



THIRD QUARTER REPORT

For the three and nine months ended September 30, 2009

Midway Energy Ltd. (TSX:MEL) ("Midway" or the "Company") is pleased to report its unaudited financial results and a summary of its operating activities for the third quarter ended September 30, 2009.

Corporate Highlights

(\$ 000's, except per share amounts)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Petroleum and natural gas revenue	2,053	2,369	4,365	7,589	15,392
Funds from (used in) operations	(1,513)	274	1,770	(250)	7,677
Basic and diluted per share	(0.06)	0.02	0.13	(0.01)	0.61
Net earnings (loss)	(3,503)	(1,432)	280	(4,798)	1,545
Basic and diluted per share	(0.14)	(0.11)	0.02	(0.28)	0.12
Working capital (deficiency) ⁽¹⁾	(313)	827	(3,268)	(313)	(3,268)
Bank debt	13,288	13,156	7,409	13,288	7,409
Capital expenditures	12,635	(65)	7,128	13,058	24,504
Total assets	71,347	59,260	62,724	71,347	62,724
Weighted average shares					
Basic and diluted	24,246	13,405	13,405	17,058	12,626
Common shares outstanding					
Basic	32,493	13,405	13,405	32,493	13,405
Diluted	35,493	14,675	14,675	35,493	14,675
Average production:					
Natural gas (mcf/d)	4,401	4,988	5,967	4,819	5,625
Oil and NGL's (bbl/d)	154	149	69	162	85
Oil equivalent (boe/d 6:1)	887	980	1,064	965	1,022
Average realized prices:					
Natural gas (\$/mcf)	2.85	3.83	7.51	3.86	8.60
Oil and NGL's (\$/bbl)	63.43	60.39	100.68	56.52	91.70
Oil equivalent (boe/d 6:1)	25.14	28.67	48.63	28.77	54.95
Netback (\$/boe)					
Petroleum and natural gas revenue	25.14	28.67	48.63	28.77	54.95
Royalties	(1.38)	1.49	9.58	2.06	8.65
Operating expenses	21.42	11.44	14.50	15.19	12.93
Operating netback	5.10	15.74	24.55	11.52	33.37

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

Message to Shareholders

The new management team of Midway is pleased to present its first quarterly message to shareholders. The third quarter of 2009 reflects the transition to a new approach and strategy for the Company.

The focus of management will be to grow the Company into an oil weighted entity through the development of repeatable, low risk drilling opportunities. We will draw on the strength and experience of our management group and employ advances in drilling and completion technology in order to re-evaluate known oil fields. Our goal is to continually add to our base of low risk drilling opportunities while simultaneously adding oil production through the development of our properties.

During the third quarter of 2009 Midway incurred several one-time expenditures including severance payments to former management and employees, costs associated with the its acquisition of EET Management Corp. and Energy Investment Limited Partnership pursuant to a Plan of Arrangement, and field property taxes (included in operating costs). Management has also undertaken several capital projects which are expected to reduce future operating costs.

SIGNIFICANT HIGHLIGHTS FOR MIDWAY THIS QUARTER

- **Established a New Core Area in Garrington, Alberta**

Midway has made significant progress in identifying and establishing a significant position in an area which management believes is prospective for light oil development through low risk, repeatable drilling.

- **Completed Two Major Acquisitions**

In connection with the Company's new strategy, Midway closed its first acquisition in the Garrington area of Alberta on September 15, 2009 of properties producing approximately 130 boe/d of crude oil and associated natural gas from the Cardium formation. The Garrington assets, located 80 kilometers northwest of Calgary, are characterized by high working interest, long life, high quality operated light oil and natural gas reserves with repeatable drilling upside. Midway also closed a second acquisition of producing properties in the Garrington area on October 6, 2009 that are currently producing approximately 160 boe/d of light crude oil and associated natural gas. Together these acquisitions provide Midway with over 23 net sections of land that are prospective for horizontal drilling in the Cardium. In addition, the acquisitions provide Midway with control of strategic infrastructure including pipelines, compression and oil batteries.

- **Increased Credit Facility**

After the end of the quarter, Midway increased its Credit Facility to \$27 million, providing the Company with significant financial flexibility. Currently, the Company has approximately \$10 million drawn on the Credit Facility.

- **Financing**

On October 6, 2009, Midway closed a successful bought deal equity financing which raised \$27.5 million in gross proceeds which were used to finance the second acquisition noted above and the excess was used to reduce bank debt. Currently Midway has 54.5 million common shares outstanding.

The Company intends to drill 3 Cardium horizontal wells on our Garrington lands in the fourth quarter of 2009. The wells are currently being licensed and it is expected the first well will spud in early November.

Midway will continue to pursue additional acquisitions in this new core area.

Midway has finalized its 2010 capital expenditure budget and anticipates drilling 12 gross operated wells in Garrington and participating in several lower working interest non-operated opportunities in the area. Management anticipates that capital expenditures in 2010 will be approximately \$32 million focused on development drilling and necessary facilities for future growth. These capital expenditures are expected to result in exit production of 2,200 to 2,300 boe/d (60% weighted to crude oil and NGL's) for 2010. Average production for the year is forecasted to generate approximately \$25 million of cash flow using an average strip price of US \$75/bbl WTI and CAD \$5.75/GJ at AECO.

The Company is also pleased to announce that Mr. James C. Smith, C.A., has been appointed to the Board of Directors of Midway. Mr. Smith is a business executive with over 35 years of experience in management functions, including financial analysis and reporting; dealing with financial markets; and analyzing and financing corporate and property acquisitions and divestitures. Mr. Smith has been involved with the oil and gas industry in Canada since 1983 and has worked as a Vice-President at several major companies. He is also a director of several energy related companies in Calgary.

On behalf of the Board of Directors,

"M. Scott Ratushny"

M. Scott Ratushny
Chairman & Chief Executive Officer

"Ken Frankiw"

Ken Frankiw
President

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 and nine months ended September 30, 2009 and 2008. The MD&A should be read in conjunction with the unaudited financial statements of Midway for the three and nine months ended September 30, 2009 and 2008 and the audited financial statements and MD&A for the year ended December 31, 2008. This MD&A is dated October 28, 2009.

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

Description of Company

Midway, (formerly Trafalgar Energy Ltd.), 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. On July 31, 2009, Midway closed its acquisition of EET Management Corp. ("EET") pursuant to a Plan of Arrangement (the "Arrangement"). Immediately following the acquisition a new management team was appointed. The focus of the new management team is to increase the crude oil weighting of the Company's production mix through a combination of strategic acquisitions and low-risk development drilling. Management will be focusing its efforts on assets with established reserves that may be further exploited using new horizontal completion techniques to improve recovery.

Outlook

In connection with the Company's new strategy, Midway closed its first acquisition in the Garrington area of Alberta on September 15, 2009 of properties producing approximately 130 boe/d of crude oil and associated natural gas from the Cardium formation. The Garrington assets, located 80 kilometers northwest of Calgary, are characterized by high working interest, long life, high quality operated light oil and natural gas reserves with repeatable drilling upside. Midway also closed a second acquisition of producing properties in the Garrington area on October 6, 2009 that are currently producing approximately 160 boe/d of light crude oil and associated natural gas. Together these acquisitions provide Midway with over 23 net sections of land that are prospective for horizontal drilling in the Cardium. In addition, the acquisitions provide Midway with control of strategic infrastructure including pipelines, compression and oil batteries.

To finance the second acquisition on October 6, 2009, Midway completed the issue of 22 million common shares at \$1.25 per common share for gross proceeds before issue costs of \$27.5 million, with the excess funds used to reduce bank debt. The Company is continuing its efforts to further consolidate its land position in Garrington by pursuing

additional acquisitions of producing properties and other assets in the area and management is planning 3 locations to be drilled in the area during the fourth quarter, with the first to spud in November.

Midway has finalized its 2010 capital expenditure budget and anticipates drilling 12 gross operated wells in Garrington and participating in several lower working interest non-operated opportunities in the area. Management anticipates that capital expenditures in 2010 will be approximately \$32 million focused on development drilling and necessary facilities for future growth. These capital expenditures are expected to result in exit production of 2,200 to 2,300 boe/d (60% weighted to crude oil and NGL's) for 2010. Average production for the year is forecasted to generate approximately \$25 million of cash flow based using average strip prices of US \$75/bbl WTI and CAD \$5.75/GJ at AECO.

Non-GAAP Financial Measures

Midway uses the following terms for measurement within the MD&A that do not have a standardized prescribed meaning under 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 Canadian generally accepted accounting principles (GAAP). Management of Midway believes that in addition to net earnings and cash flow from operations as defined by GAAP, these terms are useful supplemental measures to evaluate operating performance and assess leverage. Users are cautioned, however, that these measures should not be construed as an alternative to net earnings or cash flow from operations 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 are not 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:

	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Cash provided by (used in) operating activities	(1,107)	327	3,330	(66)	7,845
Asset retirement expenditures	-	399	-	399	-
Change in non-cash working capital	(406)	(53)	(1,560)	(583)	(168)
Funds from (used in) operations	(1,513)	673	1,770	(250)	7,677

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
"EET"	EET Management Corp.

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.**

Results of Operations

Production

Total average production was 887 boe/d for the third quarter of 2009 compared to 1,064 boe/d for the corresponding period of 2008 and 980 boe/d for the second quarter of 2009 representing decreases of 17% and 9%, respectively. Production for the third quarter of 2009 was weighted approximately 83% to natural gas and 17% to crude oil and NGL's. Midway added a new core area in Garrington, Alberta during the quarter as the Company closed its first acquisition in the area on September 15, 2009. For the nine months ended September 30, 2009, average production was 965 boe/d compared to 1,022 boe/d for the same period in 2008 and production was weighted again 83% to natural gas and 17% to crude oil and NGL's. Management is focused on increasing the crude oil and NGL weighting of its production mix through acquisitions and development drilling in Garrington.

Production by Product	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Light Oil (bbls/d)	122	110	30	126	36
Heavy Oil (bbls/d)	32	38	39	36	49
Total Oil (bbls/d)	154	149	69	162	85
Natural Gas (mcf/d)	4,401	4,988	5,967	4,819	5,625
Total (boe/d) (6:1)	887	980	1,064	965	1,022

Production by Area (boe/d)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
MacKay, Alberta	395	480	536	440	427
Grouard, Alberta	317	371	461	366	525
House Mountain, Alberta	76	79	-	90	-
Garrington, Alberta	20	-	-	7	-
Cypress, British Columbia	44	50	63	52	66
Other non-core	35	-	4	10	4
Total (boe/d) (6:1)	887	980	1,064	965	1,022

MacKay

The decrease in third quarter production from the third quarter of 2008 and the second quarter of 2009 as well as the decrease in year to date production compared to the prior period is due to natural field decline and the impact of limited capital expenditures.

Grouard

The decrease in third quarter production from the third quarter of 2008 and the second quarter of 2009 as well as the decrease in year to date production compared to the prior period is due to natural field decline, limited response from the waterflood project in the area and the impact of limited capital expenditures.

House Mountain (“House”)

Production from the 3-36 well in House was maintained at an average of 80 bbls/d for the third quarter of 2009 in compliance with government rate limitations. The well, which was brought on production in the fourth quarter of 2008, is capable of producing approximately 125 – 140 bbls/d. To maintain compliance with the government limitations the well is required to be shut-in each month. During the first quarter of 2009, Midway expanded its 100% working interest land position in the area to approximately 1,600 net undeveloped acres. The Company has a number of light oil development drilling locations in inventory at House, however Midway's immediate development plans will be focused on Garrington.

Garrington

Midway established a new core area in Garrington following the closing of an acquisition of properties producing light crude oil and associated natural gas from a private company on September 15, 2009. Average production for the 15 days since closing was 130 boe/d, weighted 81% to light crude oil and natural gas liquids and 20 boe/d for the three months ended September 30, 2009. Subsequent to September 30, 2009, the Company closed another acquisition of producing properties in the area that are currently producing approximately 160 boe/d of light crude oil and associated natural gas.

Cypress

Decreases in production in this area for all periods are due to normal field decline and the impact of lower capital expenditures.

The B-65-C Cypress farm-out well reached total depth during the first quarter of 2009 and was completed during the third quarter. Preliminary results have not been encouraging with test results at 1 MMcf/d (gross) to date however the operator and Midway continue to review the completion data. The B-65-C well is located approximately 200 meters from existing underutilized pipeline infrastructure which is 100% owned and operated by Midway.

Commodity Prices

Midway Realized Prices	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Light Crude Oil and NGL's (\$/bbl)	66.47	64.51	108.83	59.50	110.10
Heavy Crude Oil (\$/bbl)	51.74	48.69	94.39	46.12	78.25
Total Oil and NGL's (\$/bbl)	63.43	60.39	100.68	56.52	91.70
Natural Gas (\$/mcf)	2.85	3.83	7.51	3.86	8.60
\$/boe (6:1)	25.14	28.67	48.63	28.77	54.95

Market Prices	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Oil WTI (US\$/bbl)	74.94	59.51	118.21	66.11	113.34
Edmonton Par (\$/bbl)	71.52	66.16	122.61	62.49	115.85
Bow River (\$/bbl)	72.96	61.69	104.95	65.67	95.53
Gas AECO (\$/mcf)	2.78	3.49	7.61	3.57	8.66
Exchange Rate (US\$/C\$)	0.911	0.858	0.960	0.855	0.982

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.

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 includes 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 third quarter of 2009 was a 7% discount to Edmonton Par and a 5% discount to Edmonton Par for the nine months ended September 30, 2009. 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 third quarter of 2009 was a 29% discount to Bow River while the nine months ended September 30, 2009 realized price was a 30% discount to Bow River.

Revenue

Petroleum and natural gas revenue was \$2.1 million for the three months ended September 30, 2009, representing a 57% decrease from the third quarter of 2008 and a 20% decrease from the second quarter of 2009. The decreases are primarily due to lower natural gas prices and lower average production. Year to date, petroleum and natural gas revenue was \$7.6 million compared to \$15.4 million for the same period in 2008. The decrease from 2008 is due to lower commodity prices and decreases in production.

Natural gas revenue was \$1.2 million for the third quarter of 2009 compared to \$4.1 million for the third quarter of 2008 and \$1.7 million during the second quarter of 2009. Year to date, natural gas revenue was \$5.1 million compared to \$13.3 million for the same period in 2008. The decrease in natural gas revenue quarter over quarter and year to date is due lower natural gas prices and lower natural gas production.

Crude oil revenue was \$897,000 for the third quarter of 2009 as compared to \$632,000 for the third quarter of 2008 and \$817,000 for the second quarter of 2009. The increase in oil revenue in the third quarter of 2009 as compared to the third quarter of 2008 is primarily due to the well at House Mountain which commenced production in the fourth quarter of 2008. The increase in oil revenue during the third quarter of 2009 compared to the second quarter of 2009 was due to slightly higher oil prices and production due to the acquisition of producing properties in Garrington.

Revenues (\$)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Oil & NGL's	897	817	632	2,504	2,114
Natural Gas	1,155	1,738	4,118	5,079	13,259
Sub total	2,052	2,555	4,750	7,583	15,373
Royalty revenue	1	3	7	6	19
Petroleum and natural gas revenue	2,053	2,558	4,757	7,589	15,392
\$/boe (6:1)	25.14	28.67	48.63	28.77	54.95

Royalties

Royalty expense consists of royalties paid to provincial governments, freehold land owners and overriding royalty owners. For the three months ended September 30, 2009 total royalties were \$(113,000) or \$(1.38) per boe compared to approximately 20% of total revenue during the third quarter of 2008 and 5% in the second quarter of 2009. The recoverable royalty in the third quarter of 2009 was due to the impact of Gas Cost Allowance ("GCA") related to 2008 that was received during the period. Year to date, royalties as a percentage of oil and gas revenue were 7% compared to 16% in the corresponding period due to the effect of GCA and lower commodity prices.

GCA is a term which describes a payment by the Government of Alberta (the "Province") to recognize capital and operating expenditures which are incurred in the gathering and processing of the Province's royalty share of natural gas production.

Royalties (\$)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Oil & NGL's	196	142	35	538	188
Natural Gas	(309)	(10)	902	5	2,234
Total Royalties	(113)	132	937	543	2,422
As a % of oil and gas revenue	(5.5)	5.2	19.7	7.2	15.8
\$/boe (6:1)	(1.38)	1.49	9.58	2.06	8.65

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 current 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.

The new well incentive program will apply to wells commencing production of conventional oil or natural gas between April 1, 2009 and March 31, 2011 and 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 three months ended September 30, 2009, Midway had interest income of \$2,000 compared to nil interest income for the third quarter of 2008 and nil interest income for the second quarter of 2009. The interest income year to date in 2009 of \$74,000 is primarily related to interest received on year-end outstanding GST amounts owed to Midway.

Interest and Other Income (\$)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Interest and Other Income	2	-	-	74	4

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 third quarter of 2009, operating expenses were \$1.7 million or \$21.42 per boe as compared to operating expenses of \$1.4 million or \$14.50 per boe for the third quarter of 2008 representing an increase of 48% on a boe basis. Operating expenses for the third quarter of 2009 were also higher on a boe basis from the second quarter of 2009. The increase in operating expenses during the period is due to property taxes and other one-time charges totaling \$350,000 or \$4.28 per boe and adjustments to previously unbilled estimates. Year to date, operating costs were \$4.0 million or \$15.19 per boe as compared to \$3.6 million or \$12.93 per boe for the corresponding period in 2008. The increase in operating costs year to date is primarily the one-time charges recorded in the quarter noted above.

Transportation costs for the three months ended September 30, 2009 were \$176,000 or \$2.15 per boe compared to \$189,000 (\$2.12 per boe) for the second quarter of 2009 and \$393,000 (\$4.01 per boe) for the third quarter of 2008. Year to date, transportation costs included in operating costs totaled \$438,000 or \$1.66 per boe compared to \$834,000 (\$2.98 per boe) in 2008. The decreases in transportation costs are due to the decreases in commodity prices.

Operating Expenses (\$)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Operating Expenses	1,748	1,021	1,419	4,004	3,621
\$/boe (6:1)	21.42	11.44	14.50	15.19	12.93

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 \$5.10 per boe for the third quarter of 2009. This represents a 79% decrease from the third quarter of 2008 and a 68% decrease from the second quarter of 2009. The decrease in operating netback from the third quarter of 2008 is due primarily to lower commodity prices and higher operating costs. The decrease in netback per boe from the second quarter of 2009 is due primarily to increased operating costs partially offset by the recovery of royalties in the period. Year to date, operating netback was \$11.52 per boe compared to \$33.36 per boe in the corresponding period in 2008 representing a reduction of 65%. The decrease in operating netback year over year is primarily due to lower commodity prices and higher operating costs.

Operating Netback (\$/boe)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Petroleum and natural gas revenue	25.14	28.67	48.63	28.77	54.95
Royalties	(1.38)	1.49	9.58	2.06	8.65
Operating costs	21.42	11.44	14.50	15.19	12.93
Operating Netback	5.10	15.74	24.55	11.52	33.37

General and Administrative Expenses

General and administrative expenses ("G&A") net of overhead recoveries and capitalized geological and geophysical ("G&G") expenses for the third quarter of 2009 were \$1.8 million or \$22.13 per boe compared to \$488,000 or \$4.99 per boe for the third quarter of 2008 and \$581,000 or \$6.51 per boe for the second quarter of 2009. The increase in net G&A expenses in total and on a boe basis from the third quarter of 2008 and the second quarter of 2009 is primarily due to severance payments totaling approximately \$1 million paid during the quarter to the prior staff of Midway as part of

the Arrangement with EET and lower average production. Year to date, net G&A expenses on a boe basis were \$11.31 per boe compared to \$4.74 per boe for the same period in 2008. The increase compared to the prior period is primarily due to the severance payments noted above.

G & A Expenses (\$)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Gross G&A Expenses	1,816	703	664	3,234	1,951
Capitalized G&G Expenses	(9)	(114)	(126)	(237)	(361)
Overhead Recovery	(1)	(8)	(50)	(17)	(261)
Net G&A Expenses	1,806	581	488	2,980	1,329
\$/boe (6:1)	22.13	6.51	4.99	11.31	4.74

Stock-Based Compensation

For the three months ended September 30, 2009, the Company recorded a recovery of \$39,000 of stock-based compensation for dilutive equity instruments outstanding during the period as compared to an expense of \$91,000 for the third quarter of 2008 and \$47,000 for the second quarter of 2009. The decrease in stock-based compensation expense for the quarter is the result of a recovery of stock-based compensation on stock options that were forfeited in the period which was offset by Midway issuing compensation warrants as part of the Arrangement with EET. Year to date, stock-based compensation expense was \$67,000 compared to \$305,000 for the same period in 2008. 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 (\$)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Stock-based Compensation	(39)	47	91	67	305
\$/boe (6:1)	(0.48)	0.53	0.93	0.25	1.09

Interest Expense

Interest expense represents interest on the Company's \$21.0 million credit facility (the "Credit Facility") and an estimate of Part XII.6 tax payable on Midway's outstanding flow-through commitments using the "look-back" rule. For the three months ended September 30, 2009, the Company recorded interest expense of \$122,000 compared to \$73,000 for the third quarter of 2008 and 151,000 for the second quarter of 2009. For the nine months ended September 30, 2009, Midway recorded interest expense of \$381,000 compared to \$155,000 in the corresponding period in 2008. The increase in interest expense for the three and nine months ended September 30, 2009 is due to higher outstanding amounts under the Credit Facility and the estimate of Part XII.6 tax payable. As at September 30, 2009, Midway had \$13.3 million of bank debt outstanding under the Credit Facility.

Interest Expense (\$)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Interest Expense	122	151	73	381	155
\$/boe (6:1)	1.49	1.69	0.75	1.45	0.55
Bank debt at the end of period	13,288	13,156	7,409	13,288	7,409

Depletion, Depreciation and Accretion

DD&A Expense (\$)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Depletion and Depreciation	1,986	2,018	2,029	6,101	5,836
Accretion	48	40	29	118	87
Total	2,034	2,058	2,058	6,219	5,923

DD&A Expense (\$/boe – 6:1)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Depletion and Depreciation	24.33	22.69	20.73	23.15	20.83
Accretion	0.59	0.44	0.30	0.45	0.31
Total \$/boe (6:1)	24.92	23.12	21.03	23.60	21.14

Depletion and depreciation

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, seismic and salvage values and includes future development costs.

Midway recorded \$6.2 million or \$24.92 per boe of DD&A in the third quarter of 2009 compared to \$2.1 million or \$21.03 per boe in the third quarter of 2008 and \$2.1 million or \$23.12 per boe during the second quarter of 2009. The increase in DD&A per boe in the third quarter of 2009 compared to the third quarter of 2008 and second quarter of 2009 is the result of a transfer of the Company's undeveloped land to the depletable base and an increase in accretion per boe due to the acquisition of EET which increased the asset retirement obligations. In total DD&A has remained relatively consistent over the periods with slightly higher costs for proven reserves offsetting slight declines in production volumes. Year to date, DD&A was \$6.2 million or \$23.60 per boe compared to \$5.9 million or \$21.14 per boe with changes consistent with those discussed for the quarter.

Accretion

Accretion represents the change in the time value of the asset retirement obligations ("ARO"). ARO is a balance sheet provision based on the Company's net ownership in wells and facilities. Management estimates the cost to abandon and reclaim the wells and facilities and the estimated time period during which these costs will be incurred in the future. Management estimates the total undiscounted amount of future cash flows required to abandon and reclaim wells and facilities as at September 30, 2009 to be approximately \$7.8 million, to be incurred over an average of 12 years. Midway used discount rates of 8% and 10% and an inflation rate of 2% in 2009 to calculate its ARO obligations.

The underlying ARO may be increased over the period based on new obligations incurred from drilling wells or constructing facilities. Similarly, this obligation can be reduced as a result of abandonment work undertaken thereby reducing future obligations. There has been \$48,000 recognized as accretion expense for the third quarter of 2009 compared to \$29,000 for the third quarter of 2008 and \$40,000 for the second quarter of 2009, primarily due to the acquisition of EET.

Income Taxes

The Company has a future income tax asset of \$4.0 million as at September 30, 2009. 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.

Midway recognized a future income tax reduction in the first quarter of 2009 of \$1.7 million. This future tax reduction is associated with the renouncement in the first quarter of 2009 of the associated expenditures related to the \$6.9 million of flow-through shares issued in May 2008.

As at September 30, 2009, the Company had incurred \$5.9 million of qualifying flow-through expenditures and is required to incur the remaining \$1.0 million of flow-through expenditures prior to December 31, 2009. In connection with the corporate acquisition of EET, the Company is also required to incur \$1 million of qualifying expenditures prior to December 31, 2009 to satisfy a flow-through commitment made by EET prior to its acquisition by the Company.

The Company has \$81.5 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 2009 or 2010. Taxes payable beyond 2010 will be primarily a function of commodity prices, capital expenditures and production volumes.

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

	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Net Earnings (Loss) (\$)	(3,503)	(1,432)	280	(4,798)	1,545
\$/share					
Basic and diluted	(0.14)	(0.11)	0.02	(0.28)	0.12
Cash flow from (used in) operating activities (\$)	(1,107)	327	3,330	(66)	7,845
\$/share					
Basic and diluted	(0.05)	0.02	0.25	(0.00)	0.62
Funds from (used in) operations (\$)	(1,513)	274	1,770	(250)	7,677
\$/share					
Basic and diluted	(0.06)	0.02	0.13	(0.01)	0.61

In the third quarter of 2009 the Company incurred a net loss of \$3.5 million compared to net earnings of \$280,000 for the third quarter of 2008 and a net loss of \$1.4 million for the second quarter of 2009. The decrease in net earnings for the third quarter of 2009 compared to the third quarter of 2008 and the second quarter of 2009 is due to lower revenues and higher operating costs and general and administrative expenses which included the severance payments associated with the Arrangement with EET. Year to date, a net loss of \$4.8 million was incurred compared to net earnings of \$1.5 million for the same period in 2008. The reduction in net earnings year to date is due to lower commodity prices and production combined with higher operating costs and G&A expenses.

Funds from operations for the third quarter of 2009 were an outflow of \$1.5 million compared to an inflow of \$1.8 million in the third quarter of 2008 and an inflow of \$274,000 in the second quarter of 2009. The decreases are primarily due to lower production volumes and increases in operating costs and G&A. Year to date, funds from operations were an outflow of \$250,000 compared to an inflow of \$7.7 million for the same period in 2008 due to lower commodity prices and production, and the increase in operating costs and G&A noted above.

Capital Expenditures

Midway invested \$12.6 million on its capital expenditure program during the third quarter of 2009 compared to \$7.1 million in the third quarter of 2008 and net dispositions of \$65,000 during the second quarter of 2009. Capital expenditures for the third quarter of 2009 were focused on acquisitions, with \$12.4 million attributable to the acquisition of certain petroleum and natural gas assets in Garrington and the acquisition of EET. Year to date, capital expenditures net of dispositions were \$13.1 million compared to \$24.5 million for the same period in 2008. The significant reduction in capital expenditures year over year is due to the impact of lower commodity prices and the reduced availability of both debt and equity capital in the first half of 2009 requiring the Company to limit its capital spending.

Capital Expenditures (\$)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Cash expenditures:					
Land	234	137	498	543	1,202
Seismic	3	-	359	53	893
Drilling and completion	(3)	135	5,124	326	14,696
Equipment facilities and pipelines	15	178	1,147	265	6,253
Total E&D expenditures	249	450	7,128	1,187	23,044
Other assets	-	-	-	-	10
Acquisitions and dispositions	7,500	(515)	-	6,985	1,450
Total cash capital expenditures	7,749	(65)	7,128	8,172	24,504
Non-cash expenditures:					
Property acquisition	825	-	-	825	-
Business acquisitions	4,061	-	-	4,061	-
Total capital expenditures	12,635	(65)	7,128	13,058	24,504

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 is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from petroleum and natural gas marketers and joint venture partners. As at September 30, 2009 the Company's accounts receivable balance was approximately \$878,000 (December 31, 2008 - \$2,587,000). At September 30, 2009, \$65,000 of the Company's accounts receivable balance had an outstanding age of greater than 90 days (December 31, 2008 - \$1,131,000). At December 31, 2008 the \$1.1 million of other trade receivables greater than 90 days related to net GST/ITC refunds that were subsequently collected in 2009. 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 carrying amount of accounts receivable represent the maximum credit exposure. The Company has written-off \$15,000 of accounts receivable during the nine months ended September 30, 2009 (December 31, 2008 - \$51,000). The Company will only choose to write-off accounts receivable (as opposed to providing an allowance) after all reasonable avenues of collection have been exhausted.

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 totaling \$1.8 million as at September 30, 2009 are due within one year.

The Company's bank debt totaling \$13.3 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 as a demand loan 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 and limits commitments to ensure bank debt under the Credit Facility is prudently managed.

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 value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. From time to time, the Company may utilize financial derivative contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

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 outstanding at September 30, 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.

For a detailed discussion of other risks and uncertainties relating to Midway, refer to the risks identified in the Company's annual information form filed on SEDAR at www.sedar.com.

Liquidity and Capital Resources

As at September 30, 2009, Midway had a working capital deficiency of \$313,000, excluding the current portion of bank debt totaling \$13.3 million. Midway uses a combination of funds from operations, bank debt and equity issues to finance its capital expenditure program. During the three and nine months ended September 30, 2009 the Company raised additional equity totaling \$10.6 million in connection with the Arrangement with EET and the exercise of Arrangement Warrants. Subsequent to September 30, 2009, Midway closed an issue of common shares for gross proceeds of \$27.5 million before issue costs that was used to finance an acquisition and general bank debt reduction (see *Subsequent Events*). At September 30, 2009, Midway had approximately \$8 million of undrawn capacity under its existing Credit Facility to finance the Company's future capital expenditures and subsequent to September 30, 2009 the Credit Facility was increased to \$27 million (see *Subsequent Events*).

As at September 30, 2009, Midway had a \$21.0 million revolving demand loan facility (the "Credit 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 to be completed by May 31, 2010. There can be no assurance that amounts available under the Credit Facility will not decrease 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). The Company is in compliance with all covenants under the Credit Facility.

The Company expects that for the next several quarters Midway will significantly increase its capital expenditure program and funds from operations compared to prior activity in 2009. As such, Midway will monitor 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. Based on forecast exit production of 2,200 to 2,300 boe/d and commodity prices using average strip prices for 2010 of US \$75/bbl WTI and CAD \$5.75/GJ at AECO, the Company expects this ratio to be in the range of 1.5 to 2.0 : 1 over the next year.

As at September 30, 2009, \$13.3 million (December 31, 2008 - \$13.1 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 nine months ended September 30, 2009 the effective interest rate was 4.25% (2008 – 4.25%).

Bank Debt (\$)	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
Bank debt, end of period	13,288	13,156	7,409	13,288	7,409

Related-Party Transactions

Legal services are provided by a firm in which two Directors of the Company are partners (the “Firm”). During the nine months ended September 30, 2009, the Firm provided legal services totaling \$53,000 (2008 - \$9,000). An accrual of \$270,000 for legal services provided by the Firm but not billed at September 30, 2009, primarily related to the transaction with EET, (2008 – \$31,000) 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.

Off-Balance-Sheet Financing

Midway was not involved in any off-balance-sheet financing for the three and nine months ended September 30, 2009, 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.

As at September 30, 2009, Midway had a \$21 million Credit Facility with an Alberta based financial institution (see *Liquidity and Capital Resources*) that was subsequently increased to \$27 million (see *Subsequent Events*).

On May 15, 2008, the Company issued 1,569,000 flow-through common shares for gross proceeds of \$6.9 million. Under the terms of the flow-through share agreements, the Company is required to renounce \$6.9 million of qualifying oil and natural gas expenditures effective December 31, 2008 and has until December 31, 2009 to incur the expenditures. As at September 30, 2009, the Company has incurred \$5.9 million of qualifying oil and natural gas expenditures and is required to incur an additional \$1.0 million of expenditures prior to December 31, 2009. In connection with the corporate acquisition of EET, the Company is also required to incur \$1 million of qualifying expenditures prior to December 31, 2009 to satisfy EET’s flow-through commitment.

The Company has operating lease commitments for two office premises expiring December 31, 2010 and December 31, 2015, respectively that total \$340,000 in 2010 and approximately \$240,000 annually for the remaining term.

Subsequent Events

On October 6, 2009, Midway completed the issue of 22 million common shares with a syndicate of underwriters (the “Offering”) at an issue price of \$1.25 per common share for gross proceeds of \$27.5 million before commissions and other costs of the Offering estimated at \$1,870,000.

On October 6, 2009, Midway closed a purchase and sale agreement with a private oil and gas company for the acquisition of certain petroleum and natural gas assets. The purchase price for the acquisition was \$22.5 million, before final closing adjustments. As at September 30, 2009, two deposits related to this acquisition totaled \$1.05 million. In connection with this acquisition the Lender increased the Company’s Credit Facility to \$27 million.

Outstanding Share Trading Data

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

\$ Per Share	Q3 2009	Q2 2009	Q3 2008	YTD 2009	YTD 2008
High	1.84	0.87	4.00	1.84	4.00
Low	0.69	0.56	2.57	0.30	2.27
Close	1.72	0.74	2.90	1.72	2.90
Average Daily Volume	89,070	47,321	9,370	55,689	11,726

As at September 30, 2009, Midway had 32.5 million Class A common shares and 3.0 million incentive warrants to purchase common shares outstanding. The incentive warrants have an exercise price of \$1.05 per share. As at October 28, 2009, Midway had 54.5 million Class A common shares and 3.0 million incentive warrants to purchase common shares outstanding. The Company also had 3,524,500 options to purchase common shares at an average exercise price of \$1.20 per share that were granted but not are not exercisable pending shareholder approval.

ADDITIONAL INFORMATION

Disclosure Controls and Procedures ("DC&P")

Midway's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures that ensure 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. Midway's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation that Midway's disclosure controls and procedures for the quarter ended September 30, 2009 are designed to provide reasonable assurance that material information related to Midway is made known to them.

Internal Controls Over Financial Reporting ("ICOFR")

No changes in our internal control over financial reporting ("ICOFR") were made during the three months ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, our ICOFR.

Accounting Changes and Pronouncements

In December 2008, the CICA issued Handbook Sections 1582 - "Business Combinations". This standard outlines new 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. The new standard becomes effective on January 1, 2011 and early adoption is permitted. The Company has not yet adopted this standard.

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Effective for fiscal years beginning on or after October 1, 2008, this section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements will be required. The implementation of this standard had no impact on the Company's financial statements.

In May 2009, the Canadian Institute of Chartered Accountants amended Section 3862, "Financial Instruments – Disclosures," to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. These amendments will be effective for the Company's interim and annual financial statements beginning December 31, 2009.

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. Under these amendments, 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. The Company is continuing its assessment of the key differences between GAAP and IFRS and anticipates finalizing its project plan with the help of its external advisors by the time the Company reports its year-end results.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of material fines and penalties.

Midway continues to monitor the regulatory landscape in order to assess current and potential future impacts on our business.

For a detailed discussion of these regulations refer to the Company's annual information form filed on SEDAR at www.sedar.com.

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 consolidated the Company's land position;
- forecast capital expenditures and the method of financing thereof;
- anticipated production rates and production mix, including performance characteristics of Midway's oil and natural gas properties;
- anticipated expenses, funds from operations and other financial results;
- Midway's business strategy and management focus;
- future liquidity and the ability to raise capital to continually add reserves;
- Midway's asset base and future prospects for development and growth;
- estimates of future cash flows from operations;
- estimated net debt to funds from operations;
- funding or remaining flow through obligations;
- 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.

In addition, statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

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 including its annual information form 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

The following table provides selected quarterly information for Midway.

	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Production:								
Natural gas (mcf/d)	4,401	4,988	5,076	4,940	5,967	6,034	4,872	5,325
Oil and NGL's (bbl/d)	154	149	189	145	69	95	91	107
Oil equivalent (boe/d 6 : 1)	887	980	1,035	969	1,064	1,100	903	994
Financial:								
Revenue	2,053	2,369	2,882	3,133	4,365	6,521	3,672	3,464
Net earnings (loss)	(3,503)	(1,432)	137	(1,364)	280	1,497	(232)	(279)
Per share (\$)								
Basic and diluted	(0.14)	(0.11)	0.01	(0.10)	0.02	0.12	(0.02)	(0.02)
Funds from (used in) operations	(1,513)	274	590	815	1,770	4,200	1,707	1,576
Per share (\$)								
Basic and diluted	(0.06)	0.02	0.04	0.06	0.13	0.33	0.14	0.13
Cash flow from (used in) operating activities	(1,107)	327	714	533	3,330	2,536	1,979	1,404
Total assets	71,347	59,260	60,290	63,502	62,724	58,950	53,564	44,249
Bank debt ⁽¹⁾	13,288	13,156	13,024	13,050	7,409	6,612	5,803	-
Working capital (deficiency) ⁽²⁾	(313)	827	356	280	(3,268)	1,294	(4,278)	(349)
Total long-term liabilities ⁽¹⁾	3,355	1,984	2,013	15,052	9,381	8,491	7,632	1,650
Shareholders' equity	52,908	42,742	44,099	45,607	46,909	46,511	38,379	38,478
Common shares outstanding	32,493	13,405	13,405	13,405	13,405	13,405	11,836	11,836
Dilutive equity instruments	3,000	1,270	1,270	1,270	1,270	1,270	1,121	1,121
Weighted average shares								
Basic and diluted	24,246	13,405	13,405	12,629	13,405	12,629	11,836	11,836
Per Unit:								
Oil and NGL revenue (\$/bbl)	63.43	60.39	46.52	43.31	100.68	103.29	72.76	65.41
Natural gas revenue (\$/mcf)	2.85	3.83	4.79	6.55	7.50	10.76	7.29	5.88
Oil equivalent (\$/boe)	25.14	28.67	31.98	39.89	48.63	67.89	46.69	38.51
Operating netback (\$/boe)	5.10	15.74	13.10	15.13	24.56	47.83	26.26	21.95

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

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

For the quarterly periods indicated, the Company has maintained average production in the range of approximately 900 to 1,100 boe per day. Quarterly petroleum and natural gas revenue has fluctuated directly with commodity prices. Quarterly revenue peaked in Q2 2008 at \$6.5 million compared to \$2.1 million for the most recent quarter. Royalties have fluctuated over the periods indicated largely due to commodity prices, field activity, the availability of crown gas cost allowance and changes to the Alberta crown royalty structure. Operating expenses have been maintained in the range of \$9.34 to \$12.65 per boe with the exception of the current quarter and are generally reflective of field activity. 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 commodity prices. Net earnings are reflective of normal oil and natural gas operations; 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 and Q3 2009 includes severance paid to the prior staff of Midway. As at September 20, 2009, Midway had approximately \$8 million of unused capacity under its Credit Facility which was increased to \$27 million subsequent to the quarter in connection with an acquisition of producing properties.

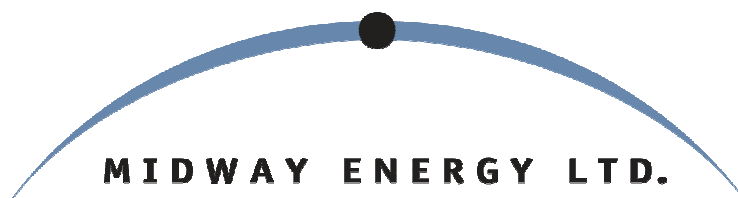
For further information, please contact:

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Interim Financial Statements
For the three and nine months ended September 30, 2009 and 2008

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

	September 30, 2009	December 31, 2008
Assets		
Current assets:		
Accounts receivable	\$ 877	\$ 2,587
Prepaid expenses and deposits	606	536
	1,483	3,123
Deposits (note 13)	1,050	-
Property, plant and equipment (note 4)	68,814	60,379
	\$ 71,347	\$ 63,502
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,796	\$ 2,843
Bank debt (note 5)	13,288	-
	15,084	2,843
Bank debt (note 5)	-	13,050
Tenant inducement (note 3)	166	-
Asset retirement obligations (note 6)	3,189	2,002
	18,439	17,895
Shareholders' equity:		
Share capital (note 7)	58,660	46,641
Warrants (note 7)	3	-
Contributed surplus (note 7)	1,786	1,709
Deficit	(7,541)	(2,743)
	52,908	45,607
Commitments (note 11)		
Subsequent events (note 13)		
	\$ 71,347	\$ 63,502

see accompanying notes to the interim financial statements

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

Thousands of Dollars, except per share amounts
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenues				
Petroleum and natural gas	\$ 2,053	\$ 4,757	\$ 7,589	\$ 15,392
Royalties	113	(937)	(543)	(2,422)
Realized loss on financial instruments	-	(70)	-	(192)
Unrealized gain on financial instruments	-	659	-	96
Interest	2	-	74	4
	2,168	4,409	7,120	12,878
Expenses				
Operating	1,748	1,419	4,004	3,621
General and administrative	1,806	488	2,980	1,329
Stock-based compensation (recovery) (note 7)	(39)	91	67	305
Interest	122	73	381	155
Depletion, depreciation and accretion	2,034	2,058	6,219	5,923
	5,671	4,129	13,651	11,333
Earnings (loss) before taxes	(3,503)	280	(6,531)	1,545
Future income tax reduction	-	-	1,733	-
Net earnings (loss) and comprehensive income (loss)	(3,503)	280	(4,798)	1,545
Deficit, beginning of period	(4,038)	(1,659)	(2,743)	(2,924)
Deficit, end of period	\$ (7,541)	\$ (1,379)	\$ (7,541)	\$ (1,379)
Earnings (loss) per share (note 7)				
Basic and diluted	\$ (0.14)	\$ 0.02	\$ (0.28)	\$ 0.12

see accompanying notes to the interim financial statements

Midway Energy Ltd. (formerly Trafalgar Energy Ltd.)
Statements of Cash Flows

Thousands of Dollars
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	\$ (3,503)	\$ 280	\$ (4,798)	\$ 1,545
Items not involving cash:				
Depletion, depreciation and accretion	2,034	2,058	6,219	5,923
Stock-based compensation (recovery)	(39)	91	67	305
Future income tax reduction	-	-	(1,733)	-
Amortization of tenant inducement	(5)	-	(5)	-
Unrealized gain on financial instruments	-	(659)	-	(96)
Asset retirement expenditures	-	-	(399)	-
Change in non-cash working capital (note 9)	406	1,560	583	168
	(1,107)	3,330	(66)	7,845
Financing activities:				
Bank indebtedness	(1,345)	797	(1,239)	7,409
Issue of common shares	10,606	-	10,606	6,904
Issue of warrants	3	-	3	-
Share issue costs	-	(1)	-	(405)
	9,264	796	9,370	13,908
Investing activities:				
Acquisition of property, plant and equipment	(249)	(7,128)	(1,187)	(23,054)
Deposit on property acquisition (note 13)	(1,050)	-	(1,050)	-
Business acquisition (note 3)	(375)	-	(375)	-
Property acquisitions	(7,125)	-	(7,125)	(1,450)
Disposal of property, plant and equipment	-	-	515	-
Change in non-cash working capital (note 9)	642	3,002	(82)	2,138
	(8,157)	(4,126)	(9,304)	(22,366)
Change in cash	-	-	-	(613)
Cash, beginning of period	-	-	-	613
Cash, end of period	\$ -	\$ -	\$ -	\$ -

Cash is defined as cash and cash equivalents

see accompanying notes to the interim financial statements

Midway Energy Ltd. (formerly Trafalgar Energy Ltd.)

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2009

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

1. Nature of Operations and Basis of Presentation

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

These unaudited interim financial statements 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 the Company for the year ended December 31, 2008. 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, 2008. Certain prior period amounts have been reclassified to conform to the presentation in the current period.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from those estimates.

2. Change in Accounting Policies

In December 2008, the CICA issued Handbook Sections 1582 - “Business Combinations”. This standard outlines new 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. The new standard becomes effective on January 1, 2011 and early adoption is permitted. The Company has not yet adopted this standard.

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Effective for fiscal years beginning on or after October 1, 2008, this section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements will be required. The implementation of this standard had no impact on the Company’s financial statements.

In May 2009, the Canadian Institute of Chartered Accountants amended Section 3862, “Financial Instruments – Disclosures,” to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. These amendments will be effective for the Company’s interim and annual financial statements beginning December 31, 2009.

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. Under these amendments, 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. The Company is continuing its assessment of the key differences between GAAP and IFRS and anticipates finalizing its project plan with the help of its external advisors by the time the Company reports its year-end results.

Midway Energy Ltd. (formerly Trafalgar Energy Ltd.)

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2009

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

(unaudited)

3. Business Acquisition

On July 31, 2009, Midway 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 allocation of the purchase price is based on Management's best estimate and information available at the time of preparing these financial statements; when the allocation is finalized, changes could be material. The allocation of the purchase price to assets acquired and liabilities assumed based on their fair value is set out in the following table:

Consideration:	
Shares issued	\$ 2,321
Transaction costs	375
	<hr/>
	\$ 2,696
Allocation to net assets at fair value:	
Property, plant and equipment	\$ 4,741
Working capital deficiency	(92)
Bank debt	(1,477)
Asset retirement obligations	(305)
Tenant inducement	(171)
	<hr/>
	\$ 2,696

4. Property, Plant and Equipment

	Cost	Accumulated Depletion & Depreciation	Net Book Value
<hr/>			
September 30, 2009			
Petroleum and natural gas properties	\$ 91,890	\$ 23,349	\$ 68,541
Leaseholds and office furniture	358	85	273
	<hr/>	<hr/>	<hr/>
	\$ 92,248	\$ 23,434	\$ 68,814
December 31, 2008			
Petroleum and natural gas properties	\$ 77,590	\$ 17,271	\$ 60,319
Leaseholds and office furniture	122	62	60
	<hr/>	<hr/>	<hr/>
	\$ 77,712	\$ 17,333	\$ 60,379

For the three and nine months ended September 30, 2009, the Company capitalized general and administrative costs that were directly attributable to exploration activities of \$9,000 and \$237,000, respectively (September 30, 2008 - \$126,000 and \$361,000, respectively). Stock-based compensation related to the general and administrative costs was also capitalized (see note 7). On September 15, 2009, the Company acquired certain interests in petroleum and natural gas properties for cash consideration after adjustments of \$7,125,000 and share consideration of \$825,000 (see note 7(iii)). The properties acquired had associated asset retirement obligations of \$517,000.

As at September 30, 2009, \$8.3 million (September 30, 2008 - \$15.3 million) of costs related to unproved property costs and seismic were excluded from costs subject to depletion. Future development costs of \$1.8 million (September 30, 2008 - \$1.6 million) were included in the costs subject to depletion and depreciation.

Midway Energy Ltd. (formerly Trafalgar Energy Ltd.)

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2009

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

(unaudited)

5. Bank Debt

As at September 30, 2009, Midway had a \$21.0 million revolving demand loan facility (the "Credit Facility") with an Alberta based financial institution (the "Lender"). Subsequent to September 30, 2009, the Credit Facility was increased to \$27.0 million (see note 13). As the Credit Facility is a demand loan the entire amount is included in current liabilities.

Bank debt bears interest at the Lender's prime lending or bankers' acceptance rates plus applicable margins and the Credit Facility is secured by a general security agreement. The borrowing base is subject to re-determination annually, with the next scheduled review to be on or before May 31, 2010. 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. Under the Credit Facility, 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). The Company is in compliance with all debt covenants.

At September 30, 2009, \$13.3 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 nine months ended September 30, 2009 the effective interest rate on the Company's bank debt was 4.25% (September 30, 2008 – 4.25%).

6. Asset Retirement Obligations

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its asset retirement obligation is approximately \$7.8 million which is expected to be incurred over an average of 12 years. An inflation factor of 2% has been applied to the estimated asset retirement cost at September 30, 2009 and December 31, 2008. A credit-adjusted risk-free rate of 8% and 10% was used to calculate the fair value of the asset retirement obligations at September 30, 2009 (December 31, 2008 – 8%). The following schedule reconciles the Company's asset retirement obligations:

	Three Months ended Sept. 30, 2009	Nine Months ended Sept. 30, 2009	Year ended December 31, 2008
Balance, beginning of period	\$ 1,984	\$ 2,002	\$ 1,650
Changes in estimates	323	634	-
Liabilities incurred on acquisitions	834	834	14
Liabilities incurred	-	-	222
Asset retirement expenditures	-	(399)	-
Accretion	48	118	116
Balance, end of period	\$ 3,189	\$ 3,189	\$ 2,002

Midway Energy Ltd. (formerly Trafalgar Energy Ltd.)

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2009

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

(unaudited)

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

Issued and outstanding

Class A voting Common Shares	Number		Amount
Balance, beginning of period	-	\$	-
Issued to voting common shareholders on reorganization (i)	11,163,590		41,043
Issued to non-voting common shareholders on reorganization (i)	2,241,291		3,865
Issued to EET shareholders on acquisition (i)	3,317,003		2,321
Issued to EILP unit holders on acquisition (i)	10,683,000		7,478
Issued pursuant to the exercise of Series A Arrangement warrants (ii)	4,468,287		3,128
Issued pursuant to property acquisition (iii)	620,301		825
Balance, end of period	32,493,472	\$	58,660

Common Shares, voting			
Balance, beginning of period	11,163,590	\$	42,776
Future taxes on flow through common shares (iv)	-		(1,733)
Shares exchanged for class A voting shares (i)	(11,163,590)		(41,043)
Balance, end of period	-	\$	-

Common Shares, non-voting			
Balance, beginning of period	2,241,291	\$	3,865
Shares exchanged for class A voting shares (i)	(2,241,291)		(3,865)
Balance, end of period	-	\$	-

Total Share Capital	32,493,472	\$	58,660
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- (i) On July 31, 2009, the Company closed the acquisition of EET Management Corp. ("EET") pursuant to a Plan of Arrangement (the "Arrangement") and in connection with the acquisition reorganized the capital of the Company. Pursuant to the Arrangement, Midway issued 13,404,881 Class A voting shares in exchange for 11,163,590 voting common shares and 2,241,291 non-voting common shares. For every three voting or non-voting common shares held, shareholders of the Company were issued a Series A Arrangement Warrant (the "Arrangement Warrants") that could be exercised for Class A voting shares at an ascribed value of \$0.70 per common share.

In addition, the Company issued 3,317,003 Class A voting shares at an ascribed value of \$0.70 to shareholders of EET for their issued and outstanding shares (see note 3). The ascribed value of \$0.70 per common share was determined based on the Company's five-day weighted average trading price before and after the announcement of the EET acquisition on June 4, 2009. One-third of the new common shares issued to EET shareholders who were directors, officers, employees or consultants of EET 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. Energy Investment Limited Partnership ("EILP"), which was acquired by the Company pursuant to the Arrangement, had completed aggregate private placement financings of 10,683,000 partnership units at \$0.70 per unit for gross proceeds of \$7,478,100. Midway issued 10,683,000 Class A voting shares at an ascribed value of \$0.70 for all of the issued and outstanding partnership units of EILP. EET was amalgamated with the Company immediately following closing and EILP was dissolved.

Midway Energy Ltd. (formerly Trafalgar Energy Ltd.)

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2009

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

(unaudited)

- (ii) On August 31, 2009, Midway issued 4,468,287 Class A voting shares to shareholders that exercised their Arrangement Warrants (see note 7(i)) for gross proceeds of \$3,127,801.
- (iii) On September 15, 2009, Midway issued 620,301 Class A voting 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 (see note 4).
- (iv) During the first quarter of 2009, the Company recognized the \$1.7 million tax effect related to the \$6.9 million of flow-through shares issued in 2008 when the expenditures were renounced.

Compensation 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 million incentive warrants at a price of \$0.001 per warrant for total gross proceeds of \$3,000, which entitle the holder to acquire one Class A common share at an exercise price of \$1.05 per common share for a period of five years from closing, subject to the warrants vesting in equal amounts over three years. The compensation warrants were assigned a fair value using a Black-Scholes option pricing model as described in contributed surplus below.

Per share amounts

The weighted average number of common shares outstanding for the three and nine months ended September 30, 2009 and 2008 are as follows:

Weighted average common shares	Three months ended September, 30		Nine months ended September, 30	
	2009	2008	2009	2008
Basic and diluted	24,245,678	13,404,883	17,058,190	12,626,109

The 3 million compensation warrants were not included in the calculation of the weighted average diluted common shares outstanding as they are 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. Options have a five year term to maturity.

The following table sets forth a reconciliation of the plan activity through September 30, 2009:

	Number	Weighted Average Exercise Price
Balance, beginning of period	1,269,250	\$ 4.05
Forfeited	(974,750)	4.05
Cancelled	(294,500)	4.08
Balance, end of period	-	\$ -

Pursuant to the Arrangement with EET (see note 7(i)) stock options issued to the previous directors, officers, employees or consultants of the Company that were not continued with Midway following the Arrangement were forfeited and those issued to the directors and officers that continued with Midway were cancelled.

During the three and nine month periods ended September 30, 2009, the Board of Directors granted 2,074,500 stock options at an exercise price of \$0.87 per common share and 700,000 stock options at an exercise price of \$1.74 per common share. The stock options are not exercisable pending shareholder approval and accordingly, have not been included in the calculation of stock-based compensation.

Midway Energy Ltd. (formerly Trafalgar Energy Ltd.)

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2009

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

(unaudited)

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. During the three months and nine months ended September 30, 2009, the Company capitalized stock-based compensation in the amount of \$25,000 and \$82,000, respectively (2008 – \$28,000 and \$82,000, respectively) and recorded a recovery of previously capitalized stock-based compensation related to forfeited stock options in the amount of \$72,000 for the three and nine months ended September 30, 2009.

	Three Months ended Sept. 30, 2009	Nine Months ended Sept. 30, 2009	Year ended December 31, 2008
Balance, beginning of period	\$ 1,872	\$ 1,709	\$ 1,224
Stock-based compensation	166	329	485
Stock-based compensation recovery	(252)	(252)	-
Balance, end of period	\$ 1,786	\$ 1,786	\$ 1,709

The fair value of dilutive equity instruments issued was estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values as follows:

	2009
Weighted average fair value of instruments issued	\$0.50
Risk-free interest rate (%)	3.2
Volatility (%)	68
Expected life in years	5
Expected future dividends	Nil

8. Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the 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 as in the table below. 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.

	September 30, 2009	December 31, 2008
Shareholders' equity	\$ 52,908	\$ 45,607
Bank debt	\$ 13,288	\$ 13,050
Working capital surplus (deficiency):	\$ (313)	\$ 280

The Company expects that for the next several quarters it will significantly increase its capital expenditure program and funds from operations compared to prior activity in 2009. As such, Midway will monitor 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. 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.

Midway Energy Ltd. (formerly Trafalgar Energy Ltd.)

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2009

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

(unaudited)

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 bank 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 nine months ended September 30, 2009 with the exception that capital is now monitored using expected future cash flows rather than historical cash flows which was the method used in prior periods.

9. Supplemental Cash Flow Information

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

	Three Months ended September 30,		Nine Months ended September 30,	
	2009	2008	2009	2008
Accounts receivable	\$ 637	\$ 1,464	\$ 1,877	\$ 462
Prepaid expenses and deposits	313	49	(9)	(469)
Accounts payable and accrued liabilities	98	3,049	(1,367)	2,313
Change in non-cash working capital	\$ 1,048	\$ 4,562	\$ 501	\$ 2,306

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

	Three Months ended September 30,		Nine Months ended September 30,	
	2009	2008	2009	2008
Operating	\$ 406	\$ 1,560	\$ 583	\$ 168
Investing	642	3,002	(82)	2,138
Change in non-cash working capital	\$ 1,048	\$ 4,562	\$ 501	\$ 2,306

Interest paid and received

	Three Months ended September 30,		Nine Months ended September 30,	
	2009	2008	2009	2008
Interest received	\$ 2	\$ -	\$ 74	\$ 4
Interest paid	\$ 111	\$ 73	\$ 330	\$ 155

10. Financial Risk Management

Overview

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

- credit risk
- liquidity risk
- market risk

Midway Energy Ltd. (formerly Trafalgar Energy Ltd.)

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2009

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

(unaudited)

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

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 the Company's receivables from petroleum and natural gas marketers and joint venture partners. As at September 30, 2009 the Company's accounts receivable balance was approximately \$878,000 (December 31, 2008 - \$2,587,000). At September 30, 2009, \$65,000 of the Company's accounts receivable balance had an outstanding age of greater than 90 days (December 31, 2008 - \$1,131,000). At December 31, 2008 the \$1.1 million of other trade receivables greater than 90 days related to net GST/ITC refunds that were subsequently collected in 2009. 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 carrying amount of accounts receivable represent the maximum credit exposure. The Company has written-off \$15,000 of accounts receivable during the nine months ended September 30, 2009 (December 31, 2008 - \$51,000). The Company will only choose to write-off accounts receivable (as opposed to providing an allowance) after all reasonable avenues of collection have been exhausted.

Cash and cash equivalents, when outstanding, consist of cash bank balances and short-term deposits maturing in less than 90 days.

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 totaling \$1.8 million as at September 30, 2009 are due within one year.

The Company's bank debt totaling \$13.3 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 as a demand loan 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 and limits commitments 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 value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. From time to time, the Company may utilize financial derivative contracts to manage market risks in accordance with the risk management policy that has been approved by the Board of Directors.

Midway Energy Ltd. (formerly Trafalgar Energy Ltd.)

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2009

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

(unaudited)

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 outstanding at September 30, 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.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's outstanding bank debt is subject to interest charges calculated at the Lender's prime lending rate. As at September 30, 2009, if interest rates had been 50 basis points higher or lower, the Company's net loss would not have been materially impacted.

Fair value of financial instruments

The Company's financial instruments as at September 30, 2009 and December 31, 2008 include 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.

11. Commitments

On May 15, 2008, the Company issued 1,569,000 flow-through common shares for gross proceeds of \$6.9 million. Under the terms of the flow-through share agreements, the Company has renounced the \$6.9 million of qualifying oil and natural gas expenditures effective December 31, 2008 and has until December 31, 2009 to incur the expenditures. As at September 30, 2009, the Company has incurred \$5.9 million of qualifying expenditures and is required to incur an additional \$1 million of expenditures prior to December 31, 2009. In connection with the corporate acquisition of EET, the Company is also required to incur \$1 million of qualifying expenditures prior to December 31, 2009 to satisfy a flow-through commitment made by EET prior to its acquisition by the Company.

The Company has operating lease commitments for two office premises expiring December 31, 2010 and December 31, 2015, respectively that total \$340,000 in 2010 and approximately \$240,000 annually for the remaining term.

12. Related Party Transactions

Legal services are provided by a firm in which two Directors of the Company are partners (the "Firm"). During the nine months ended September 30, 2009, the Firm provided legal services totaling \$53,000 (2008 - \$9,000). An accrual of \$270,000 for legal services provided by the Firm but not billed at September 30, 2009, primarily related to the transaction with EET, (2008 - \$31,000) 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.

Midway Energy Ltd. (formerly Trafalgar Energy Ltd.)
Notes to Interim Financial Statements

For the three and nine months ended September 30, 2009

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

13. Subsequent events

On October 6, 2009, Midway completed the issue of 22 million common shares with a syndicate of underwriters (the "Offering") at an issue price of \$1.25 per common share for gross proceeds of \$27.5 million before commissions and other costs of the Offering estimated at \$1,870,000.

On October 6, 2009, Midway closed a purchase and sale agreement with a private oil and gas company for the acquisition of certain petroleum and natural gas assets. The purchase price for the acquisition was \$22.5 million, before final closing adjustments. As at September 30, 2009, two deposits related to this acquisition totaled \$1.05 million. In connection with this acquisition the Lender increased the Company's Credit Facility to \$27 million.