



MIDNIGHT REPORTS THIRD QUARTER FINANCIAL AND OPERATING RESULTS

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

THIRD QUARTER 2006 HIGHLIGHTS

PRODUCTION VOLUMES

- Q3 2006 production volumes of 2,114 boe/d
 - Increased 95% over Q3 2005 and decreased 16% over Q2 2006
- Q3 2006 natural gas production of 7,637 mcf/d
 - Increased 56% over Q3 2005 and decreased 24% over Q2 2006
- Q3 2006 oil and liquids production averaged 841 bbls/d
 - Increased 211% over Q3 2005 and increased 1% over Q2 2006

CASH FLOW

- Q3 2006 cash flow of \$5.4 million (\$0.13 per diluted share)
 - Increased 77% over Q3 2005 and decreased 16% over Q2 2006
- Commodity prices varied over the quarter and year over year
 - Q3 2006 Oil and NGL prices of \$77.01/bbl
 - Increased 19% over Q3 2005 and 19% over Q2 2006
 - Q3 2006 Natural gas prices of \$5.85/mcf
 - Down 40% over Q3 2005 and down 2% over Q2 2006
- Q3 2006 operating costs of \$8.52/boe
 - Decreased 6% from Q3 2005 and increased 10% over Q2 2006

DRILLING ACTIVITY

- During the quarter we drilled 7 gross (3.1 net) wells, resulting in 6 gross (2.4 net) natural gas wells and 1 gross (0.7 net) oil well for a 100% success rate.
- Unseasonal conditions constrained completion and drilling operations that limited our ability to add to our production.

PRESIDENT'S MESSAGE

During the third quarter Midnight continued to maintain a tight rein on its activity in response to service cost pressures and softening commodity prices. For the quarter we averaged production of 2,114 boe/d an increase of 95% from the same quarter in the prior year but down 16% from the prior quarter. Notwithstanding continued very good drilling results and the expanded potential in our Red Earth area our oil production continued to have production restrictions from allowable limitations set by a regulatory agency. As a result we focused more on our high potential gas program in the Peace River Arch area where we will be adding to our production with completions and tie-ins during the fourth quarter.

Exploration Update

Midnight has a large prospect inventory in its high potential light oil area of Red Earth and its natural gas area on the Peace River Arch. During the third quarter we drilled 7 gross (3.1 net) wells in the Red Earth and Wapiti areas.

At Red Earth, Midnight drilled 1 (0.7 net) oil well. Since acquiring Red Earth late in 2005 Midnight has successfully drilled 20 gross (11.7 net) wells in this high potential light oil area. During the third quarter, Midnight's high value light oil component contributed approximately 40% of production on a boe basis and 60% of revenues.

Midnight has filed applications for good production practice ("GPP") with the Alberta Energy and Utilities Board to remove production restrictions on a number of wells that were drilled during our winter program. With GPP approval and with the successful completion of existing wells that we have been unable to place on production due to access conditions, an additional 500 boe/d of light oil production is targeted to be added prior to year end.

Midnight has identified over 50 potential drilling locations on its approximately 67,000 net undeveloped acres in Red Earth and plans to have one rig active in the area commencing in December to pursue these high value light oil opportunities.

On the Peace River Arch, Midnight drilled 3 gross (2.2 net) successful multi-zone gas wells during the quarter which will be on-stream early in the fourth quarter and should add approximately 3.0 mmcf/d (500 boe/d) of production.

Midnight has a multi-zone prospect inventory and over 95,000 net undeveloped acres and plans to have one rig operating on the Peace River Arch over the next two quarters pursuing its high potential Cretaceous sweet gas targets.

In West Central Alberta, Midnight continues to participate with Daylight Energy Ltd. ("Daylight") in its highly successful gas development program drilling 3 gross (0.2 net) gas wells. Although Midnight's interest in this area is relatively small its investments in this area continue to add value to the Company.

Operational Update

For the quarter, production averaged 2,114 boe/d as our high netback, light oil production at Red Earth continued to be limited by allowables and access restrictions. At Sheldon, early water encroachment resulted in lower gas production which contributed to the majority of the decrease in gas volumes during the quarter. In our Peace River Arch area drilling success will add sweet gas volumes in the fourth quarter.

At Red Earth, continued geophysical and geological work combined with our ongoing drilling successes has validated our interpretations and has further solidified our opportunities in this area. Midnight has

drilled a number of high volume producers and has submitted several applications for GPP that, once approved, will allow us to deliver increased light oil production from this area.

Midnight's Peace River Arch program includes newly drilled gas successes at Wapiti that are awaiting tie-in and facility optimization.

Overall Midnight has expected behind pipe volumes of approximately 1,000 boe/d. These production volumes will come on stream as allowable restrictions are removed and we complete recently drilled wells at Red Earth as well as tie-in of third quarter successes in the Peace River Arch.

During the quarter Midnight spent approximately \$13.7 million and exited the quarter with bank debt of approximately \$25 million and net debt of approximately \$33.6 million.

On November 7, 2006 Midnight closed a bought deal financing, raising approximately \$16.8 million, to assist in the funding of our winter and 2007 drilling program. This latest financing provides Midnight with the capacity to pursue significant investments in its ever increasing portfolio of light oil and sweet gas opportunities.

Outlook

During the third quarter we were frustrated by shut-ins and access restrictions in our Red Earth area which contributed to our restricted production volumes. For our winter program we plan to return to Red Earth with an active light oil drilling program and to follow-up new pool discoveries in Wapiti and Beaverlodge that will allow us to continue to grow our base gas production. Notwithstanding the delays in our program, we expect to exit 2006 in the 3,100 to 3,500 boe/d range.

We continue to generate very good drilling results and solid 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 strong technical team, large commodity balanced prospect portfolio and solid balance sheet Midnight is well positioned to take advantage of current economic conditions to provide future growth for our shareholders.

Fred Woods
President and Chief Executive Officer
November 13, 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 nine months ended September 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 nine months ended September 30, 2006 (“YTD 2006”) to the nine months ended September 30, 2005 (“YTD 2005”) and the results of the three months ended September 30, 2006 (“Q3 2006”) to the three months ended September 30, 2005 (“Q3 2005”) and the three months ended June 30, 2006 (“Q2 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 except as required by securities law.

This Management Discussion and Analysis is dated as of November 13, 2006.

Selected Quarterly Information

Financial (000's, except for per share amounts)	2006				2005			2004
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4 ⁽¹⁾
Petroleum and natural gas sales	\$ 10,099	\$ 10,988	\$ 9,191	\$ 8,772	\$ 5,997	\$ 5,050	\$ 3,170	\$ 977
Funds from operations	\$ 5,445	\$ 6,515	\$ 5,187	\$ 4,991	\$ 3,073	\$ 2,374	\$ 1,529	\$ 397
Per share – Basic	0.13	0.16	0.14	0.16	0.12	0.09	0.06	0.02
– Diluted	0.13	0.16	0.13	0.16	0.12	0.09	0.06	0.02
Net income	\$ 320	\$ 82	\$ 208	\$ 864	\$ 487	\$ 158	\$ 160	\$ 15
Per share – Basic	0.01	0.00	0.01	0.03	0.02	0.01	0.01	0.00
– Diluted	0.01	0.00	0.01	0.03	0.02	0.01	0.01	0.00
Additions to capital assets	\$ 13,670	\$ 9,945	\$ 29,485	\$ 55,285	\$ 8,175	\$ 4,482	\$ 8,565	\$ 2,680
Net debt	33,579	25,297	41,028	16,730	11,344	6,242	4,134	(2,902)
Total assets	147,677	138,842	134,452	111,171	54,187	47,350	45,106	42,120
Shares outstanding								
Basic	42,328	42,328	38,328	38,328	26,328	26,328	26,328	26,328
Diluted	45,914	45,903	41,495	41,511	29,360	29,393	28,821	28,661
Operations								
Average daily production								
Natural gas (mcf/d)	7,637	10,091	5,926	4,694	4,885	5,151	3,924	3,549
NGLs & oil (bbls/d)	841	830	901	600	270	297	135	132
Combined (boe/d)	2,114	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 in Q4 2004 to Q2 2006. In Q3 2006 funds from operations decreased compared to Q2 2006 due to lower production, prior thereto, increases in production accompanied by strong commodity prices increased our funds from operations each quarter.

Relationship with Daylight Energy Ltd. (“Daylight”)

Midnight and Daylight have operated 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 has been the employer on behalf of the parties and received 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 merger of Daylight with Sequoia Oil & Gas Trust, which closed September 21, 2006, both Midnight and Daylight are taking steps to terminate the agreement on mutually acceptable terms. Midnight has relocated its offices and its personnel. Technical personnel including: geologists, geophysicists, engineers, land negotiators, business development and land contracts personnel are currently functioning independently. Certain services in the areas of land administration, drilling and completion operations, marketing, certain accounting and human resources and administration are transitioning to operate independently. It is expected that by the end of 2006, the current Administrative and Technical Services Agreement will be terminated. Midnight has a full complement of technical and business skills to execute its business plans and the termination of the agreement will not have an adverse effect on the operations of Midnight. Midnight may contract out non-strategic administrative services to Daylight, and will pay for these services directly under a new agreement.

Production

Midnight’s production averaged 2,114 and 2,172 boe per day for Q3 2006 and YTD 2006 respectively. Q3 production of 2,114 boe per day consisted of 7,637 mcf per day of natural gas, 704 bbls per day of oil and 137 bbls per day of natural gas liquids (“NGLs”). YTD 2006 production consisted of 7,891 mcf per day of natural gas, 709 bbls per day of oil and 148 bbls per day of NGLs. Q3 2006 quarter production decreased 15% from Q2 2006 as the production from our Sheldon property decreased from Q2 2006. Oil production has remained relatively flat from Q2 2006 as production at Red Earth is still subject to Maximum Rate Limitations (“MRLs”). Over the past several months, Midnight has submitted applications for Good Production Practice (“GPP”) that once approved, will allow us to produce the wells at higher rates in this area. Year over year production has increased significantly with a 95% increase in Q3 2006 from Q3 2005 and a 115% increase in YTD 2006 from YTD 2005. Production has increased largely due to our acquisition of, and the successful drilling on, the Red Earth properties and the grass roots natural gas exploration programs in the Peace River Arch area and in West Central.

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

Production	Q3 2006	Q3 2005	Q2 2006	YTD 2006	YTD 2005
Natural Gas (mcf/d)	7,637	4,885	10,091	7,891	4,657
Oil (bbls/d)	704	80	660	709	64
NGLs (bbls/d)	137	190	170	148	171
Total (boe/d)	2,114	1,084	2,512	2,172	1,011

Pricing

Midnight's natural gas prices are influenced by overall North American supply and demand balance, seasonal changes, storage levels and transportation capacity. 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.

Midnight's realized 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 that adjust WTI for the Canadian to US dollar exchange rate as well as transportation costs and quality adjustments. Midnight's oil price is significantly influenced by global supply and demand. During 2006 the WTI price has been strong which has increased the price realized by Midnight. NGLs include condensate, pentane, butane and propane. Prices for NGLs have their own market dynamic with a relatively strong correlation to oil prices for condensate and pentane while butane and propane trade at varying discounts due to market conditions of supply and demand. Our realized price for NGLs remains at approximately 80% of Edmonton Par. 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	Q3 2006	Q3 2005	Q2 2006	YTD 2006	YTD 2005
Benchmark Prices					
Alberta spot (\$/mcf)	\$ 5.58	\$ 9.24	\$ 5.87	\$ 6.26	\$ 7.75
WTI oil (\$US/bbl)	70.48	63.18	70.51	68.12	55.46
Cdn/US average exchange rate	0.892	0.832	0.892	0.883	0.817
Edmonton Par (\$/bbl)	\$ 79.69	\$ 77.02	\$ 79.06	\$ 76.02	\$ 68.46
Midnight's Realized Price					
Natural gas (\$/mcf)	\$ 5.85	\$ 9.70	\$ 5.98	\$ 6.29	\$ 8.16
Oil (\$/bbl)	79.17	75.45	75.06	72.83	69.85
NGLs (\$/bbl)	65.94	60.30	61.99	62.63	54.83
Combined oil & NGLs (\$/bbl)	77.01	64.78	72.38	71.07	58.92
Total (\$/boe)	\$ 51.92	\$ 60.13	\$ 48.07	\$ 51.05	\$ 51.54

Petroleum and Natural Gas Sales

Petroleum and natural gas sales totaled \$10.1 million for Q3 2006 and \$30.3 million for YTD 2006. The petroleum and natural gas sales for Q3 2006 increased 68% from Q3 2005, but decreased 8% from Q2 2006 while YTD 2006 sales increased 113% from YTD 2005. Of the \$4.1 million increase in sales in Q3 2006 from Q3 2005, \$5.7 million of the increase related to increased production volumes, which more than doubled, while lower commodity prices decreased sales by \$1.6 million. Of the \$0.9 million decrease in sales in Q3 2006 from Q2 2006, \$1.6 million related to lower production volumes, while realized commodity prices increased due to our increased oil production which increased revenues by \$0.7 million. Approximately 60% of our gross and net revenue was derived from oil and liquids for Q3 2006 with only 40% 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)	Q3 2006	Q3 2005	Q2 2006	YTD 2006	YTD 2005
Natural Gas	\$ 4,112	\$ 4,360	\$ 5,487	\$ 13,541	\$ 10,378
Oil	5,128	560	4,506	14,104	1,225
NGLs	833	1,055	962	2,529	2,554
Royalty income	26	22	33	104	60
Total	\$ 10,099	\$ 5,997	\$ 10,988	\$ 30,278	\$ 14,217

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)	Q3 2006	Q3 2005	Q2 2006	YTD 2006	YTD 2005
Crown	\$ 2,006	\$ 1,473	\$ 1,925	\$ 5,379	\$ 3,402
Gross overriding	87	310	181	585	664
ARTC	(127)	(105)	(137)	(375)	(285)
Total	\$ 1,966	\$ 1,678	\$ 1,969	\$ 5,589	\$ 3,781
\$/boe	\$ 10.11	\$ 16.82	\$ 8.61	\$ 9.43	\$ 13.70
% of revenue	19.5	28.0	17.9	18.5	26.6

Royalties by Commodity (excluding ARTC)	Q3 2006	Q3 2005	Q2 2006	YTD 2006	YTD 2005
Natural Gas					
000's	\$ 837	\$ 1,476	\$ 970	\$ 3,016	\$ 3,089
% of revenue	20.4	33.9	17.7	22.3	29.8
Oil					
000's	\$ 1,048	\$ 98	\$ 868	\$ 2,264	\$ 196
% of revenue	20.4	17.5	19.3	16.1	16.0
NGLs					
000's	\$ 208	\$ 209	\$ 268	\$ 684	\$ 781
% of revenue	25.0	19.8	27.9	27.0	30.6

YTD 2006 royalties have decreased to 18.5% of revenue from 26.6% of revenue for the corresponding period in 2005. This decrease is a result of an increased ratio of oil in our production portfolio which is subject to lower royalty rates bringing down our overall percentage. Rates have also decreased due to lower gas royalty rates in 2006 as we have received prior period adjustments to our gas cost allowance and have received more gas cost allowance credits in the current year. Gas royalties have also decreased in part due to lower gas prices for the year. Our Q3 2006 royalty rate of 19.5% of revenue has increased slightly from the Q2 2006 rate of 17.9% as both gas and oil royalty rates were higher during the period. Oil royalty rates increased as we had a well receiving a Third Tier Exploratory Exemption that was subsequently reclassified as a development well by the crown resulting in a higher current period charge. We anticipate the overall royalty rate to remain in the 20% to 21% level.

Operating Expenses

Operating expenses during Q3 2006 were \$8.52 per boe. This is an increase of \$0.80 per boe from Q2 2006 expenses of \$7.72 per boe and a decrease of \$0.53 per boe from Q3 2005 expenses of \$9.05 per boe. Q3 2006 operating costs increased mainly as a result of property taxes recorded in the period. Expenses of \$8.54 per boe during YTD 2006 is a decrease from YTD 2005 expenses of \$9.62 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 remain the \$8.00 to \$9.00 per boe range.

Operating Expenses (000's)	Q3	Q3	Q2	YTD	YTD
	2006	2005	2006	2006	2005
Operating expenses	\$ 1,657	\$ 902	\$ 1,764	\$ 5,066	\$ 2,653
Total (\$/boe)	\$ 8.52	\$ 9.05	\$ 7.72	\$ 8.54	\$ 9.62

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 recent discoveries at Red Earth are outside the pipeline grid and require oil to be trucked to the sales point. Natural gas is usually transported through owned or third party infrastructure to an established delivery point such as AECO in Alberta at an agreed tariff and then delivered to the purchaser.

Transportation Expenses (000's)	Q3	Q3	Q2	YTD	YTD
	2006	2005	2006	2006	2005
Transportation expenses	\$ 28	\$ 5	\$ 14	\$ 233	\$ 8
\$ per boe	\$ 0.14	\$ 0.05	\$ 0.06	\$ 0.39	\$ 0.03

Interest Expense

The YTD 2006 interest expense totaled \$729,000 representing an effective interest rate of 5.24% on average bank debt of \$18.4 million. During YTD 2005 we had less bank debt and averaged only \$5.5 million for the third quarter resulting in a lower interest expense of \$58,000. Our effective interest rate is expected to fluctuate with the changes in the Bank of Canada rates.

General and Administration Expenses

During Q3 2006 and YTD 2006 cash general and administration (“G&A”) expenses totaled \$645,000 (\$3.32 per boe) and \$1,580,000 (\$2.66 per boe) respectively. Midnight’s general and administration expenses have been allocated based on the Administrative and Technical Service Agreement with Daylight. This agreement provides all services and employees to manage the respective operations. Midnight is charged 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. Pursuant to the merger of Daylight with Sequoia Oil & Gas Trust, which closed September 21, 2006, both Midnight and Daylight are taking steps to terminate the agreement on mutually acceptable terms. Midnight has relocated its offices and its personnel. Technical personnel including: geologists, geophysicists, engineers, land negotiators, business development and land contracts personnel are currently functioning independently. Certain services in the areas of land administration, drilling and completion operations, marketing, certain accounting and human resources and administration are transitioning to operate independently. It is expected that by the end of 2006, the current Administrative and Technical Services Agreement will be terminated. Midnight has a full complement of technical and business skills to execute its business plans and the termination of the agreement will not have an adverse effect on the operations of Midnight. Midnight may contract out non-strategic administrative services to Daylight, and will pay for these services directly under a new agreement.

Direct G&A charges increased over last quarter as Midnight matched employee contributions and contributed \$55,000 to Habitat for Humanity to assist in building affordable housing in our community. The increase in direct costs were offset by a reduction in the Technical Service fees. Lower production volumes combined with higher costs have caused our cost per boe to increase. This is a result of the higher proportionate share of Midnight’s production and capital relative to the combined production and capital of both Midnight and Daylight.

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 \$206,000 for Q3 2006 and capitalized a corresponding \$112,000. 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 \$1.5 million.

The components of general and administration expense are as follows:

General and Administration Expenses (000's)	Q3 2006	Q3 2005	Q2 2006	YTD 2006	YTD 2005
Direct G&A	\$ 207	\$ 90	\$ 131	\$ 481	\$ 253
Technical service fee from Daylight	950	545	1,083	3,036	1,675
Overhead recoveries from Daylight	(103)	(49)	(180)	(411)	(164)
Capitalized G&A	(409)	(308)	(535)	(1,526)	(1,053)
Cash G&A	\$ 645	\$ 278	\$ 499	\$ 1,580	\$ 711
Stock-based compensation	94	134	2	247	297
Net G&A	\$ 739	\$ 412	\$ 501	\$ 1,827	\$ 1,008
Cash G&A (\$/boe)	\$ 3.32	\$ 2.78	\$ 2.18	\$ 2.66	\$ 2.58
Stock-based compensation (\$/boe)	0.48	1.35	0.01	0.42	1.08
Net G&A (\$/boe)	\$ 3.80	\$ 4.13	\$ 2.19	\$ 3.08	\$ 3.66

Depletion, Depreciation and Accretion

For Q3 2006, depletion, depreciation and accretion was \$4.8 million versus \$6.5 million for Q2 2006 and \$2.0 million for Q3 2005. On a boe basis, Q3 2006 depletion, depreciation and accretion was \$24.88 versus Q2 2006 depletion, depreciation and accretion charge of \$28.41. Midnight expects to continue to lower its depletion and depreciation rate as we add additional proved reserves at a lower cost than our current rate.

Taxes

The Q3 2006 future taxes were an expense of \$226,000. YTD 2006 future taxes were an expense of \$397,000. 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 second 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.

The Company has approximately \$140 million in tax pools to shelter taxable income in future years before the renunciation of the flow-through expenditures.

Funds from Operations and Net Income

For Q3 2006, funds from operations totaled \$5,445,000 or \$0.13 per basic and diluted share. Funds from operations totaled \$6,515,000 for Q2 2006 and \$3,073,000 for Q3 2005. For YTD 2006, funds from operations totaled \$17,147,000 or \$0.43 per basic share and \$0.42 per diluted share, versus YTD 2005 funds from operations of \$6,976,000 or \$0.27 per basic share and \$0.26 per diluted share. The net income for Q3 2006 totaled \$320,000 versus net income of \$82,000 for Q2 2006 and \$487,000 for Q3 2005. Net income for YTD 2006 totaled \$610,000 versus \$805,000 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)	Q3		Q2		YTD	
	2006	2005	2006	2006	2005	2005
Sales price	\$ 51.92	\$ 60.13	\$ 48.07	\$ 51.05	\$ 51.54	
Royalties	10.11	16.82	8.61	9.43	13.70	
Operating expenses	8.52	9.05	7.72	8.54	9.62	
Transportation expenses	0.14	0.05	0.06	0.39	0.03	
Operating netback	\$ 33.15	\$ 34.21	\$ 31.68	\$ 32.69	\$ 28.19	
General and administration	3.32	2.78	2.18	2.66	2.58	
Interest (income)	1.67	0.57	1.03	1.23	0.16	
Other income	-	-	(0.04)	(0.22)	-	
Capital tax (recovery)	-	-	(0.07)	-	-	
Cash flow netback	\$ 28.16	\$ 30.86	\$ 28.58	\$ 29.02	\$ 25.45	
Depletion, depreciation and accretion	24.88	19.82	28.41	26.90	18.28	
Stock-based compensation	0.48	1.35	0.01	0.42	1.08	
Future tax (reduction)	1.16	4.80	(0.20)	0.67	3.17	
Net income	\$ 1.64	\$ 4.89	\$ 0.36	\$ 1.03	\$ 2.92	

The following table provides a reconciliation to the change in funds from operations and net income for Q3 2005 to Q3 2006 and Q2 2006 to Q3 2006.

Change in Funds from Operations and Net Income (000's)	Q3 2005 to Q3 2006		Q2 2006 to Q3 2006	
	Funds from Operations	Net Income	Funds from Operations	Net Income
Comparative period	\$ 3,073	\$ 487	\$ 6,515	\$ 82
Increase (decrease) in revenue:				
Change in production volumes	5,698	5,698	(1,639)	(1,639)
Change in prices	(1,596)	(1,596)	750	750
Change in royalties	(288)	(288)	3	3
Change in other income	-	-	(9)	(9)
(Increase) decrease in expenses:				
Operating	(755)	(755)	107	107
Transportation	(23)	(23)	(14)	(14)
Interest	(266)	(266)	(89)	(89)
General and administration	(367)	(367)	(146)	(146)
Stock-based compensation	-	40	-	(92)
Depletion, depreciation and accretion	-	(2,863)	-	1,655
Taxes	-	253	(17)	(288)
Abandonment expenditures	(31)	-	(16)	-
Current period	\$ 5,445	\$ 320	\$ 5,445	\$ 320

Capital Expenditures

Midnight has had an active 2006 capital program and has increased capital expenditures by more than 150% from 2005, drilling 16.7 net wells in 2006 versus 6.3 net wells in 2005. YTD 2006 we have drilled 30 gross (16.7 net) wells comprised of 12 (8.0 net) oil wells and 15 (6.6 net) natural gas wells with 3 (2.1 net) dry holes achieving an 87% success rate. All 12 oil wells were drilled in the Red Earth area, while 6 (3.9 net) natural gas wells were drilled in the Peace River Arch, 2 (2.0 net) natural gas wells were drilled at Sheldon and 7 (0.7 net) natural gas wells were drilled in our West Central area. During Q3 2006, Midnight drilled 7 (3.1 net) wells with 100% success, consisting of 6 (2.4 net) gas wells and 1 (0.7 net) oil well. Q3

capital consisted primarily of drilling making up 58% of our expenditures for the period. An additional \$2.8 million and \$1.9 million was spent on completions and facilities, respectively.

Midnight has undeveloped land at September 30, 2006 of approximately 177,000 net acres of which \$23.0 million or \$130 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. The number of acres that actually expire may be reduced through drilling on or adjacent to the expiring lands.

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

Capital Expenditures (000's)	Q3	Q3	Q2	YTD	YTD
	2006	2005	2006	2006	2005
Land	\$ 203	\$ 615	\$ 1,013	\$ 4,898	\$ 3,273
Geological and geophysical	683	679	931	2,707	1,486
Drilling	8,021	3,308	3,032	24,139	9,359
Completions	2,801	2,638	1,283	8,697	5,074
Facilities pipelines and equipment	1,943	935	3,686	12,640	2,021
Other	19	-	-	19	9
Total expenditures	\$ 13,670	\$ 8,175	\$ 9,945	\$ 53,100	\$ 21,222

In addition to the cash capital expenditures above, we have capitalized \$408,000 of stock-based compensation for YTD 2006 consistent with the exploration salaries that we have added to our property base.

Equity

On November 7, 2006, the Company closed a bought deal financing with a syndicate of underwriters and issued 5.5 million common shares at a price of \$3.05 per common share to raise gross proceeds of approximately \$16.8 million which includes 500,000 common shares issued pursuant to the over-allotment option granted to the underwriters at the same price. Management participated in this issue, acquiring 114,000 shares at \$3.05 per share. The offering was done by way of short form prospectus.

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 Q3 2006 Midnight issued 10,000 stock options. At November 13, 2006 the Company had outstanding 47,827,829 common shares, 1,537,800 stock options and 2,083,333 warrants. The average exercise price of the stock options outstanding is \$3.49 per share.

Share Information (000's)	Q3	Q3	Q2	YTD	YTD
	2006	2005	2006	2006	2005
Shares outstanding					
Basic	42,328	26,328	42,328	42,328	26,328
Diluted	45,914	29,360	45,903	45,914	29,360
Weighted average shares outstanding					
Basic	42,328	26,328	40,262	40,321	26,328
Diluted	42,632	26,738	40,730	40,764	26,639

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 September 30, 2006 was \$144 million.

Trading History on the TSX	Q3 2006	Q3 2005	Q2 2006	YTD 2006	YTD 2005
High	\$ 4.00	\$ 4.59	\$ 4.25	\$ 4.70	\$ 4.98
Low	\$ 3.00	\$ 3.20	\$ 3.30	\$ 3.00	\$ 3.06
Close	\$ 3.40	\$ 4.40	\$ 3.65	\$ 3.40	\$ 4.40
Volume (000's)	1,623	6,871	2,328	8,924	21,702

At September 30, 2006, Midnight had drawn \$25.0 million on its \$30.0 million credit facility and had a working capital deficit of \$8.5 million for a net debt position of \$33.6 million. Subsequent to quarter end, Midnight raised approximately \$16.8 million through a bought deal short form prospectus offering. The net proceeds of the offering of approximately \$15.7 million will be used to temporarily reduce bank debt, which will be redrawn and applied as needed to fund the Company's ongoing capital expenditure program and for general working capital purposes.

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	\$ 16,100	\$ -	\$ 16,100	\$ -	\$ -
Long-term debt	25,035	-	25,035	-	-
Asset retirement obligations	4,946	320	305	190	4,131
Total Contractual Obligations	\$ 46,081	\$ 320	\$ 41,440	\$ 190	\$ 4,131

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)

	September 30, 2006	December 31, 2005
Assets		
Current assets:		
Accounts receivable	\$ 4,681	\$ 6,259
Deposits and prepaid expenses	215	80
	4,896	6,339
Petroleum and natural gas assets (note 1)	142,781	104,832
	\$ 147,677	\$ 111,171
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 13,440	\$ 11,096
Long-term debt (note 2)	25,035	11,973
Future taxes	348	229
Asset retirement obligations (note 3)	1,750	1,416
Shareholders' equity:		
Share capital (note 4)	103,770	84,262
Warrants (note 4)	42	42
Contributed surplus (note 4)	998	469
Retained earnings	2,294	1,684
	107,104	86,457
Commitments (note 4(b))		
Subsequent event (note 5)		
	\$ 147,677	\$ 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 September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Revenues:				
Petroleum and natural gas sales	\$ 10,099	\$ 5,997	\$ 30,278	\$ 14,217
Royalties	(1,966)	(1,678)	(5,589)	(3,781)
Other income	-	-	128	30
	8,133	4,319	24,817	10,466
Expenses:				
Operating	1,657	902	5,066	2,653
Transportation	28	5	233	8
Interest	324	58	729	74
General and administration	739	412	1,827	1,008
Depletion, depreciation and accretion	4,839	1,976	15,955	5,044
	7,587	3,353	23,810	8,787
Income before taxes	546	966	1,007	1,679
Future taxes	226	479	397	874
Net income	320	487	610	805
Retained earnings, beginning of period	1,974	333	1,684	15
Retained earnings, end of period	\$ 2,294	\$ 820	\$ 2,294	\$ 820
Income per share: (note 4)				
Basic	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.03
Diluted	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.03

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(000's) (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Cash provided by (used in):				
Operations:				
Net income	\$ 320	\$ 487	\$ 610	\$ 805
Items not involving cash:				
Depletion, depreciation and accretion	4,839	1,976	15,955	5,044
Stock-based compensation	94	134	247	297
Future taxes	226	479	397	874
Abandonment expenditures	(34)	(3)	(62)	(44)
Funds from operations	5,445	3,073	17,147	6,976
Changes in non-cash working capital	(1,556)	147	(176)	(945)
	3,889	3,220	16,971	6,031
Financing:				
Issue of common shares	-	-	20,400	-
Share issue costs	(57)	-	(1,296)	-
Increase in long-term debt	3,731	770	13,062	6,175
Changes in non-cash working capital	92	-	13	138
	3,766	770	32,179	6,313
Investments:				
Petroleum and natural gas additions	(13,670)	(8,175)	(53,100)	(21,222)
Changes in non-cash working capital	6,015	4,185	3,950	3,847
	(7,655)	(3,990)	(49,150)	(17,375)
Changes in cash	-	-	-	(5,031)
Cash, beginning of period	-	-	-	5,031
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Taxes paid	\$ -	\$ -	\$ 88	\$ -
Interest paid	\$ 275	\$ 55	\$ 740	\$ 66

Cash is defined as cash and cash equivalents.

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

For the three and nine months ended September 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 period figures have been reclassified to conform with current period presentation.

Relationship with Daylight

An Administrative and Technical Services Agreement with Daylight Energy Ltd. (“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. Midnight and Daylight are taking steps to terminate the agreement on mutually acceptable terms. Midnight has relocated its offices and its personnel. Technical personnel including: geologists, geophysicists, engineers, land negotiators, business development and land contracts personnel are currently functioning independently. Certain services in the areas of land administration, drilling and completion operations, marketing, certain accounting and human resources and administration are transitioning to operate independently. It is expected that by the end of 2006, the current Administrative and Technical Services Agreement will be terminated. Midnight may contract out non-strategic administrative services to Daylight, and will pay for these services directly under a new agreement. Pursuant to the Administrative and Technical Services Agreement and for the nine months ended September 30, 2006 \$1,510,000 (2005 – \$622,000) of fees were charged relating to general and administration activities and \$1,526,000 (2005 – \$1,053,000) of fees were charged relating to capital expenditures.

1. Petroleum and natural gas assets:

	September 30, 2006	December 31, 2005
Cost	\$ 167,376	113,567
Accumulated depletion and depreciation	(24,595)	(8,735)
	\$ 142,781	\$ 104,832

During the nine months ended September 30, 2006, the Company capitalized \$1,809,000 (2005 – \$1,053,000) of general and administration expenses related to exploration and development activities. Included in this amount is the non-cash related stock-based compensation of \$282,000. The future tax liability of \$126,000 associated with the capitalized stock-based compensation has also been capitalized.

The cost of unproven properties, including wells in progress, at September 30, 2006 of \$28,981,000 (2005 - \$17,268,000) has been excluded from the depletion and depreciation calculation. Future development costs of proven reserves of \$14,206,000 (2005 - \$1,887,000) 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 September 30, 2006, \$25,035,000 was drawn on this facility. The effective interest rate for the bank debt was 5.2% for the nine months ended September 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 \$4,946,000 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 September 30, 2006. A credit-adjusted risk-free rate of 8% was used to calculate the fair value of the asset retirement obligations at September 30, 2006.

A reconciliation of the asset retirement obligations is provided below:

	September 30, 2006	December 31, 2005
Balance, beginning of period	\$ 1,416	\$ 542
Liabilities incurred	301	215
Acquired on property acquisition (note 1)	-	707
Liabilities settled	(62)	(95)
Accretion expense	95	47
Balance, end of period	\$ 1,750	\$ 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 \$404)	-	(892)
Balance, September 30, 2006	42,327,829	\$ 103,770

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 \$1.3 million (\$0.9 million net of tax), were \$19.1 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 September 30, 2006 the Company had incurred \$4.3 million of qualifying expenditures and is required to incur an additional \$16.1 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 September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Weighted average shares outstanding:				
Basic	42,327,829	26,327,829	40,320,503	26,327,829
Diluted	42,631,877	26,737,955	40,763,671	26,638,937

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	425,000	3.49
Cancelled	(22,000)	3.70
Balance, September 30, 2006	1,502,800	\$ 3.50
Exercisable at September 30, 2006	309,933	\$ 3.40

(e) Warrants:

	Number of Warrants	Amount
Warrants:		
Balance, December 31, 2004	2,333,333	\$ 47
Cancelled	(250,000)	(5)
Balance December 31, 2005 and September 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 September 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:

	September 30, 2006	December 31, 2005
Balance, beginning of period	\$ 469	\$ 15
Stock-based compensation expense	529	449
Cancellation of warrants	-	5
Balance, end of period	\$ 998	\$ 469

5. Subsequent event

On November 7, 2006, the Company closed a bought deal financing with a syndicate of underwriters and issued 5.5 million common shares at a price of \$3.05 per common share to raise gross proceeds of approximately \$16.8 million which includes 500,000 common shares issued pursuant to the over-allotment option granted to the underwriters at the same price. Management participated in this issue, acquiring 114,000 shares at \$3.05 per share. The offering was done by way of short form prospectus.

Selected Quarterly Information

Financial (000's, except for per share amounts)	2006				2005			2004
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4 ⁽¹⁾
Petroleum and natural gas sales	\$ 10,099	\$ 10,988	\$ 9,191	\$ 8,772	\$ 5,997	\$ 5,050	\$ 3,170	\$ 977
Royalties	1,966	1,969	1,654	2,172	1,678	1,401	702	211
Operating expenses	1,657	1,764	1,645	1,044	902	969	782	249
Transportation expenses	28	14	191	3	5	-	3	1
Net backs	\$ 6,448	\$ 7,241	\$ 5,701	\$ 5,553	\$ 3,412	\$ 2,680	\$ 1,683	\$ 516
G&A – cash charge	645	499	436	491	278	292	141	126
Net interest (income)	324	235	170	(68)	58	4	(18)	(12)
Abandonment	34	18	10	51	3	10	31	5
Other income	-	(9)	(119)	-	-	-	-	-
Capital tax	-	(17)	17	88	-	-	-	-
Funds from operations	\$ 5,445	\$ 6,515	\$ 5,187	\$ 4,991	\$ 3,073	\$ 2,374	\$ 1,529	\$ 397
Per share – Basic	0.13	0.16	0.14	0.16	0.12	0.09	0.06	0.02
– Diluted	0.13	0.16	0.13	0.16	0.12	0.09	0.06	0.02
Net income	\$ 320	\$ 82	\$ 208	\$ 864	\$ 487	\$ 158	\$ 160	\$ 15
Per share – Basic	0.01	0.00	0.01	0.03	0.02	0.01	0.01	0.00
– Diluted	0.01	0.00	0.01	0.03	0.02	0.01	0.01	0.00
Additions to capital assets	\$ 13,670	\$ 9,945	\$ 29,485	\$ 55,285	\$ 8,175	\$ 4,482	\$ 8,565	\$ 2,680
Net debt	33,579	25,297	41,028	16,730	11,344	6,242	4,134	(2,902)
Total assets	147,677	138,842	134,452	111,171	54,187	47,350	45,106	42,120
Shares outstanding								
Basic	42,328	42,328	38,328	38,328	26,328	26,328	26,328	26,328
Diluted	45,914	45,903	41,495	41,511	29,360	29,393	28,821	28,661
Operations								
Average daily production								
Natural gas (mcf/d)	7,637	10,091	5,926	4,694	4,885	5,151	3,924	3,549
NGLs & oil (bbls/d)	841	830	901	600	270	297	135	132
Combined (boe/d)	2,114	2,512	1,889	1,382	1,084	1,156	788	723
Average prices received								
Natural gas (\$/mcf)	\$ 5.85	\$ 5.98	\$ 7.39	\$ 11.73	\$ 9.70	\$ 7.62	\$ 6.92	\$ 7.00
NGLs & oil (\$/bbl)	77.01	72.38	64.17	66.19	64.97	53.64	58.96	50.75
Combined (\$/boe)	\$ 51.92	\$ 48.07	\$ 54.07	\$ 69.02	\$ 60.13	\$ 48.01	\$ 44.68	\$ 43.58
Royalties	10.11	8.61	9.73	17.09	16.82	13.33	9.89	9.40
Operating expenses	8.52	7.72	9.68	8.22	9.05	9.20	11.03	11.14
Transportation expenses	0.14	0.06	1.12	0.03	0.05	-	0.04	-
Netback received (\$/boe)	\$ 33.15	\$ 31.68	\$ 33.54	\$ 43.68	\$ 34.21	\$ 25.48	\$ 23.72	\$ 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

CORPORATE OFFICE

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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.

MOX

EXPLORING WITH ENERGY AND EXPERIENCE

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