

MIDNIGHT IS PLEASED TO ANNOUNCE ITS 2007 THIRD QUARTER RESULTS

PRESIDENT'S MESSAGE

The third quarter was another solid quarter for Midnight. We maintained strict financial discipline controlling our capital expenditures while maintaining strong cash flow from our solid light oil weighted production base. As a result, production was relatively flat while, for the second quarter in a row, cash flow exceeded net capital expenditures allowing us to further strengthen our balance sheet for an active winter program. During the third quarter, Midnight's production averaged 2,047 barrels of oil equivalent per day (51% oil weighted) generating just under \$5.0 million cash flow which offset net capital expenditures of approximately \$3.2 million. Despite the restricted capital program, Midnight has successfully maintained its production levels from its high quality reserve base and plans an active drilling program on its large prospect inventory.

Midnight's large oil weighted prospect inventory and solid production base has enabled us to focus on oil opportunities in a strong pricing environment. In Q3 Midnight averaged \$77.16 CDN per barrel of oil and NGLs and \$55.94 per boe on total revenue that will be top quartile amongst our peers. Our prospect inventory and production base will enable us to pursue our successful light oil investment strategy as we see even stronger oil prices looking into Q4. Our decision to focus on oil has delivered solid results and served Midnight well when comparing production and revenues year over year. In Q3 2007, 51% of Midnight's production and 71% of our revenues is derived from oil and NGL's compared to 40% of production and 59% of revenues for the same period one year ago.

During the third quarter, Midnight's oil and liquids production averaged 1,050 bbls/d which is a significant increase of 25% over Q3, 2006, while gas production of 6.0 mmcf/d was down 22%. Our strategy to focus on oil has proved beneficial as oil price gains helped deliver \$6.7 million in oil sales in Q3 2007 compared to \$5.1 million in Q3 2006. Weak natural gas prices continue to weigh on cash flow as Q3 2007 natural gas sales were \$2.9 million compared to \$4.1 million in Q3 2006.

On the investment side we continued our strategy to restrict investment during times of high service costs and soft gas prices. As a result, Midnight limited its activity to gas tie-in operations in the Peace River Arch, low working interest drilling, recompletions and completions in West Central Alberta and an exploratory well that we farmed out that resulted in a dry hole in North Red Earth.

In the North Red Earth area, Midnight maintained activity on our lands, at a reduced cost, as we sold an interest in an exploration prospect for \$2.0 million and then participated in a two well commitment retaining a 50% interest in the lands. The first well was D&A and the second well is awaiting completion. In West Red Earth, we received approval for Good Production Practice ("GPP") to implement a secondary recovery program which will further add to and sustain our sweet oil production from this area. In this regard, in the third quarter we continued our engineering and preparatory work for the associated water flood which will see field construction commencing in Q4 2007.

In the Pembina area, Midnight has a 37.5% working interest in a high impact exploratory oil prospect targeting the highly prolific sour Nisku oil reservoir. Our partner is the operator and received a drilling licence in Q3 2007 to drill our joint well, however continued delays in obtaining final approvals from the regulating agency have further delayed the anticipated spud date of this well until 2008. This is a high impact exploratory oil prospect that requires significant planning and involves long lead times but if successful would add significantly to our light oil production base.

On the Peace River Arch at Beaverlodge, Midnight (24% WI) concluded its tie-in operations of our Halfway gas discovery which began production in August, 2007 and is now flowing at rates of 800 mcf/d gross (192 mcf/d net). This discovery continues to validate our proprietary 3D seismic interpretation techniques. Midnight has additional Halfway prospects on its large high working interest land block in this area that we will be pursuing in a more favourable economic environment.

In Wapiti, at Red Rock, (Midnight 50% W.I.) our new pool multi zone discovery drilled last winter tested at rates of over 1.5 mmcf/d. Midnight has agreements in place with area operators to tie this well into their infrastructure. This operation will be commenced as soon as the ground freezes. Midnight has accumulated a significant land base through farm-ins in Wapiti and continues to pursue these high potential prospects.

Beyond Midnight, overall industry activity and spending slowed during the third quarter with active drilling rig utilizations reduced over 30% in response to high service costs and thinner margins. As a result we are starting to see service costs moderate slightly and anticipate some easing as we start our winter program. Midnight's strategy to maintain strict financial discipline and conduct a restricted capital program has positioned us well for our high potential winter program.

On October 25, 2007 the Alberta provincial government announced a New Royalty Framework (NRF). Although the exact details are not yet known, Midnight has analyzed the impact of the new NRF on its operations and advises that the royalty changes if implemented will have a minor negative impact on our existing valuation of approximately 4% on our net present value for both proved and proved plus probable reserves (discounted at 10%). Notwithstanding the minor impact on current net asset value, the ongoing interference and uncertainty created by regressive government actions (Federal and Provincial) against the oil and gas sector further damages the investment climate at an unfortunate time. As with many junior oil and gas companies in Canada, our stock price is under pressure. Midnight's current stock price does not nearly reflect the net asset value, or the potential of the company. Accordingly, Midnight has applied for and received approval from the TSX for a normal course issuer bid which we plan to actively pursue.

On the back of high service costs and low natural gas prices, the increased taxation of higher royalties weighs down the oil and gas sector even more. This will result in a further slowdown in the industry. Under the proposed royalty changes (that are price dependent) our gas prospects benefit due to the deep drilling royalty holidays while our oil prospects would be subject to higher royalty rates. Certainly we did not anticipate this level of interference but with our broad and deep prospect inventory and our solid balance sheet we are able to step up for an exciting winter program.

Midnight is a top quality junior exploration company with a high end technical team with a proven track record. Our oil weighted production base, a strong balance sheet and a high quality prospect inventory leaves Midnight extremely well positioned for this stage of the cycle. We look forward to taking advantage of the opportunities we have created and the opportunities that this stage will afford us.

Signed "Fred Woods"

Fred Woods
President and Chief Executive Officer
November 12, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis as provided by the management of Midnight Oil Exploration Ltd. ("Midnight" or the "Company") should be read in conjunction with the unaudited Consolidated Financial Statements and accompanying notes for the three and nine months ended September 30, 2007 and 2006 and the audited Consolidated Financial Statements, related notes and Management Discussion and Analysis for the years ended December 31, 2006 and 2005.

Basis of Presentation – The financial data presented below has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The reporting and 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, 2007 ("YTD 2007") to the nine months ended September 30, 2006 ("YTD 2006") and the results of the three months ended September 30, 2007 ("Q3 2007") to the three months ended September 30, 2006 ("Q3 2006") and the results of the three months ended June 30, 2007 ("Q2 2007").

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. Total boes are calculated by multiplying the daily production by the number of days in the period.

The following table reconciles cash provided by operations to funds from operations which is used in the MD&A:

(\$000s)	Q3 2007	Q3 2006	Q2 2007	YTD 2007	YTD 2006
Cash provided by operations	6,510	3,889	833	15,387	16,971
Changes in non-cash working capital	(1,602)	1,556	5,199	939	176
Funds from operations	4,908	5,445	6,032	16,326	17,147

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; and*
- *changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry.*

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 12, 2007.

Selected Quarterly Information

Set out below is selected quarterly information for Midnight for the last eight quarters:

Financial (000's, except for per share amounts)	2007			2006			2005	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Petroleum and natural gas sales	\$ 10,439	\$ 11,009	\$ 10,894	\$ 9,410	\$ 10,099	\$ 10,988	\$ 9,191	\$ 8,772
Funds from operations	4,908	6,032	5,386	4,555	5,445	6,515	5,187	4,991
Per share – Basic	0.10	0.13	0.11	0.10	0.13	0.16	0.14	0.16
– Diluted	0.10	0.13	0.11	0.10	0.13	0.16	0.13	0.16
Net income (loss)	\$ (827)	\$ 51	\$ (424)	\$ (565)	\$ 320	\$ 82	\$ 208	\$ 864
Per share – Basic	(0.02)	0.00	(0.01)	(0.01)	0.01	0.00	0.01	0.03
– Diluted	(0.02)	0.00	(0.01)	(0.01)	0.01	0.00	0.01	0.03
Net additions to capital assets	\$ 3,217	\$ 3,439	\$ 12,582	\$ 8,652	\$ 13,670	\$ 9,945	\$ 29,485	\$ 55,285
Net debt	24,886	26,577	29,170	21,974	33,579	25,297	41,028	16,730
Total assets	160,573	161,537	159,594	152,833	147,677	138,842	134,452	111,171
Shares outstanding								
Basic	47,828	47,828	47,828	47,828	42,328	42,328	38,328	38,328
Diluted	52,953	53,168	53,001	53,548	45,914	45,903	41,495	41,511
Operations								
Average daily production								
Natural gas (mcf/d)	5,981	5,769	6,891	7,352	7,637	10,091	5,926	4,694
Oil & NGLs (bbls/d)	1,050	1,185	1,090	890	841	830	901	600
Combined (boe/d)	2,047	2,146	2,239	2,115	2,114	2,512	1,889	1,382
Netback (\$/boe)	\$ 34.28	\$ 37.37	\$ 32.45	\$ 29.08	\$ 33.15	\$ 31.68	\$ 33.54	\$ 43.68

Midnight has a balanced portfolio of light oil and sweet gas prospects which have delivered solid production and funds from operations. Growth in petroleum and natural gas sales and funds from operations are derived by the combination of increased production and strong commodity prices. Midnight commenced operations in December 2004 with production averaging 723 boe/d for the month. On November 29, 2005, Midnight acquired the Red Earth property increasing our production for Q4 2005 by 303 boe/d. Production growth continued with the drilling of 33 gross (17.2 net) wells in 2006 and 16 gross (4.3 net) wells for YTD 2007. In the last eight quarters, oil and NGLs prices have remained robust with sales realized in a range of \$58.25/bbl for Q4 2006 to \$77.16/bbl in Q3 2007. The rising Canadian dollar reduces the impact of the record setting WTI price. Natural gas prices have been quite volatile with the high of \$11.43/mcf in Q4 2005 to a new low of \$5.33/mcf in Q3 2007. High natural gas inventories and lower demand and an increase in LNG imports into the United States have continued to put downward pressure on the gas price. During the last eight quarters, Midnight has increased its focus on oil with Q3 2007 production comprised of 51% oil and NGLs which contributed over 71% to our petroleum and natural gas revenues.

Production

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

Production	Q3 2007	Q3 2006	Q2 2007	YTD 2007	YTD 2006
Natural Gas (mcf/d)	5,981	7,637	5,769	6,210	7,891
Oil (bbls/d)	898	704	1,008	942	709
NGLs (bbls/d)	152	137	177	166	148
Total (boe/d)	2,047	2,114	2,146	2,143	2,172

With limited capital expenditures for the past six months, Midnight's Q3 2007 production remained relatively unchanged from Q2 2007 and from Q3 2006. Gas volumes in the current quarter increased slightly over Q2 2007 as additional volumes were brought on-stream from our winter drilling program. Oil volumes decreased slightly due to a third party pipeline failure which caused volumes to be shut-in for a period of time. Year over year, both Q3 2007 and YTD 2007 volumes are comparable with the same periods in 2006 on a total boe basis, however our product mix has changed significantly as we have continued to focus on our high-value light oil prospects in the Red Earth area. Oil and NGL volumes comprised 51% of our production for Q3 2007 compared to 40% for Q3 2006 and YTD 2007 oil and NGLs comprised 52% of our production compared to 40% for the same period in 2006.

Pricing

Natural gas prices have historically been influenced entirely by North American supply and demand, but with the expansion of the liquefied natural gas ("LNG") market, natural gas is becoming a global commodity. Natural gas prices are influenced by seasonal changes, storage levels, transportation capacity and the level of LNGs coming into North America. 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 prices. 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 Edmonton Par benchmark price which generally has a strong correlation to the US benchmark West Texas Intermediate at Cushing, Oklahoma ("WTI") price adjusted by 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. Despite record setting WTI prices, the strengthening of the Canadian dollar relative to the US dollar has muted the benefit of the price impact to Midnight. Our Q3 2007 realized oil price has only increased 2.6% compared to an increase of 6.7% in the WTI reference price from Q3 2006. Midnight's oil price is significantly influenced by global supply and demand.

Prices for NGLs have their own market dynamic. NGLs include condensate, pentane, butane and propane. While prices for condensate and pentane have a relatively strong correlation to oil prices, prices for butane and propane trade at varying discounts due to the market conditions of local supply and demand.

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 2007	Q3 2006	Q2 2007	YTD 2007	YTD 2006
Benchmark Prices					
Alberta spot (\$/mcf)	\$ 5.07	\$ 5.58	\$ 6.94	\$ 6.42	\$ 6.26
WTI oil (\$US/bbl)	75.22	70.48	64.95	66.22	68.12
Cdn/US average exchange rate	0.956	0.892	0.911	0.907	0.883
Edmonton Par (\$/bbl)	\$ 80.67	\$ 79.69	\$ 72.64	\$ 73.65	\$ 76.02
Midnight's Realized Price					
Natural gas (\$/mcf)	\$ 5.33	\$ 5.85	\$ 7.22	\$ 6.83	\$ 6.29
Oil (\$/bbl)	81.23	79.17	69.80	71.62	72.83
NGLs (\$/bbl)	53.13	65.94	49.43	49.78	62.63
Oil & NGLs (\$/bbl)	77.16	77.01	66.76	68.34	71.07
Total (\$/boe)	\$ 55.94	\$ 51.92	\$ 56.37	\$ 55.44	\$ 51.05

Petroleum and Natural Gas Sales

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

Petroleum and Natural Gas Sales (000's)	Q3 2007	Q3 2006	Q2 2007	YTD 2007	YTD 2006
Natural Gas	\$ 2,933	\$ 4,112	\$ 3,791	\$ 11,575	\$ 13,541
Oil	6,713	5,128	6,403	18,420	14,104
NGLs	743	833	794	2,258	2,529
Royalty income	50	26	21	89	104
Total	\$ 10,439	\$ 10,099	\$ 11,009	\$ 32,342	\$ 30,278

Petroleum and natural gas sales totalled \$10.4 million for Q3 2007 and \$32.3 million for YTD 2007. Petroleum and natural gas sales for Q3 2007 increased slightly from Q3 2006 as our revenue per boe increased with a larger portion of our production coming from oil. Combined oil and NGL sales increased 25% while natural gas sales declined 29%. YTD 2007 sales increased 7% with oil and NGLs increasing 24% and natural gas sales declining 15%.

Royalties

Royalty payments are made by producers of oil and gas 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.

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

Royalties by Type (000's)	Q3 2007	Q3 2006	Q2 2007	YTD 2007	YTD 2006
Crown	\$ 1,425	\$ 2,006	\$ 1,354	\$ 4,633	\$ 5,379
Gross overriding & freehold	172	87	264	572	585
ARTC	-	(127)	-	-	(375)
Total	\$ 1,597	\$ 1,966	\$ 1,618	\$ 5,205	\$ 5,589
\$/boe	\$ 8.48	\$ 10.11	\$ 8.29	\$ 8.90	\$ 9.43
% of revenue	15.3	19.5	14.7	16.1	18.5

Effective January 1, 2007 the Alberta Royalty Tax Credit (ARTC) has been eliminated.

Royalties by Commodity (excluding ARTC)	Q3 2007	Q3 2006	Q2 2007	YTD 2007	YTD 2006
Natural Gas					
000's	\$ (27)	\$ 837	\$ 71	\$ 973	\$ 3,016
% of revenue	(1.0)	20.4	1.9	8.4	22.3
Oil					
000's	\$ 1,407	\$ 1,048	\$ 1,358	\$ 3,611	\$ 2,264
% of revenue	21.0	20.4	21.2	19.6	16.1
NGLs					
000's	\$ 217	\$ 208	\$ 189	\$ 621	\$ 684
% of revenue	29.2	25.0	23.8	27.5	27.0

For YTD 2007, royalties averaged 16.1% of revenue compared to 18.5% for the corresponding period in 2006. Royalties as a percentage of revenue have decreased as natural gas royalties averaged only 8.4% of revenue for YTD 2007 as Midnight received Gas Cost Allowance ("GCA") adjustments for 2006 as well as increased current year GCA that has had a favourable impact on rates. Q3 2007 royalties averaged 15.3% of revenue which is consistent with Q2 2007 of 14.7% and a decrease from the Q3 2006 rate of 19.5% due to the increased GCA during the period. Midnight applied for a reduction in the useful life for certain facilities which has accelerated the rate in which we will receive our GCA for these areas. Excluding the impact of GCA, gas crown royalties are averaging approximately 20% for 2007, however with our GCA credits we expect our effective gas royalty rate to be less than 10%.

On October 25, 2007, the Alberta government introduced the New Royalty Framework ("NRF") which is scheduled to take effect January 1, 2009. Substantially all of Midnight's production and reserves are in Alberta and will be subject to the NRF. Although the exact details are not yet known, Midnight has undertaken a preliminary review of the potential impact on our existing asset base assessing royalties, the related impact on operating netbacks and the net present value of reserves. Midnight engaged GLJ Petroleum Consultants ("GLJ") to prepare a look forward analysis of Midnight's estimated Q3 2007 reserves applying the expected NRF effective January 1, 2009. That analysis indicated that the net present value of reserves discounted at 10% decreased by approximately 4% for both the total proved and total proved plus probable case (forecasted prices and costs). The estimated negative impact at our light-oil property Red Earth was partially offset by deep natural gas production in the Deep Basin and West Central Alberta.

The analysis is based on GLJ's current commodity price forecast effective October 1, 2007 which includes: AECO natural gas price of \$6.60 per mmbtu for 2008 and \$6.80 per mmbtu for 2009; a WTI crude oil price of US\$75.00 per bbl for 2008 and US\$71.50 per bbl for 2009 with a forecast exchange rate of \$1 Canadian to \$1 US. The analysis does not take into account future drilling plans that do not have reserves assigned to them at September 30, 2007 and makes certain assumptions regarding future prices and production which could have a material impact on the actual impact of the NRF. This new framework will have an impact on the economics of our exploratory oil program and will be a factor in our capital deployment decisions.

Operating Expenses

Operating Expenses (000's)	Q3 2007	Q3 2006	Q2 2007	YTD 2007	YTD 2006
Operating expenses	\$ 2,426	\$ 1,657	\$ 2,084	\$ 6,856	\$ 5,066
Total (\$/boe)	\$ 12.88	\$ 8.52	\$ 10.67	\$ 11.72	\$ 8.54

Operating costs for 2007 YTD were negatively impacted by industry wide increased cost pressures which have increased the overall operating costs for the Company. Operating expenses during Q3 2007 were \$12.88/boe and \$11.72/boe for YTD 2007. Q3 2007 operating costs increased over prior periods with higher repairs and maintenance costs associated with turnarounds, workovers and third party charges in our West Central area and higher maintenance and trucking charges in our Red Earth area. At Red Earth wet conditions in spring and early summer damaged access roads which required maintenance as well as reduced the volumes we were able to truck per load. In the next two quarters we will build the infrastructure to tie our wells into and increase our water handling capacity. We expect to reduce operating costs by reducing emulsion trucking, rentals of single well batteries and water handling charges from third parties. Emulsion trucking charges account for approximately \$1.20/boe of our total operating expenses.

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 are generally incurred for trucking clean oil and for commodities that are transported through owned or third party infrastructure to an established delivery point such as AECO at an agreed tariff.

Transportation charges were \$56,000 for Q3 2007 (\$0.30/boe) and \$84,000 for YTD 2007 (\$0.14/boe). This compares to \$28,000 (\$0.14/boe) in Q3 2006 and \$233,000 (\$0.39/boe) in YTD 2006. Midnight currently incurs minimal transportation charges as most of our natural gas is being sold at the wellhead and most of our oil production is trucked as emulsion which is classified as an operating expense.

Interest Expense

YTD 2007 interest expense totalled \$1,204,000. Included in interest expense for the period is \$248,000 of interest accrued on our unspent flow-through share obligation. YTD 2007 interest expense excluding this amount totalled \$956,000 on average bank debt of approximately \$22.2 million representing an effective interest rate of approximately 5.7%. During YTD 2006, interest expense totalled \$729,000 on average bank debt of approximately \$18.4 million representing an effective interest rate of 5.2%. Q3 2007 interest expense totalled \$439,000 compared to \$324,000 for Q3 2006 as both average debt and interest rates were higher in Q3 2007. Interest expense has increased with an increase in our debt levels and our effective rate has increased with the increase in Canadian interest rates. Our interest is expected to fluctuate with the changes in the Bank of Canada rate and our net debt to cash flow ratio along with the additional interest charge from our flow-through share obligation.

General and Administration Expenses

The YTD 2007 cash portion of general and administration ("G&A") expenses totalled \$2,517,000 (\$4.30/boe compared to \$1,580,000 (\$2.66/boe) for the YTD 2006 period. In 2006, Midnight's general and administration expenses were allocated based on the Administrative and Technical Service Agreement ("TSA") with Daylight Energy Ltd. ("Daylight"). Under this agreement, Daylight had been the employer on behalf of the parties and received payment or reimbursement from Midnight for certain technical and administrative services provided to Midnight. The Company was charged for its direct activities and for its proportionate share of overhead based on production and capital spending. With the termination of the TSA, Midnight is responsible for its own activities with Daylight still

providing certain administrative and other non-competitive services through an agreed upon monthly fee. During YTD 2007, Midnight paid \$1.0 million for these direct services. Q3 2007 cash G&A increased to \$1,001,000 from \$803,000 in Q2 2007 and from \$645,000 in Q3 2006. During Q3 2007, Midnight paid out its annual bonuses which accounted for the increase from Q2 2007. Lower capital expenditures in 2007 versus 2006 has resulted in lower overhead recoveries.

The components of general and administration expense are as follows:

General and Administration Expenses (000's)	Q3 2007	Q3 2006	Q2 2007	YTD 2007	YTD 2006
Direct G&A	\$ 1,767	\$ 207	\$ 1,424	\$ 4,618	\$ 481
Technical service fee from Daylight	-	950	-	-	3,036
Overhead recoveries	(26)	(103)	(14)	(123)	(411)
Capitalized G&A	(740)	(409)	(607)	(1,978)	(1,526)
Cash G&A	\$ 1,001	\$ 645	\$ 803	\$ 2,517	\$ 1,580
Stock-based compensation	160	94	154	412	247
Net G&A	\$ 1,161	\$ 739	\$ 957	\$ 2,929	\$ 1,827
Cash G&A (\$/boe)	\$ 5.32	\$ 3.32	\$ 4.11	\$ 4.30	\$ 2.66
Stock-based compensation (\$/boe)	0.85	0.48	0.79	0.70	0.42
Net G&A (\$/boe)	\$ 6.17	\$ 3.80	\$ 4.90	\$ 5.00	\$ 3.08

Midnight expects cash G&A to be \$3.50 to \$4.50 per boe in 2007 with increased labour costs and additional charges to operate on a stand alone basis.

Stock-Based Compensation

The Company applies the fair value method for valuing stock option grants and warrants. Under this method, compensation costs 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 employee salaries that are capitalized is proportionately capitalized. Midnight recognized stock-based compensation expense of \$689,000 for YTD 2007 and capitalized a corresponding \$277,000. During YTD 2007, 284,500 stock options were granted while 809,300 options were forfeited. Midnight's unamortized portion of stock-based compensation is \$1.9 million at September 30, 2007.

Depletion, Depreciation and Accretion

For YTD 2007, depletion, depreciation and accretion ("DD&A") was \$17.8 million (\$30.44/boe) versus \$16.0 million (\$26.90/boe) for YTD 2006. The increase is a result of a larger capital base being depleted as well as depleting at a higher rate due to higher finding and development costs. Q3 2007 DD&A totalled \$5.9 million compared to \$4.8 million in Q3 2006 and \$6.0 million in Q2 2007. Q3 2007 increased over Q3 2006 as we are depleting at a higher rate and on a larger capital base. Quarter over quarter DD&A decreased marginally as the DD&A rate and the capital base being depleted were similar in each quarter.

Taxes

The YTD 2007 future tax recovery was \$545,000 versus an expense of \$397,000 for YTD 2006. During Q2 2007, Midnight recognized a recovery of approximately \$150,000 due to the impact of the reduction in tax rates that have been substantively enacted. The difference in the expected rate of 32.1% and the effective rate is primarily from differences relating to stock-based compensation, other non-deductible items and the impact of the reduction in tax rates.

In Q1 2007, Midnight renounced its flow-through share expenditures and accordingly recorded a \$6.2 million future tax liability for the estimated cost of the renounced tax deductions.

On October 30, 2007, the federal government announced proposed reductions to corporate income tax rates. These proposed reductions have not been substantively enacted and therefore are not reflected in the current financial statements.

Midnight does not expect to become taxable on an income tax basis in 2007 and has approximately \$128 million in tax pools to shelter taxable income in future years.

Funds from Operations and Net Income (Loss)

For Q3 2007, funds from operations totalled \$4.9 million (\$0.10 per basic and diluted share). Funds from operations totalled \$5.4 million (\$0.13 per basic and diluted share) in Q3 2006 and \$6.0 million (\$0.13 per basic and diluted share) for Q2 2007. For YTD 2007 funds from operations totalled \$16.3 million (\$0.34 per basic and diluted share) compared to YTD 2006 funds from operations of \$17.1 million (\$0.43 per basic and \$0.42 per diluted share).

For YTD 2007 the net loss was \$1,200,000 compared to net income of \$610,000 for YTD 2006. The net loss for Q3 2007 totalled \$827,000 compared to net income of \$320,000 in Q3 2006.

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

(\$/boe)	Q3 2007	Q3 2006	Q2 2007	YTD 2007	YTD 2006
Sales price	\$ 55.94	\$ 51.92	\$ 56.37	\$ 55.44	\$ 51.05
Royalties	8.48	10.11	8.29	8.90	9.43
Operating expenses	12.88	8.52	10.67	11.72	8.54
Transportation expenses	0.30	0.14	0.04	0.14	0.39
Operating netback	\$ 34.28	\$ 33.15	\$ 37.37	\$ 34.68	\$ 32.69
General and administration	5.32	3.32	4.11	4.30	2.66
Interest	2.33	1.67	2.18	2.06	1.23
Other income	-	-	-	-	(0.22)
Cash flow netback	\$ 26.63	\$ 28.16	\$ 31.08	\$ 28.32	\$ 29.02
Depletion, depreciation and accretion	31.13	24.88	30.78	30.44	26.90
Stock-based compensation	0.85	0.48	0.79	0.70	0.42
Future tax (reduction)	(1.47)	1.16	(0.75)	(0.93)	0.67
Net income (loss)	\$ (3.88)	\$ 1.64	\$ 0.26	\$ (1.89)	\$ 1.03

The following table provides reconciliations to the change in funds from operations and net income (loss) for Q3 2007 to Q3 2006 and for Q3 2007 to Q2 2007.

Change in Funds from Operations and Net Income (000's)	Q3 2007 to Q3 2006		Q3 2007 to Q2 2007	
	Funds from Operations	Net Income	Funds from Operations	Net Income (Loss)
Comparative period	\$ 5,445	\$ 320	\$ 6,032	\$ 51
Increase (decrease) in revenue:				
Change in production volumes	(321)	(321)	(350)	(350)
Change in prices	661	661	(220)	(220)
Change in royalties	369	369	21	21
(Increase) decrease in expenses:				
Operating	(769)	(769)	(342)	(342)
Transportation	(28)	(28)	(47)	(47)
Interest	(115)	(115)	(13)	(13)
Cash general and administration	(356)	(356)	(198)	(198)
Stock-based compensation	-	(66)	-	(6)
Depletion, depreciation and accretion	-	(1,025)	-	146
Taxes	-	503	-	131
Abandonment expenditures	22	-	25	-
Current period	\$ 4,908	\$ (827)	\$ 4,908	\$ (827)

Capital Expenditures

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

Capital Expenditures (000's)	Q3 2007	Q3 2006	Q2 2007	YTD 2007	YTD 2006
Land	\$ 146	\$ 203	\$ 59	\$ 273	\$ 4,898
Geological and geophysical	830	683	714	2,750	2,707
Drilling	2,404	8,021	641	9,138	24,139
Completions	1,119	2,801	772	4,333	8,697
Facilities, pipelines and equipment	714	1,943	1,253	4,699	12,640
Other	-	19	-	41	19
Total expenditures	\$ 5,213	\$ 13,670	\$ 3,439	\$ 21,234	\$ 53,100
Land disposition	(1,996)	-	-	(1,996)	-
Total net expenditures	\$ 3,217	\$ 13,670	\$ 3,439	\$ 19,238	\$ 53,100

For the second consecutive quarter, Midnight's funds from operations have exceeded capital expenditures to leave a strong balance sheet for the winter drilling program. Midnight resumed its drilling program in the third quarter drilling 5 gross (0.2 net) successful natural gas wells and 1 gross (0.5 net) dry hole. The dry hole was an oil target which we participated in through a farm-in. The company entered into a transaction that provided for the sale of certain exploratory lands for \$2.0 million and then offset the sale through a participation in the exploration project with a two well commitment retaining a 50% interest in these lands.

During YTD 2007, Midnight drilled 16 gross (4.3 net) wells comprised of 14 gross (2.8 net) natural gas wells, 1 gross (1.0 net) oil well and 1 gross (0.5 net) dry hole with an 88% success rate. Four (2.3 net) of our natural gas wells were drilled in the Deep Basin and the remaining 10 (0.5 net) were drilled in West Central. Drilling costs accounted for 47% of our capital expenditures in YTD 2007 and Midnight spent an additional \$4.3 million on completion operations and \$4.7 million on facilities, pipelines and equipment. Geological and geophysical expenditures include capitalized G&A and seismic expenditures and totalled \$2.8 million for YTD 2007. Capital expenditures were balanced among our principal properties with 35% spent on our oil properties in Red Earth, 50% on our Deep Basin gas opportunities and 15% on non-operated West Central and minor properties. Capital expenditures for the year are down 64% for the same period in 2006 as our activity was slower during the year. For YTD 2006, we drilled 30 gross (16.7 net) wells.

In addition to the cash capital expenditures, we capitalized \$277,000 of stock-based compensation and the related future tax liability of \$121,000 consistent with the exploration compensation that we have added to our property base.

Midnight had approximately 157,000 net acres of undeveloped land at September 30, 2007. Our 2007 capital program has been designed to approximately match funds from operations.

Equity

During YTD 2007, Midnight issued 284,500 options to employees and 809,300 options were forfeited during the same period. No options were exercised during 2007. At September 30, 2007 the Company had 3,112,000 options outstanding at an average exercise price of \$2.60. Of these 358,333 have vested and are exercisable at an average price of \$3.44. At November 12, 2007 the Company had 47,827,829 common shares, 3,137,000 stock options and 2,013,333 warrants outstanding.

On October 15, 2007, Midnight filed notice with the Toronto Stock Exchange (the "TSX") to make a normal course issuer bid to purchase its outstanding common shares on the open market. The TSX has authorized Midnight to purchase up to 4,320,826 common shares representing approximately 9% of its issued and outstanding common shares during the period from October 17, 2007 to October 16, 2008 or until such time that the bid is either completed or terminated at Midnight's option. Any shares Midnight purchases under this bid will be purchased on

the open market through the facilities of the TSX at the prevailing market price. Shares acquired under the bid will be cancelled.

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. 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. The future tax effect of this issue was recorded in Q1 2007 when the Company renounced the expenditures.

Share Information (000's)	Q3	Q3	Q2	YTD	YTD
	2007	2006	2007	2007	2006
Shares outstanding					
Basic	47,828	42,328	47,828	47,828	42,328
Diluted	52,953	45,914	53,168	52,953	45,914
Weighted average shares outstanding					
Basic	47,828	42,328	47,828	47,828	40,321
Diluted	47,828	42,632	47,828	47,828	40,764

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, 2007 was \$69.8 million.

Trading History on the TSX	Q3	Q3	Q2	YTD	YTD
	2007	2006	2007	2007	2006
High	\$ 1.89	\$ 4.00	\$ 2.10	\$ 2.39	\$ 4.70
Low	\$ 1.31	\$ 3.00	\$ 1.61	\$ 1.31	\$ 3.00
Close	\$ 1.46	\$ 3.40	\$ 1.72	\$ 1.46	\$ 3.40
Volume (000's)	615	1,623	7,035	21,980	8,924

At September 30, 2007, Midnight had drawn \$25.9 million on its \$35.0 million credit facility and had a working capital surplus of \$1.0 million for a net debt position of \$24.9 million. Midnight's credit facility is available on a revolving basis until May 31, 2008. 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 will be due and payable. Alternatively, the facility may be extended for a further 364-day period at the request of the Company and subject to approval by the bank. The credit facility bears interest at the bank's prime rate or Bankers' 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 2007 through a combination of cash flow and additional drawing on its existing credit facility. Our 2007 capital budget has been set to approximately match cash flows for the year. Expenditures for our flow-through program will be completed before the end of November 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	\$ 2,985	\$ 2,985	\$ -	\$ -	\$ -
Long-term debt	25,887	-	25,887	-	-
Asset retirement obligations	5,633	218	239	227	4,949
Total Contractual Obligations	\$ 34,505	\$ 3,203	\$ 26,126	\$ 227	\$ 4,949

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 are comprised of 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. Midnight has not identified any embedded derivatives in any of its contracts.

Disclosure and Internal Control Procedures

Disclosure control procedures have been designed to ensure that information required to be disclosed by Midnight is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. Midnight's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the interim filings that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer is made known to them by others within the Company.

Midnight incorporated new internal controls over financial reporting for 2007. Effective procedures have been designed and implemented over financial reporting in 2007; however, management is aware that there is a lack of segregation of duties due to the limited number of employees dealing with financial matters. Midnight's Chief Executive Officer, Chief Financial Officer and Vice President Finance have been with the Company since its inception and have extensive industry experience. They are aware of and actively involved in the Company's on-going operating activities. While there is an inherent weakness in internal controls over financial reporting due to the limited number of staff and the resultant lack of segregation of incompatible duties, the capabilities and involvement of the Chief Executive Officer, Chief Financial Officer and Vice President Finance serve to mitigate this structural weakness. Their efforts, together with the active involvement of the board of directors, are directed to minimize the risk of a material misstatement in financial reporting. It should be noted that while Midnight's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure and internal control procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure and internal control procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Application of Critical Accounting Estimates

The significant accounting policies used by Midnight are disclosed in note 1 to the audited Consolidated Financial Statements for the years ended December 31, 2006 and 2005 and note 1 to the interim Consolidated Financial Statements for the nine months ended September 30, 2007. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates. A detailed discussion of the critical accounting policies and practices of the Company which helps to assess the likelihood of materially different results being reported is disclosed in the 2006 Annual Management and Discussion Analysis.

New Accounting Standards

On January 1, 2007, the Company adopted the new Canadian accounting standards for financial instruments – recognition and measurement, financial instruments – presentations and disclosures, hedging and comprehensive income as disclosed in note 1 to the interim Consolidated Financial Statements for the nine months ended September 30, 2007. Adopting these standards did not impact the financial statements.

Risk Factors

There are a number of risk factors facing Companies that participate in the Canadian oil and gas industry. A summary of certain risk factors relating to our business are provided in the Risk Factors Section of our Annual Information Form filed on SEDAR.

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, 2007	December 31, 2006
Assets		
Current assets:		
Accounts receivable	\$ 11,920	\$ 5,928
Deposits and prepaid expenses	270	189
	<u>12,190</u>	<u>6,117</u>
Future taxes	-	391
Petroleum and natural gas assets (note 2)	148,383	146,325
	<u>\$ 160,573</u>	<u>\$ 152,833</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 11,189	\$ 10,153
Long-term debt (note 3)	25,887	17,938
Future taxes	5,407	-
Asset retirement obligations (note 4)	2,011	1,930
Shareholders' equity:		
Share capital (note 5)	113,585	119,807
Warrants (note 5)	40	42
Contributed surplus (note 5)	1,925	1,234
Retained earnings	529	1,729
	<u>116,079</u>	<u>122,812</u>
Commitments (note 7)		
	<u>\$ 160,573</u>	<u>\$ 152,833</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Signed *"Tom Medvedic"*
Director

Signed *"Jay Squiers"*
Director

Consolidated Statements of Income (Loss) and Retained Earnings

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Revenues:				
Petroleum and natural gas sales	\$ 10,439	\$ 10,099	\$ 32,342	\$ 30,278
Royalties	(1,597)	(1,966)	(5,205)	(5,589)
Other income	-	-	-	128
	8,842	8,133	27,137	24,817
Expenses:				
Operating	2,426	1,657	6,856	5,066
Transportation	56	28	84	233
Interest	439	324	1,204	729
General and administration	1,161	739	2,929	1,827
Depletion, depreciation and accretion	5,864	4,839	17,809	15,955
	9,946	7,587	28,882	23,810
Income (loss) before taxes	(1,104)	546	(1,745)	1,007
Future taxes (reduction)	(277)	226	(545)	397
Net income (loss)	(827)	320	(1,200)	610
Retained earnings, beginning of period	1,356	1,974	1,729	1,684
Retained earnings, end of period	\$ 529	\$ 2,294	\$ 529	\$ 2,294
Income (loss) per share: (note 5)				
Basic	\$ (0.02)	\$ 0.01	\$ (0.03)	\$ 0.02
Diluted	\$ (0.02)	\$ 0.01	\$ (0.03)	\$ 0.01

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	
	2007	2006	2007	2006
Cash provided by (used in):				
Operations:				
Net income (loss)	\$ (827)	\$ 320	\$ (1,200)	\$ 610
Items not involving cash:				
Depletion, depreciation and accretion	5,864	4,839	17,809	15,955
Stock-based compensation	160	94	412	247
Future taxes (reduction)	(277)	226	(545)	397
Abandonment expenditures	(12)	(34)	(150)	(62)
	4,908	5,445	16,326	17,147
Changes in non-cash working capital	1,602	(1,556)	(939)	(176)
	6,510	3,889	15,387	16,971
Financing:				
Issue of common shares	-	-	-	20,400
Share issue costs	-	(57)	-	(1,296)
Increase (decrease) in long-term debt	(1,892)	3,731	7,949	13,062
Changes in non-cash working capital	-	92	(162)	13
	(1,892)	3,766	7,787	32,179
Investments:				
Petroleum and natural gas additions	(5,213)	(13,670)	(21,234)	(53,100)
Property disposition	1,996	-	1,996	-
Changes in non-cash working capital	(1,401)	6,015	(3,936)	3,950
	(4,618)	(7,655)	(23,174)	(49,150)
Changes in cash	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Taxes paid	\$ -	\$ -	\$ -	\$ 88
Interest paid	\$ 190	\$ 275	\$ 976	\$ 740

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, 2007 and 2006
(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, 2006 except as noted below. The disclosures provided below are incremental to those included with the audited consolidated financial statements for the year ended December 31, 2006. The interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2006.

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

1. Changes in accounting policy:

On January 1, 2007, the Company adopted the new Canadian accounting standards for financial instruments – recognition and measurement, financial instruments – presentations and disclosures, hedging and comprehensive income. Prior periods have not been restated. Additional disclosure requirements for financial instruments have been approved by the Canadian Institute of Chartered Accountants and will be required disclosure beginning January 1, 2008.

(a) Financial instruments – recognition and measurement:

This new standard requires all financial instruments within its scope, including all derivatives, to be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired. There were no changes to the measurement of existing financial assets and liabilities at the date of adoption.

(b) Derivatives:

The Company may use various types of derivative financial instruments to manage risks associated with crude oil and natural gas price fluctuations. These instruments are not used for trading or speculative purposes. Proceeds and costs realized from holding the related contracts are recognized in petroleum and natural gas revenues at the time that each transaction under a contract is settled. For the unrealized portion of such contracts, the Company utilizes the fair value method of accounting. The fair value is based on an estimate of the amounts that would have been paid to or received from counterparts to settle these instruments given future market prices and other relevant factors. The method requires the fair value of the derivative financial instruments to be recorded at each balance sheet date with unrealized gains or losses on those contracts recorded through net earnings.

The Company has elected to account for its commodity sales and other non-financial contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts on an accrual basis rather than as non-financial derivatives. Prior to adoption of the new standards, physical receipt and delivery contracts did not fall within the scope of the definition of a financial instrument and were also accounted for as executory contracts.

(c) Embedded derivatives:

On adoption, the Company elected to recognize, as separate assets and liabilities, only for those embedded derivatives in hybrid instruments issued, acquired or substantively modified after January 1, 2003. The Company did not identify any material embedded derivatives which required separate recognition and measurement.

(d) Other comprehensive income:

The new standards establish a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income. As the Company currently has no other comprehensive income items requiring disclosure this statement of comprehensive income is not required.

2. Petroleum and natural gas assets:

	September 30, 2007	December 31, 2006
Cost	\$ 196,315	\$ 176,594
Accumulated depletion and depreciation	(47,932)	(30,269)
	\$ 148,383	\$ 146,325

During the nine months ended September 30, 2007, the Company capitalized \$2,255,000 (2006 – \$1,809,000) of general and administration expenses related to exploration and development activities. Included in this amount is the non-cash related stock-based compensation of \$277,000 (2006 - \$282,000). The future tax liability of \$121,000 (2006 - \$126,000) associated with the capitalized stock-based compensation has also been capitalized.

The cost of unproven properties at September 30, 2007 of \$25,373,000 (2006 - \$28,981,000) has been excluded from the depletion and depreciation calculation. Future development costs of proven reserves of \$3,363,000 (2006 - \$14,206,000) have been included in the depletion and depreciation calculation.

3. Long-term debt:

Midnight has a revolving term credit facility available for up to \$35 million with a Canadian chartered bank. The facility is available on a revolving basis until May 31, 2008. On May 31, 2008, 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, 2007, \$25,887,000 was drawn on this facility. The effective interest rate for the bank debt was 5.7% for the nine months ended September 30, 2007. The \$35 million borrowing base is subject to a semi-annual and annual review by the bank.

4. Asset retirement obligations:

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations is approximately \$5.6 million which will be incurred from 2007 to 2054. The majority of the costs will be incurred between 2010 and 2025. An inflation factor of 2% has been applied to the estimated asset retirement cost at September 30, 2007 and December 31, 2006. A credit-adjusted risk-free rate of 8% was used to calculate the fair value of the asset retirement obligations at September 30, 2007 and December 31, 2006.

A reconciliation of the asset retirement obligations is provided below:

	September 30, 2007	December 31, 2006
Balance, beginning of period	\$ 1,930	\$ 1,416
Liabilities incurred	85	679
Liabilities settled	(150)	(297)
Accretion expense	146	132
Balance, end of period	\$ 2,011	\$ 1,930

5. 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, 2005	38,327,829	\$ 84,262
Issued pursuant to private placement	4,000,000	20,400
Issued pursuant to short form prospectus	5,500,000	16,775
Share issue costs (net of tax of \$739)	-	(1,630)
Balance, December 31, 2006	47,827,829	\$ 119,807
Tax effect of flow-through shares issued in 2006	-	(6,222)
Balance, September 30, 2007	47,827,829	\$ 113,585

On October 15, 2007, Midnight filed notice with the Toronto Stock Exchange (the "TSX") to make a normal course issuer bid to purchase its outstanding common shares on the open market. The TSX has authorized Midnight to purchase up to 4,320,826 common shares representing approximately 9% of its issued and outstanding common shares during the period from October 17, 2007 to October 16, 2008 or until such time that the bid is either completed or terminated at Midnight's option. Any shares Midnight purchases under this bid will be purchased on the open market through the facilities of the TSX at the prevailing market price. Shares acquired under the bid will be cancelled.

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.

On November 7, 2006 the Company issued 5,500,000 Common Shares at a price of \$3.05 per share. The proceeds, net of share issue cost of \$1.1 million (\$0.7 million net of tax), were \$15.7 million.

Pursuant to the flow-through Common Share offering, the Company renounced \$20.4 million of qualifying oil and natural gas expenditures effective December 31, 2006. The future income tax effect and reduction to share capital was recorded in the first quarter of 2007, the period in which the Company filed the renouncement documents with the tax authorities.

(c) Per share amounts:

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

	Three months ended September 30, 2007		Nine months ended September 30, 2006	
Weighted average shares outstanding:				
Basic	47,827,829	42,327,829	47,827,829	40,320,503
Diluted	47,827,829	42,631,877	47,827,829	40,763,671

The reconciling items between basic and diluted average common shares outstanding are stock options and warrants. For the three and nine months ended September 30, 2007 there were 3,112,000 options that were anti-dilutive (2006 – 1,502,800) and 2,013,333 warrants that were anti-dilutive (2006 – nil).

(d) Stock options:

The Company has reserved 4,782,783 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, 2005	1,099,800	\$ 3.50
Granted	2,590,000	2.56
Forfeited	(53,000)	3.49
Balance, December 31, 2006	3,636,800	\$ 2.83
Granted	284,500	1.91
Forfeited	(809,300)	3.41
Balance, September 30, 2007	3,112,000	\$ 2.60
Exercisable at September 30, 2007	358,333	\$ 3.44

(e) Warrants:

	Number of Warrants	Amount
Balance December 31, 2006	2,083,333	\$ 42
Forfeited	(70,000)	(2)
Balance, September 30, 2007	2,013,333	\$ 40

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. Two thirds of the warrants have vested and are exercisable at September 30, 2007.

(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:

	2007	2006
Fair value of options granted	\$ 0.71	\$ 1.28
Risk free interest	4.1%	4.0%
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, 2007	December 31, 2006
Balance, beginning of period	\$ 1,234	\$ 469
Stock-based compensation	689	765
Forfeiture of warrants	2	-
Balance, end of period	\$ 1,925	\$ 1,234

6. Related party:

Prior to December 31, 2006, Midnight's general and administration expenses were allocated based on the Administrative and Technical Service Agreement ("TSA") with Daylight Energy Ltd. ("Daylight"). Under this agreement, Daylight had been the employer on behalf of the parties and received payment or reimbursement from Midnight for certain technical and administrative services provided to Midnight. The Company was charged for its direct activities and for its proportionate share of overhead based on production and capital spending. With the termination of the TSA on December 31, 2006, Midnight is responsible for its own activities with Daylight still providing certain administrative and other non-competitive services through an agreed upon monthly fee. For the nine months ended September 30, 2007, Midnight paid \$1.0 million for these direct services. For the nine months ended September 30, 2006, Midnight was charged \$1.5 million for general and administration expenses and \$1.5 million for capital expenditures relating to the TSA. Payment terms to Daylight are in accordance with normal industry standards.

7. Commitments

The Company renounced \$20.4 million of qualifying oil and natural gas expenditures effective December 31, 2006 pursuant to the flow-through share offering which closed on May 17, 2006. By September 30, 2007 the Company incurred \$17.4 million of qualifying expenditures and has an additional commitment to expend \$3.0 million on qualifying expenditures by December 31, 2007.

Quarterly Information

Financial (000's, except for per share amounts)	2007				2006			2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Petroleum and natural gas sales	\$ 10,439	\$ 11,009	\$ 10,894	\$ 9,410	\$ 10,099	\$ 10,988	\$ 9,191	\$ 8,772
Royalties	1,597	1,618	1,990	1,462	1,966	1,969	1,654	2,172
Operating expenses	2,426	2,084	2,346	2,239	1,657	1,764	1,645	1,044
Transportation expenses	56	9	19	49	28	14	191	3
Netback	\$ 6,360	\$ 7,298	\$ 6,539	\$ 5,660	\$ 6,448	\$ 7,241	\$ 5,701	\$ 5,553
G&A – cash charge	1,001	803	713	580	645	499	436	491
Net interest (income)	439	426	339	290	324	235	170	(68)
Abandonment expenditures	12	37	101	235	34	18	10	51
Other income	-	-	-	-	-	(9)	(119)	-
Capital tax	-	-	-	-	-	(17)	17	88
Funds from operations	\$ 4,908	\$ 6,032	\$ 5,386	\$ 4,555	\$ 5,445	\$ 6,515	\$ 5,187	\$ 4,991
Per share – Basic	0.10	0.13	0.11	0.10	0.13	0.16	0.14	0.16
– Diluted	0.10	0.13	0.11	0.10	0.13	0.16	0.13	0.16
Net income (loss)	\$ (827)	\$ 51	\$ (424)	\$ (565)	\$ 320	\$ 82	\$ 208	\$ 864
Per share – Basic	(0.02)	0.00	(0.01)	(0.01)	0.01	0.00	0.01	0.03
– Diluted	(0.02)	0.00	(0.01)	(0.01)	0.01	0.00	0.01	0.03
Net additions to capital assets	\$ 3,217	\$ 3,439	\$ 12,582	\$ 8,652	\$ 13,670	\$ 9,945	\$ 29,485	\$ 55,285
Net debt	24,886	26,577	29,170	21,974	33,579	25,297	41,028	16,730
Total assets	160,573	161,537	159,594	152,833	147,677	138,842	134,452	111,171
Shares outstanding								
Basic	47,828	47,828	47,828	47,828	42,328	42,328	38,328	38,328
Diluted	52,953	53,168	53,001	53,548	45,914	45,903	41,495	41,511
Operations								
Average daily production								
Natural gas (mcf/d)	5,981	5,769	6,891	7,352	7,637	10,091	5,926	4,694
Oil & NGLs (bbls/d)	1,050	1,185	1,090	890	841	830	901	600
Combined (boe/d)	2,047	2,146	2,239	2,115	2,114	2,512	1,889	1,382
Average prices received								
Natural gas (\$/mcf)	\$ 5.33	\$ 7.22	\$ 7.82	\$ 6.84	\$ 5.85	\$ 5.98	\$ 7.39	\$ 11.73
Oil & NGLs (\$/bbl)	77.16	66.76	61.39	58.25	77.01	72.38	64.17	66.19
Combined (\$/boe)	\$ 55.94	\$ 56.37	\$ 54.06	\$ 48.35	\$ 51.92	\$ 48.07	\$ 54.07	\$ 69.02
Royalties	8.48	8.29	9.88	7.51	10.11	8.61	9.73	17.09
Operating expenses	12.88	10.67	11.64	11.51	8.52	7.72	9.68	8.22
Transportation expenses	0.30	0.04	0.09	0.25	0.14	0.06	1.12	0.03
Netback received (\$/boe)	\$ 34.28	\$ 37.37	\$ 32.45	\$ 29.08	\$ 33.15	\$ 31.68	\$ 33.54	\$ 43.68

Corporate Information

DIRECTORS

Frederick N. Woods

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

Peter T. Harrison ^{1, 2, 3, 4}

Senior Vice-President
Montrusco Bolton Investment Inc.
Montreal, Quebec

Anthony M. Lambert

President and Chief Executive Officer
Daylight Resources Trust
Calgary, Alberta

Tom J. Medvedic ^{1, 2, 3, 4}

Vice President, Finance and Chief Financial Officer
Calfrac Well Services Ltd.
Calgary, Alberta

Jay D. Squiers ^{1, 2, 3, 4}

Principal
American Capital Energy Group
Dallas, Texas
United States

Members of the following Committees

1 Audit

2 Compensation

3 Reserves

4 Corporate Governance

ABBREVIATIONS

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

CORPORATE OFFICE

Sun Life Plaza, West Tower
Suite 2100, 144 - 4th Avenue S.W.
Calgary, Alberta T2P 3N4
Phone: 403-303-8500
Fax: 403-264-0085
Email: ir@midnightoil.ca
Website: www.midnightoil.ca

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

C. Donald 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

