for producing oil and natural gas properties acquired pursuant to a purchase and sale agreement.
- (vi) On October 6, 2009, Midway issued 22,000,000 Class A voting common shares pursuant to a short-form prospectus for gross proceeds of \$27.5 million before issue costs of \$1,927,000. Insiders of Midway subscribed for 217,000 of the common shares issued for gross proceeds of \$271,250.
- (vii) On November 24, 2009, Midway issued 6,952,000 Class A voting common shares pursuant to a private placement for gross proceeds of \$13.2 million before issue costs of \$890,000. Insiders of Midway subscribed for 75,000 of the common shares issued for gross proceeds of \$142,500.

Incentive warrants

On July 31, 2009, in accordance with the Arrangement, the new directors, officers, employees and other nominees of Midway participated in a private placement of 3,000,000 incentive warrants at a price of \$0.001 per warrant for total gross proceeds of \$3,000, entitling the holder to acquire one Class A voting common share at an exercise price of \$1.05 per common share for a period of five years from closing, subject to certain conditions. The incentive warrants were assigned a fair value of \$0.50 per warrant using a Black-Scholes option pricing model with assumptions of a risk free rate of 3.2%, volatility of 68% and an expected life of 5 years with no future dividends.

Per share amounts

The weighted average number of basic and diluted common shares outstanding for the three months ended March 31, 2010 and 2009 were 62,235,964 and 13,404,883, respectively. The 3,000,000 incentive warrants were not included in the calculation of the weighted average diluted common shares outstanding as they were considered anti-dilutive.

Stock options

The Company has a stock option plan authorizing the grant of options to purchase shares to designated participants, being directors, officers, employees or consultants. Options are priced at the closing price of the shares one day prior to the grant date of the options. Options vest over a three year period, with one third of the number granted vesting on each of the first, second and third anniversary dates from the date of grant and have a five year term to maturity.

Midway Energy Ltd.

Notes to Financial Statements

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of dollars, except share and per share amounts)

(unaudited)

During the three months ended March 31, 2010, the Board of Directors granted 575,000 stock options at exercise prices ranging from \$3.15 to \$3.25 per common share. The stock options are not exercisable pending approval by shareholders and the Toronto Stock Exchange. Concurrent with the granting of the stock options, the Board of Directors adopted a contingent stock appreciation rights ("SAR") plan and granted an equivalent number of SAR's at an equivalent price on the condition that the stock options are not approved. Accordingly, the options and the SAR's have not been included in the calculation of stock-based compensation.

In the event that shareholders and the Toronto Stock Exchange approve the stock options, all conditional SAR's granted will immediately terminate without payment. Had the 3,524,500 stock options outstanding at December 31, 2009 and the stock options granted during the three months ended March 31, 2010 been approved and fair valued, the stock options would have been assigned an average fair value of \$0.90 and \$1.87, respectively, per stock option. Midway will fair value these stock options or, if required, the contingent SAR's, on the date of the next shareholder's annual and special meeting when approval of the stock options is requested.

Contributed surplus

The Company uses the fair value method to determine its stock-based compensation costs for all dilutive equity instruments. Under this method, compensation cost is recorded over the vesting period for all dilutive equity instruments granted to directors, officers, employees or consultants, with a corresponding increase to contributed surplus.

	Three months ended March 31, 2010	Year ended December 31, 2009
Balance, beginning of period	\$ 2,030	\$ 1,709
Stock-based compensation	263	573
Stock-based compensation recovery	-	(252)
Balance, end of period	\$ 2,293	\$ 2,030

8. Capital Management

The Company's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of its business.

The Company manages its capital structure and adjusts it as a result of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholders' equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

	March 31, 2010	December 31, 2009
Shareholders' equity	\$ 91,132	\$ 88,726
Bank debt	\$ 20,443	\$ 4,155
Working capital surplus (deficiency):	\$ (7,416)	\$ (8,383)

Midway Energy Ltd.
Notes to Financial Statements

For the three months ended March 31, 2010 and 2009
(tabular amounts in thousands of dollars, except share and per share amounts)
(unaudited)

The Company expects that for the next several quarters Midway will significantly increase its funds from operations and capital expenditure program (excluding acquisitions) compared to the prior year. As such, Midway will monitor capital based on the ratio of net debt to annualized forecast funds from operations. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus working capital, divided by forecast funds from operations before changes in non-cash working capital and asset retirement expenditures, annualized. The Company's strategy is to maintain a ratio that is considered reasonable and prudent in the circumstances. This ratio may increase and/or decrease at certain times.

In order to facilitate the management of this ratio, the Company prepares an annual capital expenditure budget, which is monitored quarterly and updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. Budget updates are approved by the Board of Directors on a quarterly basis.

The Company's share capital is not subject to external restrictions; however, the Credit Facility is based on petroleum and natural gas reserves and is subject to certain financial covenants (note 5). The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future. Management will reconsider the use of a historical measure to monitor capital in the future.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2010.

9. Supplemental Cash Flow Information

Changes in non-cash working capital (before amounts attributable to acquisitions):

	2010	2009
Accounts receivable	\$ (1,457)	\$ 1,497
Prepaid expenses and deposits	17	116
Accounts payable and accrued liabilities	(827)	(1,689)
Change in non-cash working capital	\$ (2,267)	\$ (76)

The change in non-cash working capital has been allocated to the following activities:

	2010	2009
Operating	\$ (1,321)	\$ 124
Investing	(946)	(200)
Change in non-cash working capital	\$ (2,267)	\$ (76)

Interest paid and received

	2010	2009
Interest received	\$ 1	\$ 72
Interest paid	\$ 152	\$ 90

Midway Energy Ltd.

Notes to Financial Statements

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of dollars, except share and per share amounts)

(unaudited)

10. Financial Risk Management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- a) credit risk
- b) liquidity risk
- c) market risk

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. A discussion of some of the key business risks faced by Midway is included in the accompanying Management's Discussion and Analysis under the heading "Business Risks".

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

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 Midway's receivables from petroleum and natural gas marketers and joint venture partners. For oil and natural gas sales, Midway follows a risk procedure whereby counterparties are reviewed on a regular basis and the Company attempts to transact only with counterparties who have investment grade ratings. As at March 31, 2010, the Company's accounts receivable balance was \$4,828,000 (December 31, 2009 - \$3,193,000) and \$393,000 of the accounts receivable balance was outstanding for greater than 90 days (December 31, 2009 - \$254,000). Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production, Midway has not experienced any collection issues with its petroleum and natural gas marketers. The Company does not have an allowance for doubtful accounts.

Cash and cash equivalents, when outstanding, consist of cash bank balances and short-term deposits maturing in less than 90 days. The carrying amount of cash and cash equivalents and accounts receivable represent the maximum credit exposure. Midway manages the credit risk exposure related to cash and cash equivalents by selecting counterparties based on credit ratings and by avoiding complex investment vehicles with higher risk such as asset-backed commercial paper.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual and quarterly capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The contractual maturities of accounts payable and accrued liabilities are due within one year.

Midway Energy Ltd.

Notes to Financial Statements

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of dollars, except share and per share amounts)

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The Company's bank debt totaling \$20.4 million is shown as a current liability since the Credit Facility is a demand loan facility. The Company manages the risk associated with the Credit Facility by regularly updating its capital expenditure budgets using forward strip commodity prices published by the Lender and other sources to ensure that budgets allow for a sufficient amount of un-drawn capacity under the Credit Facility should commodity prices weaken.

In addition, Midway maintains flexibility in its capital expenditure program to ensure bank debt under the Credit Facility is prudently managed.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates will affect the Company's net earnings or the fair value or future cash flows of a financial instrument. In accordance with policies approved by our Board of Directors, we may, from time to time, manage these risks through the use of physical delivery contracts, swaps, collars or other financial instruments not to exceed 40% of net commodity production (after royalties).

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also by world economic events that dictate the levels of supply and demand. There were no financial derivative contracts or embedded derivatives outstanding at March 31, 2010 or 2009.

In September 2009, the Company entered into a physical delivery fixed price contract for 500 GJ of natural gas per day at \$4.425 per GJ for the period October 1, 2009 to October 31, 2010. In December 2009, the Company entered into a physical delivery fixed price contract for 500 GJ of natural gas per day at \$5.75 per GJ for the period January 1, 2010 to December 31, 2011. These contracts are accounted for as executory contracts in accordance with the normal purchase and normal sale exemption. For the three months ended March 31, 2010, Midway's revenues were \$36,000 higher than the Company would have received had the physical contracts not been in place.

Fair value of financial instruments

The Company's financial instruments as at March 31, 2010 and December 31, 2009 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank debt. The fair value of accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. Bank debt bears interest at a floating market rate and accordingly fair value approximates the carrying value.

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in accordance with the three-level hierarchy. As at March 31, 2010, there were no financial instruments that required disclosure according to the three-level hierarchy.

11. Commitments

The Company has operating lease commitments for two office premises expiring December 31, 2010 and December 31, 2015, respectively that total \$400,000 in 2010 and approximately \$380,000 annually for the remaining term. In addition, the Company has an operating lease commitment for field compression equipment that totals \$286,000 annually until October 2013.

Midway Energy Ltd.

Notes to Financial Statements

For the three months ended March 31, 2010 and 2009

(tabular amounts in thousands of dollars, except share and per share amounts)

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Pursuant to a consulting agreement dated October 6, 2009, the Company is committed to a stock appreciation rights ("SAR") payment based on 200,000 SAR's that vest over a three year period from the commencement date of the contract and to the extent earned are not payable until the third anniversary of the commencement date. The amount payable is equal to the number of SAR's that have vested multiplied by the then current market price. The SAR's were revalued at March 31, 2010 based on the Company's closing stock price and \$106,000 (December 31, 2009 - \$87,000) was recorded in accounts payable and accrued liabilities.

12. Related Party Transactions

Legal services are provided by a firm in which two Directors of the Company are partners (the "Firm"). An accrual of \$103,000 for legal services provided by the Firm but not billed at March 31, 2010, (2009 – \$12,000) is included in Midway's total accounts payable and accrued liabilities balance.

The related party transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties.



Corporate Information

Board of Directors

John A. Brussa
Ken E. Frankiw
Shannon M. Gangl
Stanley W. Odut
M. Scott Ratushny
Robert M. Shaunessy
James C. Smith
Robert E. Wollmann

Officers

M. Scott Ratushny
Chairman and Chief Executive Officer

Ken E. Frankiw
President

Douglas K. Smith
Chief Financial Officer

Shannon M. Gangl
Corporate Secretary

Auditors

KPMG LLP

Bankers

ATB Corporate Financial Services

Legal Counsel

Burnet Duckworth & Palmer LLP

Reserve Evaluators

Sproule Associates Limited

Registrar and Transfer Agent

Valiant Trust Company

Stock Exchange Listing

TSX - MEL

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