



MIDNIGHT REPORTS RECORD PRODUCTION AND OPERATING RESULTS FROM HIGH GROWTH SECOND QUARTER

PRESIDENT'S MESSAGE

"Midnight has an excellent opportunity base of light oil prospects in Red Earth and large high potential multi-zone gas prospects in our Deep Basin area," said Fred Woods, President of Midnight. "We have had excellent results from both these high potential areas and have built a multi-year inventory of both oil and gas prospects as a backbone for Midnight's continued growth."

Midnight delivers record financial (cash flow up 26%) and operating (volumes up 33%) results as production commences from excellent drilling program.

Midnight Oil Exploration Ltd. is pleased to announce its financial and operating results for the second quarter ended June 30, 2006.

SECOND QUARTER 2006 HIGHLIGHTS

RECORD PRODUCTION VOLUMES

- Q2 2006 production volumes of 2,512 boe/d
 - Increased 33% over Q1 2006 and 117% over Q2 2005
- Q2 2006 natural gas production of 10,091 mcf/d
 - Increased 70% over Q1 2006 and 96% over Q2 2005
- Q2 2006 oil and liquids production averaged 830 bbls/d
 - Decreased 8% over Q1 2006 and increased 180% over Q2 2005

RECORD CASH FLOW

- Q2 2006 cash flow of \$6.5 million (\$0.16 per diluted share)
 - Increased 26% over Q1 2006 and 174% over Q2 2005
- Commodity prices varied over the quarter and year over year
 - Q2 2006 Oil and NGL prices of \$72.38/bbl
 - Up 13% over Q1 2006 and 35% over Q2 2005
 - Q2 2006 Natural gas prices of \$5.98/mcf
 - Down 19% over Q1 2006 and down 22% over Q2 2005

OPERATING COSTS REDUCED

- Q2 2006 operating costs decreased to \$7.72/boe a 20% decrease over Q1 2006 and a 16% decrease over Q2 2005

During the second quarter, production commenced from a number of our successful wells drilled during the first quarter. Seasonal conditions constrained production and we continue to take steps to expand our infrastructure, maintaining our ability to deliver our production capacity to sales. Spring break-up and related road conditions hampered our drilling activities during the quarter; we drilled 4 gross (2.5 net) wells, resulting in 1 gross (0.4 net) natural gas well, 1 gross (1.0 net) oil wells and 2 gross (1.1 net) dry holes for a 56% success rate.

OPERATIONS

The second quarter of 2006 saw Midnight's production grow by 33%. During the quarter we delivered very strong production and cash flow growth even with production restraints and restricted activities. Our highly successful Red Earth oil well program was restricted in both activity levels and production levels due to allowables, spring break up and related road conditions. Despite this, we enjoyed excellent results as our oil and NGL program contributed 33% of our production in the quarter and 51% of our operating netback. In the Peace River Arch and our West Central area we were able to bring on additional natural gas production that led to record natural gas production in the quarter. In May we closed a bought deal financing, raising \$20 million, to pursue our high potential drilling program. This flow-through share obligation will be fulfilled by year end 2007.

Following our active and successful first quarter drilling program, Midnight's investment activities focused on building and expanding operated infrastructure to allow us to put on stream production from our oil drilling program in Red Earth and our gas drilling in the Peace River Arch and Sheldon. Expanding infrastructure enables us to control our operations in order to reduce shut-in and sales delays associated with pipeline constraints within our rapidly growing areas.

On the drilling side, Midnight, drilled one successful oil well (1.0 net) in our Red Earth area and a successful multi-zone gas well (0.4 net) in our Beaverlodge area. In addition we drilled two (1.1 net) dry holes in Sheldon, as we attempted to extend the prospect potential of this area. No wells were drilled in our core West Central area that we operate jointly with Daylight Energy Trust. During the quarter we experienced limited access and extended road bans in our highly successful Red Earth area, resulting in reduced production.

Our success continued at **Red Earth** where we drilled one (1.0 net) new pool discovery well. The successes of our winter drilling program combined with our four 3D seismic programs that we shot this winter have vastly expanded our prospect inventory. These successes have validated our interpretations and have solidified the multi-zone prospectivity of this area. We have a large contiguous land base in Red Earth — 108,000 acres (77,000 net) and we have identified 40 – 55 drillable prospects that we will pursue.

Based on the results of our program we are excited about the tremendous potential of this high value light oil prospect area. We have commenced work on the operations and engineering in order to realize the area's full potential. By integrating the detailed geologic and geophysical work with the engineering information, we are working to determine pool size and waterflood potential to maximize recoverable reserves out of the pools. We also continue to work on building infrastructure including: satellite batteries, oil and gas pipelining, and roads with year around access to allow us to further exploit, on a sustained basis, the oil production potential we have identified from this area.

At **Beaverlodge** we drilled a successful multi-zone discovery (0.4 net) well to continue our sweet gas development program in this area. Sour production from this area continues to be restricted and we are evaluating alternatives to bring on our shut-in sour gas as quickly as possible. During the winter we conducted a large 3D seismic program on our 100% lands that further proved up a number of high potential locations.

Following the end of the second quarter, we have continued our drilling program at Red Earth, Peace River Arch and our joint West Central lands. After drilling an additional well at Red Earth, we moved the rig to our drilling prospects in the Wapiti area to drill multi-zone, high-potential gas wells.

OUTLOOK

We are very pleased with the results of our program, the prospect inventory and the productive capacity we have established from this program. We have generated excellent growth in both production and cash flow as well as developed a large multi-year play and prospect inventory in our light oil area of Red Earth and our high potential multi-zone gas areas at Wapiti and Beaverlodge.

Despite our excellent results and the record levels of production and cash flow, we continued during the second quarter and throughout the summer, to be restricted in our production as a result of allowables and seasonal restrictions. Notwithstanding the delays in our program, we expect to exit 2006 in the 3,500 boe/d range with a capital budget of approximately \$65 million for the year.

We continue to generate strong production growth and excellent financial and operating results. We have in place a large and high potential drilling inventory that includes both high value light oil and high potential multi-zone natural gas prospects. With our balanced portfolio, strong technical team and large prospect inventory, we are well positioned to take advantage of current economic conditions to provide future growth for our shareholders.

Fred Woods
President and Chief Executive Officer
August 1, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis as provided by the management of Midnight should be read in conjunction with the unaudited Interim Consolidated Financial Statements and accompanying notes for the six months ended June 30, 2006 and 2005 and the audited Consolidated Financial Statements, related notes and Management Discussion and Analysis for the periods ended December 31, 2005 and 2004.

Basis of Presentation – The financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). The reporting and the measurement currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas is converted to a barrel equivalent (“boe”) using six thousand cubic feet of natural gas equal to one barrel of oil unless otherwise stated. The following management discussion and analysis compares the results of the six months ended June 30, 2006 (“YTD 2006”) to the six months ended June 30, 2005 (“YTD 2005”) and the results of the three months ended June 30, 2006 (“Q2 2006”) to the three months ended June 30, 2005 (“Q2 2005”) and the three months ended March 31, 2006 (“Q1 2006”).

Non-GAAP Measurements - Within the Management Discussion and Analysis references are made to terms commonly used in the oil and gas industry. Funds from operations, funds from operations per share and netbacks are not defined by GAAP in Canada and are referred to as non-GAAP measures. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income per share. Netbacks equal total revenue less royalties, operating costs and transportation costs calculated on a boe basis. Management utilizes these measures to analyze operating performance and leverage. Funds from operations is commonly referred to as cash flow by research analysts and is used to value and compare oil and gas companies and is frequently included in published research when providing investment recommendations. A reconciliation of net income to funds from operations is provided on the consolidated statement of cash flows. Total boes are calculated by multiplying the daily production by the number of days in the period.

Forward Looking Statements - Certain statements contained within the Management Discussion and Analysis, and in certain documents incorporated by reference into this document, constitute forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this Management Discussion and Analysis should not be unduly relied upon. These statements speak only as of the date of this Management Discussion and Analysis or as of the date specified in the documents incorporated by reference into this Management Discussion and Analysis, as the case may be.

In particular, this Management Discussion and Analysis, and the documents incorporated by reference, contain forward-looking statements pertaining to the following:

- *the performance characteristics of our oil and natural gas properties;*
- *oil and natural gas production levels;*
- *the size of the oil and natural gas reserves;*
- *projections of market prices and costs;*
- *supply and demand for oil and natural gas;*
- *expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;*
- *treatment under governmental regulatory regimes and tax laws; and*
- *capital expenditures programs.*

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Management Discussion and Analysis:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems;
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; and
- the other factors discussed under "Risks and Uncertainties" in the annual Management and Discussion Analysis.

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. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this Management Discussion and Analysis and the documents incorporated by reference herein are expressly qualified by this cautionary statement. We do not undertake any obligation to publicly update or revise any forward-looking statements.

This Management Discussion and Analysis is dated as of August 1, 2006.

Selected Quarterly Information

Financial (000's, except for per share amounts)	2006		2005				2004
	Q2	Q1	Q4	Q3	Q2	Q1	Q4 ⁽¹⁾
Petroleum and natural gas sales	\$ 10,988	\$ 9,191	\$ 8,772	\$ 5,997	\$ 5,050	\$ 3,170	\$ 977
Funds from operations	\$ 6,515	\$ 5,187	\$ 4,991	\$ 3,073	\$ 2,374	\$ 1,529	\$ 397
Per share – Basic	0.16	0.14	0.16	0.12	0.09	0.06	0.02
– Diluted	0.16	0.13	0.16	0.12	0.09	0.06	0.02
Net income	\$ 82	\$ 208	\$ 864	\$ 487	\$ 158	\$ 160	\$ 15
Per share – Basic	0.00	0.01	0.03	0.02	0.01	0.01	0.00
– Diluted	0.00	0.01	0.03	0.02	0.01	0.01	0.00
Additions to capital assets	\$ 9,945	\$ 29,485	\$ 55,285	\$ 8,175	\$ 4,482	\$ 8,565	\$ 2,680
Net debt	25,297	41,028	16,730	11,344	6,242	4,134	(2,902)
Total assets	138,842	134,452	111,171	54,187	47,350	45,106	42,120
Shares outstanding							
Basic	42,328	38,328	38,328	26,328	26,328	26,328	26,328
Diluted	45,903	41,495	41,511	29,360	29,393	28,821	28,661
Operations							
Average daily production							
Natural gas (mcf/d)	10,091	5,926	4,694	4,885	5,151	3,924	3,549
NGLs & oil (bbls/d)	830	901	600	270	297	135	132
Combined (boe/d)	2,512	1,889	1,382	1,084	1,156	788	723

(1) 2004 is since inception for the period of November 29, 2004 to December 31, 2004.

The quarterly analysis highlights that funds from operations have increased quarter over quarter since inception due to the increases in production accompanied by strong commodity prices. A net share issue in Q2 2006 of \$19.2 million helped to strengthen our balance sheet and with an increased borrowing base to \$30 million, allowed us to continue with our exploration program.

Relationship with Daylight Energy Trust (“Daylight”)

Midnight and Daylight operate under an Administrative and Technical Services Agreement which provides for the sharing of services required to manage Midnight's activities and govern the allocation of general and administration expenses between the entities. Under this agreement, Daylight is the employer on behalf of the parties and receives payment for certain technical and administrative services provided to Midnight. Both Midnight and Daylight have established independent Corporate Governance committees within their respective Boards of Directors to monitor compliance with this agreement. Pursuant to the proposed merger of Daylight with Sequoia Oil & Gas Trust, which is anticipated to occur in late Q3, Daylight has undertaken to terminate this agreement with Midnight on mutually acceptable terms.

Production

Midnight's production averaged 2,512 and 2,202 boe per day for Q2 2006 and YTD 2006. Q2 production of 2,512 boe per day consisted of 10,091 mcf per day of natural gas, 660 bbls per day of oil and 170 bbls per day of natural gas liquids (“NGLs”). YTD 2006 production consisted of 8,020 mcf per day of natural gas, 712 bbls per day of oil and 153 bbls per day of NGLs. Current quarter production increased 33% from Q1 2006 as we were able to tie-in numerous successes from our winter drilling program. Oil production has remained relatively flat from Q1 2006 as production at Red Earth is still subject to maximum rate limitations. In addition, the wet weather in June prevented us from trucking oil from various leases curtailing our production by approximately 200 bbls/d. We anticipate these wells will be tied into a flowline by year end which will minimize the impact of road restrictions. Year over year production has increased significantly with a 117% increase in Q2 2006 from Q2 2005 and a 126% increase in YTD 2006 from YTD 2005. Production has increased largely due to our acquisition of the Red Earth properties in December of 2005 and the grass roots natural gas exploration programs at Sheldon and Wapiti.

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

Production	Q2 2006	Q2 2005	Q1 2006	YTD 2006	YTD 2005
Natural Gas (mcf/d)	10,091	5,151	5,926	8,020	4,541
Oil (bbls/d)	660	57	765	712	56
NGLs (bbls/d)	170	240	136	153	160
Total (boe/d)	2,512	1,156	1,889	2,202	973

Pricing

Midnight markets its natural gas on a daily spot market basis at various delivery points in Alberta and therefore, the average Alberta spot market price in Canadian dollars per mcf is an appropriate benchmark for our gas. We continue to receive a slight premium to the Alberta spot price for our gas sales and expect our future realized price to coincide with the Alberta spot price. Our realized price for NGLs remains at approximately 80% of Edmonton Par. Our crude oil from Red Earth tracks to Edmonton Par at approximately a \$5 discount due to tariff charges and quality adjustments. Year-over-year and quarter-over-quarter, Midnight's realized price for commodities has tracked with the appropriate benchmark prices.

Midnight did not buy or sell any commodity or currency hedges during the period.

The following table outlines benchmark prices compared to Midnight's realized prices:

Prices and Marketing	Q2 2006	Q2 2005	Q1 2006	YTD 2006	YTD 2005
Benchmark Prices					
Alberta spot (\$/mcf)	\$ 5.87	\$ 7.35	\$ 7.34	\$ 6.58	\$ 7.11
WTI oil (\$US/bbl)	70.51	53.17	63.34	66.95	51.51
Cdn/US average exchange rate	0.892	0.820	0.866	0.879	0.809
Edmonton Par (\$/bbl)	\$ 79.06	\$ 66.13	\$ 69.27	\$ 74.16	\$ 63.63
Midnight's Realized Price					
Natural gas (\$/mcf)	\$ 5.98	\$ 7.62	\$ 7.39	\$ 6.50	\$ 7.32
Oil (\$/bbl)	75.06	64.77	64.91	69.64	66.09
NGLs (\$/bbl)	61.99	51.02	60.01	61.12	51.54
Combined oil & NGLs (\$/bbl)	72.38	53.64	64.17	68.13	55.20
Total (\$/boe)	\$ 48.07	\$ 48.01	\$ 54.07	\$ 50.63	\$ 46.67

Petroleum and Natural Gas Sales

Petroleum and natural gas sales totaled \$11.0 million for Q2 2006 and \$20.2 million for YTD 2006. The petroleum and natural gas sales for Q2 2006 increased 118% from Q2 2005 and 20% from Q1 2006 while YTD 2006 sales increased 146% from YTD 2005. Of the \$5.9 million increase in sales in Q2 2006 from Q2 2005, \$5.9 million relates to production, which more than doubled, with only \$12 thousand relating to the higher realized prices. Of the \$1.8 million increase in sales in Q2 2006 from Q1 2006, \$3.2 million relates to higher production, which is offset by \$1.4 million reduction in price. Approximately 50% of our gross and net revenue is derived from oil and liquids for Q2 2006 with only 33% of production coming from these products.

The following tables outline our production sales and average sales price for the periods indicated below:

Petroleum and Natural Gas Sales (000's)	Q2 2006	Q2 2005	Q1 2006	YTD 2006	YTD 2005
Natural Gas	\$ 5,487	\$ 3,574	\$ 3,942	\$ 9,429	\$ 6,018
Oil	4,506	333	4,470	8,976	665
NGLs	962	1,118	734	1,696	1,499
Royalty income	33	25	45	78	38
Total	\$ 10,988	\$ 5,050	\$ 9,191	\$ 20,179	\$ 8,220

Royalties

Royalty payments are made to the owners of the mineral rights on our leases which include provincial governments (Crown) and freehold landowners as well as to other third parties by way of contractual overriding royalties.

In Alberta, royalties on natural gas and NGLs are charged by the government based on an established monthly Reference Price. The Reference Price is meant to reflect the average price for gas and NGLs in Alberta. Gas cost allowance, custom processing credits, and other incentive programs reduce the effective royalty rate.

Oil royalty rates are generally a function of production rates on a per well basis and market prices. They may also be subject to certain reductions and incentives. Crown royalties in Alberta are generally satisfied by delivering the required amount of oil to the Crown.

Royalties by Type (000's)	Q2	Q2	Q1	YTD	YTD
	2006	2005	2006	2006	2005
Crown	\$ 1,925	\$ 1,226	\$ 1,448	\$ 3,373	\$ 1,929
Gross overriding	181	325	317	498	354
ARTC	(137)	(150)	(111)	(248)	(180)
Total	\$ 1,969	\$ 1,401	\$ 1,654	\$ 3,623	\$ 2,103
\$/boe	\$ 8.61	\$ 13.33	\$ 9.73	\$ 9.09	\$ 11.94
% of revenue	17.9	27.8	18.0	18.0	25.6

Royalties by Commodity (excluding ARTC)	Q2	Q2	Q1	YTD	YTD
	2006	2005	2006	2006	2005
Natural Gas					
000's	\$ 970	\$ 1,027	\$ 1,209	\$ 2,179	\$ 1,613
% of revenue	17.7	28.7	30.7	23.1	26.8
Oil					
000's	\$ 868	\$ 44	\$ 348	\$ 1,216	\$ 98
% of revenue	19.3	13.2	7.8	13.5	14.7
NGLs					
000's	\$ 268	\$ 480	\$ 208	\$ 476	\$ 572
% of revenue	27.9	42.9	28.3	28.1	38.2

Royalties for Q2 2006 increased 41% to \$2.0 million from Q2 2005 and for YTD 2006 increased 72% to \$3.6 million from YTD 2005. As a percentage of revenue, royalty rates have decreased in 2006 from the comparative periods in 2005 due to oil making up a larger part of our production portfolio. Oil royalty rates have been low in 2006 as certain wells in the Red Earth area received a Third Tier Exploratory Exemption resulting in no crown royalties on these wells. Under this program exploratory oil wells are exempt from royalties for up to one year or \$1 million in royalties. These exemptions drove down our royalty rate on oil to 13.5% of revenue for the YTD 2006 period. Natural gas royalties for the Q2 2006 period decreased to 17.7% of natural gas revenue for the period as we received prior period adjustments to our gas royalties in the current period. We anticipate the overall royalty rate to increase to the 20% to 21% corporate level once we receive full credit for the exemptions and as we bring on additional production that is not eligible for the exemptions.

Operating Expenses

Operating expenses during Q2 2006 were \$7.72 per boe. This is a decrease of \$1.96 per boe from Q1 2006 expenses of \$9.68 per boe and a decrease of \$1.48 per boe from Q2 2005 expenses of \$9.20 per boe. Expenses of \$8.55 per boe during YTD 2006 is a decrease from YTD 2005 expenses of \$9.94 per boe. The decrease is a result of bringing on additional production with lower initial operating costs. On an absolute basis, operating expenses have increased with the increase in our production. We expect operating costs to increase slightly for the remainder of the year to the \$8.00 to \$8.50 per boe range as production matures.

Operating Expenses (000's)	Q2	Q2	Q1	YTD	YTD
	2006	2005	2006	2006	2005
Operating expenses	\$ 1,764	\$ 969	\$ 1,645	\$ 3,409	\$ 1,751
Total (\$/boe)	\$ 7.72	\$ 9.20	\$ 9.68	\$ 8.55	\$ 9.94

Transportation Expenses

Transportation expenses are defined by the point of legal custody transfer of the commodity and are influenced by the nature of the production, location, availability of transportation and the sales point. The cost of delivering production to the custody transfer point is shown separately as transportation expense.

Transportation charges have increased from 2005 as certain locations at Red Earth require oil to be trucked to the sales point. Transportation costs have decreased in Q2 2006 from Q1 2006 as we received prior period adjustments which reduced our overall charge. Natural gas is usually transported to an established delivery point such as AECO in Alberta and then delivered to the purchaser.

Transportation Expenses (000's)	Q2	Q2	Q1	YTD	YTD
	2006	2005	2006	2006	2005
Transportation expenses	\$ 14	\$ -	\$ 191	\$ 205	\$ 3
\$ per boe	\$ 0.06	\$ -	\$ 1.12	\$ 0.52	\$ 0.02

Interest Expense

The YTD 2006 interest expense totaled \$405,000 representing an effective interest rate of 4.99% on average debt of \$16 million. In 2005 we did not incur any bank debt until March 31st and averaged only \$1.1 million for the second quarter resulting in a lower interest expense of \$16,000. Our effective interest rate is expected to fluctuate with the changes in the Bank of Canada rates.

General and Administration Expenses

During Q2 2006 and YTD 2006 cash general and administration ("G&A") expenses totaled \$499,000 (\$2.18 per boe) and \$935,000 (\$2.34 per boe) respectively. Midnight's general and administration expenses have been allocated based on the Administrative and Technical Service Agreement with Daylight. This agreement enables Midnight to use the Daylight personnel to manage its operations. Midnight is charged administration for its direct activities and for its proportionate share of overhead based on production and capital spending. Capitalized G&A is derived directly from the capital portion of the Administrative and Technical Service Agreement.

The components of general and administration expense are as follows:

General and Administration Expenses (000's)	Q2	Q2	Q1	YTD	YTD
	2006	2005	2006	2006	2005
Direct G&A	\$ 131	\$ 128	\$ 143	\$ 274	\$ 163
Technical service fee from Daylight	1,083	601	1,003	2,086	1,130
Overhead recoveries from Daylight	(180)	(64)	(128)	(308)	(115)
Capitalized G&A	(535)	(373)	(582)	(1,117)	(745)
Cash G&A	\$ 499	\$ 292	\$ 436	\$ 935	\$ 433
Stock-based compensation	2	109	151	153	163
Net G&A	\$ 501	\$ 401	\$ 587	\$ 1,088	\$ 596
Cash G&A (\$/boe)	\$ 2.18	\$ 2.78	\$ 2.56	\$ 2.34	\$ 2.46
Stock-based compensation (\$/boe)	0.01	1.03	0.89	0.38	0.92
Net G&A (\$/boe)	\$ 2.19	\$ 3.81	\$ 3.45	\$ 2.72	\$ 3.38

Direct G&A and the Technical Service fees for the quarter were consistent with Q1 2006, but with higher production volumes our cost per boe has declined. Midnight expects this charge to increase due to the higher proportionate share of Midnight's production and capital relative to the combined production and capital of both Midnight and Daylight. As previously announced, both Daylight and Midnight are discussing the terms for terminating the agreement. Midnight is taking steps to ensure a smooth transition

away from Daylight. On June 9, 2006 we announced the enhanced management team of Midnight. We have in place our key senior personnel and the resources to allow us to operate efficiently and independently.

Stock-Based Compensation

The Company applies the fair value method for valuing stock option grants and warrants. Under this method, compensation cost attributable to all share options granted and warrants issued are measured at fair value at the grant and issuance date and expensed over the vesting period with a corresponding increase to contributed surplus. The stock-based compensation associated with the salaries capitalized in cash general and administration expenses are also capitalized. Midnight recognized stock-based compensation expense of \$173,000 for Q2 2006 and capitalized a corresponding \$171,000. Additional stock options were granted during the quarter with a fair value of \$1.28 per option. Midnight's unamortized portion of stock-based compensation is \$1.6 million.

Depletion, Depreciation and Accretion

For Q2 2006, depletion, depreciation and accretion was \$6.5 million versus \$4.6 million for Q1 2006 and \$1.9 million for Q2 2005. The increase is a result of higher production with a slight impact from finding costs. On a boe basis, Q2 2006 depletion, depreciation and accretion was \$28.41 versus Q1 2006 depletion, depreciation and accretion charge of \$27.19. Midnight expects to lower its depletion and depreciation rate as we add additional proved reserves at a lower cost than our current rate.

Taxes

The Q2 2006 future taxes were a recovery of \$45,000. The recovery was due to increases to tax pool balances on filing the 2005 tax return and offset by a decrease in statutory tax rates which had a greater impact on our future tax assets than liabilities creating an expense. YTD 2006 future taxes were an expense of \$171,000. The difference in the expected tax rate of 34.5% and the effective rate is from permanent differences relating to stock-based compensation and the difference between non-deductible crown charges and the resource allowance as well as the effects of finalizing 2005 tax pool balances and adjusting for the changes in the statutory tax rate. During the quarter, Midnight issued \$20.4 million of flow-through shares, the effect of this issue on future taxes will be recognized when the expenditures are renounced.

For Q2 2006, Midnight has reversed its provision for capital taxes and has recognized a \$17,000 recovery in the current quarter. The Federal budget proposes to eliminate this tax effective January 1, 2006 and legislation has been substantively enacted in Canada. The Company has approximately \$132 million in tax pools to shelter taxable income in future years.

Funds from Operations and Net Income

For Q2 2006, funds from operations totaled \$6,515,000 or \$0.16 per basic and diluted share. Funds from operations totaled \$5,187,000 for Q1 2006 and \$2,374,000 for Q2 2005. For YTD 2006, funds from operations totaled \$11,702,000 or \$0.30 and \$0.29 per basic and diluted share respectively, versus YTD 2005 funds from operations of \$3,903,000 or \$0.15 per basic and diluted share. The net income for Q2 2006 totaled \$82,000 versus \$208,000 for Q1 2006 and net income of \$158,000 for Q2 2005. Net income for YTD 2006 totaled \$290,000 versus \$318,000 for the comparative period in 2005.

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

(\$/boe)	Q2 2006	Q2 2005	Q1 2006	YTD 2006	YTD 2005
Sales price	\$ 48.07	\$ 48.01	\$ 54.07	\$ 50.63	\$ 46.67
Royalties	8.61	13.33	9.73	9.09	11.94
Operating expenses	7.72	9.20	9.68	8.55	9.94
Transportation expenses	0.06	-	1.12	0.52	0.02
Operating netback	\$ 31.68	\$ 25.48	\$ 33.54	\$ 32.47	\$ 24.77
General and administration	2.18	2.78	2.56	2.34	2.46
Interest (income)	1.03	0.05	1.01	1.02	(0.07)
Other income	(0.04)	-	(0.70)	(0.32)	-
Capital tax (recovery)	(0.07)	-	0.11	-	-
Cash flow netback	\$ 28.58	\$ 22.65	\$ 30.56	\$ 29.43	\$ 22.38
Depletion, depreciation and accretion	28.41	18.44	27.19	27.89	17.42
Stock-based compensation	0.01	1.03	0.89	0.38	0.92
Future tax (reduction)	(0.20)	1.68	1.26	0.43	2.24
Net income	\$ 0.36	\$ 1.50	\$ 1.22	\$ 0.73	\$ 1.80

The following table provides a reconciliation to the change in funds from operations and net income for Q2 2005 to Q2 2006 and Q1 2006 to Q2 2006.

Change in Funds from Operations and Net Income (000's)	Q2 2005 to Q2 2006		Q1 2006 to Q2 2006	
	Funds from Operations	Net Income	Funds from Operations	Net Income
Comparative period	\$ 2,374	\$ 158	\$ 5,187	\$ 208
Increase (decrease) in revenue:				
Change in production volumes	5,926	5,926	3,167	3,167
Change in prices	12	12	(1,370)	(1,370)
Change in royalties	(568)	(568)	(315)	(315)
Change in other income	(3)	(3)	(110)	(110)
(Increase) decrease in expenses:				
Operating	(795)	(795)	(119)	(119)
Transportation	(14)	(14)	177	177
Interest	(219)	(219)	(65)	(65)
General and administration	(207)	(207)	(63)	(63)
Stock-based compensation	-	107	-	149
Depletion, depreciation and accretion	-	(4,554)	-	(1,872)
Taxes	17	239	34	295
Abandonment expenditures	(8)	-	(8)	-
Current period	\$ 6,515	\$ 82	\$ 6,515	\$ 82

Capital Expenditures

During Q2 2006, Midnight followed up on the completion and tie in of the wells from its most active drilling program executed in the first quarter of 2006. YTD 2006 we drilled 23 gross (13.6 net) wells comprised of 11 (7.3 net) oil wells and 9 (4.2 net) natural gas wells with 3 (2.1 net) dry holes achieving an 85% success rate. All 11 oil wells were drilled in the Red Earth area, while 3 (1.7 net) natural gas wells were drilled in the Peace River Arch, 2 (2.0 net) natural gas wells were drilled at Sheldon and 4 (0.5 net) natural gas wells were drilled in our West Central area. Midnight has undeveloped land at June 30, 2006 of approximately 175,800 net acres of which \$23.2 million or \$132 per acre has been excluded from the depletion calculation in the quarter. Over the next twelve months, approximately 20 percent of Midnight's

net undeveloped acreage will be subject to expiry. But with an active drilling program, Midnight anticipates minimal undeveloped acres to expire in 2006.

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

Capital Expenditures (000's)	Q2 2006	Q2 2005	Q1 2006	YTD 2006	YTD 2005
Land	\$ 1,013	\$ 1,331	\$ 3,682	\$ 4,695	\$ 2,658
Geological and geophysical	931	433	1,093	2,024	807
Drilling	3,032	1,688	13,086	16,118	6,051
Completions	1,283	656	4,613	5,896	2,436
Facilities pipelines and equipment	3,686	365	7,011	10,697	1,086
Other	-	9	-	-	9
Total expenditures	\$ 9,945	\$ 4,482	\$ 29,485	\$ 39,430	\$ 13,047

In addition to the cash capital expenditures above, we have capitalized \$171,000 of stock-based compensation consistent with the exploration salaries that we have added to our property base.

Equity

On May 17, 2006 Midnight closed a bought deal financing and issued 4 million flow-through common shares at a price of \$5.10 per flow-through common share to raise gross proceeds of \$20.4 million. Management and service providers participated in this issue acquiring 343,000 shares at \$5.10 per flow through common share. During Q2 2006 Midnight also issued 415,000 stock options and cancelled 7,500 stock options. At August 1, 2006 the Company had outstanding 42,327,829 common shares, 1,491,800 stock options and 2,083,333 warrants. The average exercise price of the stock options outstanding is \$3.50 per share.

Share Information (000's)	Q2 2006	Q2 2005	Q1 2006	YTD 2006	YTD 2005
Shares outstanding					
Basic	42,328	26,328	38,328	42,328	26,328
Diluted	45,903	29,393	41,495	45,903	29,393
Weighted average shares outstanding					
Basic	40,262	26,328	38,328	39,300	26,328
Diluted	40,730	26,462	38,776	39,761	26,578

Liquidity and Capital Resources

Midnight Oil Exploration Ltd. is listed as a senior issuer on the Toronto Stock Exchange trading under the symbol "MOX". The Company's market capitalization at June 30, 2006 was \$154 million.

Trading History on the TSX	Q2 2006	Q2 2005	Q1 2006	YTD 2006	YTD 2005
High	\$ 4.25	\$ 4.05	\$ 4.70	\$ 4.70	\$ 4.98
Low	\$ 3.30	\$ 3.10	\$ 3.70	\$ 3.30	\$ 3.06
Close	\$ 3.65	\$ 3.51	\$ 3.94	\$ 3.65	\$ 3.51
Volume (000's)	2,328	7,468	4,973	7,301	14,830

At June 30, 2006, Midnight had drawn \$21.3 million on its \$30.0 million credit facility and had a working capital deficit of \$4.0 million for a net debt position of \$25.3 million. Net debt decreased \$15.7 million from March 31, 2006 as the Company raised a net \$19.2 million by way of private placement in the quarter.

Midnight's credit facility is available on a revolving basis until May 31, 2007. On this date and at the Company's discretion, the facility is available on a non-revolving basis for a period of 366 days, at which time the facility would be due and payable. Alternatively, the facility may be extended for a further 364-day period at the request of the Company and subject to approval by the bank. The credit facility bears interest at either the bank's prime rate or Bankers' Acceptances plus a stamp based on the Company's debt/cash flow ratio, calculated using the two most recent fiscal quarters. The facility is secured by a \$50 million first floating charge debenture and a general securities agreement.

Midnight anticipates that it will have adequate liquidity to fund future working capital and forecasted capital expenditures during 2006 through a combination of cash flow and additional debt. Expenditures for our flow-through program will be completed by the end of 2007.

Contractual Obligations

The contractual obligations for which the Company is responsible are as follows:

Contractual Obligations (000's)	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Flow through share obligation	\$ 19,000	\$ -	\$ 19,000	\$ -	\$ -
Long-term debt	21,304	-	21,304	-	-
Asset retirement obligations	4,671	265	343	190	3,873
Total Contractual Obligations	\$ 44,975	\$ 265	\$ 40,647	\$ 190	\$ 3,873

Midnight enters into many contractual obligations in the course of conducting its day to day business. Material contractual obligations consist of our obligation to expend exploration expenditures pursuant to our flow through share issue on May 17, 2006 and our long-term debt with a major bank. The payment terms on the asset retirement obligation is based on an estimated timing of expenditures to be made in future periods, actual expenditures and when they may occur may differ materially than presented above. Midnight has not entered into any firm transportation commitments to date.

Financial Instruments

Financial instruments comprise cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities. The Company's long-term debt bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

Critical Accounting Estimates and Changes in Accounting Policies

There have been no changes in our critical accounting estimates, nor changes in accounting policies.

Additional Information

Additional information relating to Midnight is filed on SEDAR and can be viewed at www.sedar.com. Information can also be obtained by contacting the Company at Midnight Oil Exploration Ltd., 2100, 144 4th Ave S.W., Calgary, Alberta T2P 3N4 or by email to ir@midnightoil.ca or by accessing our website at www.midnightoil.ca.

Consolidated Balance Sheets

(000's) (unaudited)

	June 30, 2006	December 31, 2005
Assets		
Current assets:		
Accounts receivable	\$ 5,068	\$ 6,259
Deposits and prepaid expenses	108	80
	5,176	6,339
Petroleum and natural gas assets (note 1)	133,666	104,832
	\$ 138,842	\$ 111,171
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,169	\$ 11,096
Long-term debt (note 2)	21,304	11,973
Future taxes	91	229
Asset retirement obligations (note 3)	1,660	1,416
Shareholders' equity:		
Share capital (note 4)	103,809	84,262
Warrants (note 4)	42	42
Contributed surplus (note 4)	793	469
Retained earnings	1,974	1,684
	106,618	86,457
Commitments (note 4)	\$ 138,842	\$ 111,171

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Signed *"Tom Medvedic"*
Director

Signed *"Paul Moynihan"*
Director

Consolidated Statements of Income and Retained Earnings

(000's, except per share amounts) (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Revenues:				
Petroleum and natural gas sales	\$ 10,988	\$ 5,050	\$ 20,179	\$ 8,220
Royalties	(1,969)	(1,401)	(3,623)	(2,103)
Other income	9	12	128	30
	9,028	3,661	16,684	6,147
Expenses:				
Operating	1,764	969	3,409	1,751
Transportation	14	-	205	3
Interest	235	16	405	16
General and administration	501	401	1,088	596
Depletion, depreciation and accretion	6,494	1,940	11,116	3,068
	9,008	3,326	16,223	5,434
Income before taxes	20	335	461	713
Taxes:				
Capital (recovery)	(17)	-	-	-
Future (reduction)	(45)	177	171	395
	(62)	177	171	395
Net income	82	158	290	318
Retained earnings, beginning of period	1,892	175	1,684	15
Retained earnings, end of period	\$ 1,974	\$ 333	\$ 1,974	\$ 333
Income per share: (note 4)				
Basic	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01
Diluted	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(000's) (unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Cash provided by (used in):				
Operations:				
Net income	\$ 82	\$ 158	\$ 290	\$ 318
Items not involving cash:				
Depletion, depreciation and accretion	6,494	1,940	11,116	3,068
Stock-based compensation	2	109	153	163
Future taxes (reduction)	(45)	177	171	395
Abandonment expenditures	(18)	(10)	(28)	(41)
Funds from operations	6,515	2,374	11,702	3,903
Changes in non-cash working capital	1,548	(1,429)	1,380	(1,092)
	8,063	945	13,082	2,811
Financing:				
Issue of common shares	20,400	-	20,400	-
Share issue costs	(1,239)	-	(1,239)	-
Increase in long-term debt	3,622	4,815	9,331	5,405
Changes in non-cash working capital	(74)	138	(79)	138
	22,709	4,953	28,413	5,543
Investments:				
Petroleum and natural gas additions	(9,945)	(4,482)	(39,430)	(13,047)
Changes in non-cash working capital	(20,827)	(1,416)	(2,065)	(338)
	(30,772)	(5,898)	(41,495)	(13,385)
Changes in cash	-	-	-	(5,031)
Cash, beginning of period	-	-	-	5,031
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Taxes paid				
	\$ -	\$ -	\$ 88	\$ -
Interest paid				
	\$ 265	\$ 11	\$ 465	\$ -

Cash is defined as cash and cash equivalents.

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

For the three and six months ended June 30, 2006 and 2005
(Tabular amounts are stated in thousands of dollars except share and per share amounts)
(unaudited)

The interim consolidated financial statements for Midnight Oil Exploration Ltd. (“Midnight” or the “Company”) have been prepared in accordance with accounting principles generally accepted in Canada, using the same accounting policies and methods of computation as set out in note 1 to the consolidated financial statements for the year ended December 31, 2005. The disclosures provided below are incremental to those included with the audited consolidated financial statements for the year ended December 31, 2005. The interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2005.

Certain prior year figures have been reclassified to conform with current period presentation.

Relationship with Daylight

An Administrative and Technical Services Agreement with Daylight Energy Trust (“Daylight”) provides for the shared services required to manage Midnight’s activities and govern the allocation of general and administration expenses between the entities. Under this agreement, Daylight receives payment for certain technical and administration services provided to Midnight on a cost recovery basis. The Administrative and Technical Service Agreement has no set termination date and will continue until terminated by either party upon three months prior written notice to the other party. Pursuant to the Administrative and Technical Services Agreement and for the six months ended June 30, 2006 \$968,000 (2005 – \$385,000) of fees were charged relating to general and administration activities and \$1,117,000 (2005 – \$745,000) of fees were charged relating to capital expenditures.

1. Petroleum and natural gas assets:

	June 30, 2006	December 31, 2005
Cost	\$ 153,455	\$ 113,567
Accumulated depletion and depreciation	(19,789)	(8,735)
	\$ 133,666	\$ 104,832

During the six months ended June 30, 2006, the Company capitalized \$1,288,000 (2005 – \$745,000) of general and administration expenses related to exploration and development activities. Included in this amount is the non-cash related stock-based compensation of \$171,000. The future tax liability of \$77,000 associated with the capitalized stock-based compensation has also been capitalized.

The cost of unproven properties, including wells in progress, at June 30, 2006 of \$30,411,000 (2005 - \$16,686,000) has been excluded from the depletion and depreciation calculation. Future development costs of proven reserves of \$5,696,000 (2005 - \$2,110,000) have been included in the depletion and depreciation calculation.

On November 29, 2005, Midnight closed a property acquisition for a purchase price of \$47,666,000. The acquisition had an effective date of October 1, 2005. As part of the acquisition, Midnight assumed asset retirement obligations of \$707,000. This acquisition was completed in connection with Daylight’s acquisition of the outstanding shares of Tempest Energy Corp. which closed on November 30, 2005.

2. Long-term debt:

Midnight has a revolving term credit facility available up to \$30 million with a Canadian chartered bank. The facility is available on a revolving basis until May 31, 2007. On May 31, 2007, at the Company's discretion, the facility is available on a non-revolving basis for a period of 366 days, at which time the facility would be due and payable. Alternatively, the facility may be extended for a further 364-day period at the request of the Company and subject to approval by the bank. The credit facility bears interest at the bank's prime rate or at Bankers' Acceptance rates plus a stamping fee based on the Company's debt to cash flow ratio, calculated using the two most recent fiscal quarters. The facility is secured by a \$50 million first floating charge debenture and a general securities agreement. At June 30, 2006, \$21,304,000 was drawn on this facility. The effective interest rate for the bank debt was 5.0% for the six months ended June 30, 2006. The \$30 million borrowing base is subject to a semi-annual and annual review by the bank.

3. Asset retirement obligations:

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations is approximately \$4,671,000 which will be incurred from 2006 to 2054. The majority of the costs will be incurred between 2010 and 2020. An inflation factor of 2% has been applied to the estimated asset retirement cost at June 30, 2006. A credit-adjusted risk-free rate of 8% was used to calculate the fair value of the asset retirement obligations at June 30, 2006.

A reconciliation of the asset retirement obligations is provided below:

	June 30, 2006	December 31, 2005
Balance, beginning of period	\$ 1,416	\$ 542
Liabilities incurred	210	215
Acquired on property acquisition (note 1)	-	707
Liabilities settled	(28)	(95)
Accretion expense	62	47
Balance, end of period	\$ 1,660	\$ 1,416

4. Share capital:

(a) Authorized:

The authorized share capital consists of an unlimited number of common shares without par value.

(b) Issued and outstanding:

	Number of Shares	Amount
Common shares:		
Balance, December 31, 2004	26,327,829	\$ 38,240
Issued pursuant to private placement	12,000,000	48,000
Share issue costs (net of tax of \$1,114)	-	(1,978)
Balance, December 31, 2005	38,327,829	\$ 84,262
Issued pursuant to private placement	4,000,000	20,400
Share issue costs (net of tax of \$386)	-	(853)
Balance, June 30, 2006	42,327,829	\$ 103,809

On May 17, 2006 the Company issued 4,000,000 flow-through Common Shares at a price of \$5.10 per share. The proceeds, net of share issue costs of \$1.2 million (\$0.9 million net of tax), were \$19.2 million. Under the terms of the flow through share agreements, the Company is required to renounce \$20.4 million of qualifying oil and natural gas expenditures effective December 31, 2006 and has until December 31, 2007 to incur the expenditures. At June 30, 2006 the Company had incurred \$1.4 million of qualifying expenditures and is required to incur an additional \$19.0 million.

On November 30, 2005, the Company issued 12,000,000 Common Shares at a price of \$4.00 per share. The proceeds, net of share issue cost of \$3.1 million (\$2.0 million net of tax), were \$44.9 million.

(c) Per share amounts:

The following summarizes the common shares used in calculating per share amounts:

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Weighted average shares outstanding:				
Basic	40,261,895	26,327,829	39,300,205	26,327,829
Diluted	40,730,194	26,461,711	39,761,308	26,577,841

The reconciling items between basic and diluted average common shares outstanding are stock options and warrants.

(d) Stock options:

The Company has reserved 2,581,670 common shares for granting under option to employees, directors and other persons who provide ongoing management or consulting services to the Company. Stock options are granted for a term up to five years and vest over three years from the date granted. The exercise price of each option equals the market price of the Company's common shares on the date of the grant.

The summary of stock option activity is presented below:

	Number of options	Weighted average exercise price
Balance, December 31, 2004	-	\$ -
Granted	1,174,300	3.49
Cancelled	(74,500)	3.30
Balance, December 31, 2005	1,099,800	\$ 3.50
Granted	415,000	3.50
Cancelled	(23,000)	3.68
Balance, June 30, 2006	1,491,800	\$ 3.50
Exercisable at June 30, 2006	298,167	\$ 3.38

(e) Warrants:

	Number of Warrants	Amount
Warrants:		
Balance, December 31, 2004	2,333,333	\$ 47
Cancelled	(250,000)	(5)
Balance December 31, 2005 and June 30, 2006	2,083,333	\$ 42

Each warrant is exercisable into one common share of the Company at a price of \$3.00 per share. The warrants vest equally over three years and expire on November 29, 2008. One third of the warrants vested on November 29, 2005 with 694,444 warrants being exercisable at June 30, 2006.

(f) Stock-based compensation:

Midnight accounts for its stock-based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for warrants and options granted to employees, officers, directors and other service providers.

Midnight has not incorporated an estimated forfeiture rate for stock options that will not vest, rather the Company accounts for actual forfeitures as they occur.

The fair value of options and warrants granted were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

	2006	2005
Weighted average fair value of options granted	\$ 1.28	\$ 1.31
Risk free interest	4.0%	3.7%
Estimated hold period prior to exercise	4 years	4 years
Expected volatility	40%	40%
Dividend per share	\$ 0.00	\$ 0.00

(g) Contributed surplus:

The following table reconciles Midnight's contributed surplus:

	June 30, 2006	December 31, 2005
Balance, beginning of period	\$ 469	\$ 15
Stock-based compensation expense	324	449
Cancellation of warrants	-	5
Balance, end of period	\$ 793	\$ 469

Selected Quarterly and Annual Information

Financial (000's, except for per share amounts)	2006		2005				2004	
	Q2	Q1	Q4	Q3	Q2	Q1	Year	Q4 ⁽¹⁾
Petroleum and natural gas sales	\$ 10,988	\$ 9,191	\$ 8,772	\$ 5,997	\$ 5,050	\$ 3,170	\$ 22,989	\$ 977
Royalties	1,969	1,654	2,172	1,678	1,401	702	5,953	211
Operating expenses	1,764	1,645	1,044	902	969	782	3,697	249
Transportation expenses	14	191	3	5	-	3	11	1
Net backs	\$ 7,241	\$ 5,701	\$ 5,553	\$ 3,412	\$ 2,680	\$ 1,683	\$ 13,328	\$ 516
General and administration	499	436	491	278	292	141	1,202	126
Net interest (income)	235	170	(68)	58	4	(18)	(24)	(12)
Abandonment expenditures	18	10	51	3	10	31	95	5
Other income	(9)	(119)	-	-	-	-	-	-
Capital tax	(17)	17	88	-	-	-	88	-
Funds from operations	\$ 6,515	\$ 5,187	\$ 4,991	\$ 3,073	\$ 2,374	\$ 1,529	\$ 11,967	\$ 397
Per share – Basic	0.16	0.14	0.16	0.12	0.09	0.06	0.44	0.02
– Diluted	0.16	0.13	0.16	0.12	0.09	0.06	0.43	0.02
Net income	\$ 82	\$ 208	\$ 864	\$ 487	\$ 158	\$ 160	\$ 1,669	\$ 15
Per share – Basic	0.00	0.01	0.03	0.02	0.01	0.01	0.06	0.00
– Diluted	0.00	0.01	0.03	0.02	0.01	0.01	0.06	0.00
Additions to capital assets	\$ 9,945	\$ 29,485	\$ 55,285	\$ 8,175	\$ 4,482	\$ 8,565	\$ 76,507	\$ 2,680
Net debt	25,297	41,028	16,730	11,344	6,242	4,134	16,730	(2,902)
Total assets	138,842	134,452	111,171	54,187	47,350	45,106	111,171	42,120
Shares outstanding								
Basic	42,328	38,328	38,328	26,328	26,328	26,328	38,328	26,328
Diluted	45,903	41,495	41,511	29,360	29,393	28,821	41,511	28,661
Operations								
Average daily production								
Natural gas (mcf/d)	10,091	5,926	4,694	4,885	5,151	3,924	4,666	3,549
NGLs & oil (bbls/d)	830	901	600	270	297	135	326	132
Combined (boe/d)	2,512	1,889	1,382	1,084	1,156	788	1,104	723
Average prices received								
Natural gas (\$/mcf)	\$ 5.98	\$ 7.39	\$ 11.73	\$ 9.70	\$ 7.62	\$ 6.92	\$ 9.07	\$ 7.00
NGLs & oil (\$/bbl)	72.38	64.17	66.19	64.97	53.64	58.96	62.35	50.75
Combined (\$/boe)	\$ 48.07	\$ 54.07	\$ 69.02	\$ 60.13	\$ 48.01	\$ 44.68	\$ 57.04	\$ 43.58
Royalties	8.61	9.73	17.09	16.82	13.33	9.89	14.77	9.40
Operating expenses	7.72	9.68	8.22	9.05	9.20	11.03	9.17	11.14
Transportation expenses	0.06	1.12	0.03	0.05	-	0.04	0.03	-
Netback received (\$/boe)	\$ 31.68	\$ 33.54	\$ 43.68	\$ 34.21	\$ 25.48	\$ 23.72	\$ 33.07	\$ 23.04

(1) 2004 is for the period of November 29, 2004 to December 31, 2004 and therefore represents both the fourth quarter and the results for the period ended December 31, 2004.

Abbreviations

/d	per day	mboe	thousand barrels of oil equivalent
bb1(s)	barrel(s)	mmbtu	millions of British thermal units
mbbls	thousand barrels	ARTC	Alberta Royalty Tax Credit
mcf	thousand cubic feet	WTI	West Texas Intermediate crude oil
mmcf	million cubic feet	NGLs	natural gas liquids
bcf	billion cubic feet	Cdn	Canadian
boe	barrels of oil equivalent	US	United States

Corporate Information

DIRECTORS

Paul E. Moynihan, Chairman of the Board ^{1, 2, 3, 4}
Managing Director and Partner
Mustang Capital Partners Inc.
Calgary, Alberta

Jay D. Squiers ^{1, 2, 3, 4}
Managing Director
Fortress Investment Group LLC
Dallas, Texas
United States

Tom J. Medvedic ^{1, 2, 3, 4}
Vice President, Finance and Chief Financial Officer
Calfrac Well Services Ltd.
Calgary, Alberta

Frederick N. Woods
President and Chief Executive Officer
Midnight Oil Exploration Ltd.
Calgary, Alberta

Anthony M. Lambert
President and Chief Executive Officer
Daylight Energy Trust
Calgary, Alberta

Members of the following Committees

- 1 Audit
- 2 Compensation
- 3 Reserves
- 4 Corporate Governance

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OFFICERS

Frederick N. Woods
President and Chief Executive Officer

Judith A. Stripling
Executive Vice-President and Chief Financial Officer

Thomas F. Moslow
Senior Vice-President, Exploration

Andrew D. Weldon
Vice-President, Business Development

Chad L. Kalmakoff
Vice-President, Finance

Don C. Leitch
Vice-President, Operations

Peter R. O'Leary
Vice-President, Geology

E. Martin Saizew
Vice-President, Engineering

Chris von Vegesack, Corporate Secretary
Partner
Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Banker
Canadian Imperial Bank of Commerce
Calgary, Alberta

Legal Counsel
Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Auditors
KPMG LLP
Chartered Accountants
Calgary, Alberta

Evaluation Engineers
GLJ Petroleum Consultants
Calgary, Alberta

Registrar and Transfer Agent
Valiant Trust Company
Calgary, Alberta

TSX Symbol: MOX



MIDNIGHT

Oil Exploration Ltd.

EXPLORING WITH ENERGY AND EXPERIENCE

MOX

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