



## **HIGHLIGHTS**

### **PRODUCTION VOLUMES**

- Q1 2007 production volumes of 2,239 boe/d
  - Increased 19% over Q1 2006 and 6% over Q4 2006
    - ◆ Natural gas production averaged 6,891 mcf/d
      - Increased 16% over Q1 2006 and decreased 6% over Q4 2006
    - ◆ Oil and liquids production averaged 1,090 boe/d
      - Increased 21% over Q1 2006 and 23% over Q4 2006

### **CASH FLOW**

- Q1 2007 cash flow of \$5.4 million (\$0.11 per diluted share)
  - Increased 4% over Q1 2006 and 18% over Q4 2006
- Q1 2007 average prices received of \$54.06 per boe for Natural Gas and Oil and NGLs
  - Prices flat from Q1 2006 and increased 12% over Q4 2006
    - ◆ Q1 2007 Natural Gas price of \$7.82 per mcf
      - Increased 6% over Q1 2006 and 14% over Q4 2006
    - ◆ Q1 2007 combined Oil & NGLs price of \$61.39 per bbl
      - Decreased 4% over Q1 2006 and increased 5% over Q4 2006

### **DRILLING ACTIVITY**

- During the quarter we drilled 10 gross (3.6 net) wells, resulting in 9 gross (2.6 net) natural gas wells and 1 gross (1.0 net) oil wells for a 100% success rate.

### **PRESIDENT'S MESSAGE**

Midnight was active and successful for the first quarter of 2007. During the quarter we focused on drilling gas projects at Wapiti and Beaverlodge in the Peace River Arch area and continued our highly successful light oil development at Red Earth. As a result we generated solid growth – increasing our prospect inventory and opening up new areas and opportunities which we plan to pursue during the balance of the year.

Midnight has a large multi-year prospect inventory that allows the company to explore and develop in a risk balanced portfolio between our light oil development prospects in the Red Earth area and our high potential natural gas prospects in our multi-zone areas on the Peace River Arch.

On the Peace River Arch at Wapiti, we focus on the multi-zone long life potential in the Cretaceous reservoirs. During the quarter we drilled two gross (1.0 net) gas wells that continued our record of success in this high potential area. At Red Rock, Midnight drilled and completed a new multi-zone exploratory well. Midnight assembled a multi-section land holding on this prospect and successfully drilled and completed this well prior to break-up. Our well tested at rates of over 1.5 mmcf/d and we have identified a number of potential follow-up locations. Due to surface restrictions we were unable to commence pipeline and tie-in work this winter but we plan to follow-up this success when we are able to access the area next winter.

At Wapiti we drilled another successful gas well (MOX 50% net) continuing with the development of our eastern prospect area. We tested and completed this well and are continuing with our evaluation. We have offset follow-up potential to this well that we anticipate drilling in the fall.

At Beaverlodge, Midnight conducted two successful operations in this multi-zone high potential area. On our Triassic play Midnight drilled a new pool multi-zone discovery. This success continued our highly successful Triassic program. In addition, Midnight has identified a number of potential locations on its large 3D seismic program. During the second quarter, and following break-up when conditions permit, Midnight plans to complete and tie-in the well to the existing infrastructure in this area.

At South Beaverlodge the company successfully completed a 100% well that validated our new play on our 100% land holdings. The well was tied in and placed on-stream and is currently producing at restricted rates of under 1 mmcf/d. The company plans to continue work at Beaverlodge during the year based on the multi-zone potential and our continued success.

At Red Earth, Midnight was active on drilling a successful exploratory well, completing recent successes, installing facilities and shooting additional 3D seismic. We continue to expand the prospectivity of Midnight's 100% lands in the West Red Earth area. During the 1<sup>st</sup> quarter of 2007 we drilled a well that produced at rates of over 200 bbls/d, however due to allowable restrictions we will be limited to approximately 100 bbls/d until we receive good production practice. In the East Red Earth area, Midnight is planning delineation locations on 100% lands to follow up on a new pool light oil discovery drilled in 2006. Midnight also participated in a 19 square kilometre seismic program over our joint lands in the South Red Earth area which follows up on a successful well drilled in 2006. It is anticipated that this 3D program will enhance the potential of the pool established by this discovery.

Midnight, as with all operators, continued to experience high costs over the quarter in all aspects of our field operations – from drilling through completions and tie-ins and as a result we prudently and appropriately paced our operations throughout the winter. We will continue to closely monitor our field costs and anticipate a softening in these costs over the balance of the year.

I would like to welcome Mr. Peter Harrison to the Midnight board. Mr Harrison is Senior Vice-President of Montrusco Bolton Investments Inc. (Montreal) and previously managed Canadian Equities for the CN Investment Division. Mr. Harrison has significant financial experience making investments which involve extensive analysis of financial statements. He holds a Bachelor of Commerce degree from McGill University, an MBA from the University of Western Ontario, and is a Chartered Financial Analyst.

At Midnight we have an experienced and proven high-end team and an excellent risked balanced prospect inventory. During the quarter we enjoyed exploration successes and our development activities delivered solid results. As a result we continue to be very excited about our potential.

Shareholders are invited to attend Midnight's Annual and Special Meeting of Shareholders scheduled for 10:00 AM, Friday May 11, 2007 at the Sun Life Conference Centre, located at 140 4th Avenue S.W., Calgary, Alberta.

Signed "Fred Woods"

Fred Woods  
President and Chief Executive Officer  
May 10, 2007

## 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 Consolidated Financial Statements and accompanying notes for the three months ended March 31, 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 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 three months ended March 31, 2007 (“Q1 2007”) to the three months ended March 31, 2006 (“Q1 2006”) and the results of the three months ended December 31, 2006 (“Q4 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. Funds from operations is calculated as cash provided by operations (as detailed on the Statement of Cash Flows) before changes in non-cash working capital. 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; 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 May 10, 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			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2		
Petroleum and natural gas sales	\$ 10,894	\$ 9,410	\$ 10,099	\$ 10,988	\$ 9,191	\$ 8,772	\$ 5,997	\$ 5,050		
Funds from operations	5,386	4,555	5,445	6,515	5,187	4,991	3,073	2,374		
Per share – Basic	0.11	0.10	0.13	0.16	0.14	0.16	0.12	0.09		
– Diluted	0.11	0.10	0.13	0.16	0.13	0.16	0.12	0.09		
Net income (loss)	\$ (424)	\$ (565)	\$ 320	\$ 82	\$ 208	\$ 864	\$ 487	\$ 158		
Per share – Basic	(0.01)	(0.01)	0.01	0.00	0.01	0.03	0.02	0.01		
– Diluted	(0.01)	(0.01)	0.01	0.00	0.01	0.03	0.02	0.01		
Additions to capital assets	\$ 12,582	\$ 8,652	\$ 13,670	\$ 9,945	\$ 29,485	\$ 55,285	\$ 8,175	\$ 4,482		
Net debt	29,170	21,974	33,579	25,297	41,028	16,730	11,344	6,242		
Total assets	159,594	152,833	147,677	138,842	134,452	111,171	54,187	47,350		
Shares outstanding										
Basic	47,828	47,828	42,328	42,328	38,328	38,328	26,328	26,328		
Diluted	53,001	53,548	45,914	45,903	41,495	41,511	29,360	29,393		
<b>Operations</b>										
Average daily production										
Natural gas (mcf/d)	6,891	7,352	7,637	10,091	5,926	4,694	4,885	5,151		
Oil & NGLs (bbls/d)	1,090	890	841	830	901	600	270	297		
Combined (boe/d)	2,239	2,115	2,114	2,512	1,889	1,382	1,084	1,156		
Netback (boe)	\$ 32.45	\$ 29.08	\$ 33.15	\$ 31.68	\$ 33.54	\$ 43.68	\$ 34.21	\$ 25.48		

Midnight has a balanced portfolio of light oil and sweet gas prospects which have delivered solid production and cash flow growth. Midnight commenced operations in December 2004 with production averaging 723 boe/d for the month. On November 29, 2005, we 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 10 gross (3.6 net) wells for the first quarter of 2007.

## Production

Midnight's production averaged 2,239 boe/d for Q1 2007 comprised of 6,891 mcf/d of natural gas 920 bbls/d of oil and 170 bbls/d of natural gas liquids ("NGLs"). Production for Q1 2007 increased 19% from the corresponding period in 2006 and 6% from Q4 2006. Both natural gas and oil production increased over Q1 2006 due to the successful drilling on the Red Earth oil properties and the grass roots natural gas exploration programs in the Peace River Arch area and in West Central Alberta. Production increased 6% from Q4 2006 with oil production increasing 33% while gas production decreased 6%. During the quarter we brought on-stream our new discovery well in Red Earth which produced at rates of over 200 bbls/d however, due to allowable restrictions this well will be limited to approximately 100 bbls/d in April until we receive good production practice.

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

<b>Production</b>	<b>Q1 2007</b>	Q1 2006	Q4 2006
Natural Gas (mcf/d)	<b>6,891</b>	5,926	7,352
Oil (bbls/d)	<b>920</b>	765	694
NGLs (bbls/d)	<b>170</b>	136	196
<b>Total (boe/d)</b>	<b>2,239</b>	1,889	2,115

## 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 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. Midnight's oil price is significantly influenced by global supply and demand.

Prices for Natural Gas Liquids 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 tables outlines benchmark prices compared to Midnight's realized prices:

<b>Prices and Marketing</b>	<b>Q1 2007</b>	Q1 2006	Q4 2006
<b>Benchmark Prices</b>			
Alberta spot (\$/mcf)	<b>\$ 7.26</b>	\$ 7.34	\$ 6.77
WTI oil (\$US/bbl)	<b>58.09</b>	63.34	59.96
Cdn/US average exchange rate	<b>0.853</b>	0.866	0.878
Edmonton Par (\$/bbl)	<b>\$ 67.61</b>	\$ 69.27	\$ 64.94

<b>Prices and Marketing</b>	<b>Q1 2007</b>	Q1 2006	Q4 2006
<b>Midnight's Realized Price</b>			
Natural gas (\$/mcf)	\$ 7.82	\$ 7.39	\$ 6.84
Oil (\$/bbl)	64.04	64.91	62.23
NGLs (\$/bbl)	47.07	60.01	44.14
Oil & NGLs (\$/bbl)	61.39	64.17	58.25
Total (\$/boe)	\$ 54.06	\$ 54.07	\$ 48.35

## Petroleum and Natural Gas Sales

Petroleum and natural gas sales totalled \$10.9 million for Q1 2007, up 19% from \$9.2 million in Q1 2006 and 16% from \$9.4 million in Q4 2006. The sales increase from Q1 2006 to Q1 2007 was entirely due to increased production as realized selling price for commodities on a total basis did not change. The increase in production in Q1 2007 over Q4 2006 accounted for \$0.3 million of the increase in sales while the remaining \$1.2 million was a result of higher realized commodity prices in the quarter.

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

<b>Petroleum and Natural Gas Sales (000's)</b>	<b>Q1 2007</b>	Q1 2006	Q4 2006
Natural Gas	\$ 4,851	\$ 3,942	\$ 4,628
Oil	5,304	4,470	3,975
NGLs	721	734	795
Royalty income	18	45	12
<b>Total</b>	<b>\$ 10,894</b>	<b>\$ 9,191</b>	<b>\$ 9,410</b>

## 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.

For Q1 2007, royalties averaged 18.3% of revenue which was the same as the corresponding period in 2006 and an increase from 15.5% in Q4 2006. Royalties in Q1 2007 are higher than Q4 2006 as we are no longer accruing for the Alberta Royalty Tax Credit and Q4 2006 royalties were lower than expected as we recorded a prior period adjustment relating to increased gas cost allowance credits. Natural gas royalties have decreased to 19.2% of natural gas revenue with increased gas cost allowance from our ownership interest in the gas processing facilities. Oil royalties for Q1 2007 were 16% of oil revenue which is consistent with Q4 2006 and an increase over Q1 2006 where the oil royalty rate was low due to certain wells receiving a Third Tier Exploratory Royalty Exemption where they were not subject to royalties. NGL royalties have remained at approximately 30% of NGL revenues.

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

<b>Royalties by Type</b> (000's)	<b>Q1 2007</b>	Q1 2006	Q4 2006
Crown	\$ 1,854	\$ 1,448	\$ 1,461
Freehold	1	-	-
Gross overriding	135	317	126
ARTC	-	(111)	(125)
<b>Total</b>	<b>\$ 1,990</b>	<b>\$ 1,654</b>	<b>\$ 1,462</b>
<b>\$/boe</b>	<b>\$ 9.88</b>	<b>\$ 9.73</b>	<b>\$ 7.51</b>
<b>% of revenue</b>	<b>18.3</b>	18.0	15.5

<b>Royalties by Commodity</b> (excluding ARTC)	<b>Q1 2007</b>	Q1 2006	Q4 2006
<b>Natural Gas</b>			
000's	\$ 929	\$ 1,209	\$ 695
% of revenue	19.2	30.7	15.0
<b>Oil</b>			
000's	\$ 846	\$ 348	\$ 627
% of revenue	16.0	7.8	15.8
<b>NGLs</b>			
000's	\$ 215	\$ 208	\$ 265
% of revenue	29.8	28.3	33.3

### Operating Expenses

Operating expenses during Q1 2007 were \$11.64/boe which is consistent with Q4 2006 operating costs of \$11.51/boe and an increase from Q1 2006 where operating costs averaged \$9.68/boe. Operating costs continue to be negatively impacted by industry wide increased cost pressures. The Company expected to reduce operating costs in the quarter, but higher than expected water handling and disposal fees as well as additional third party charges for maintenance and processing increased our costs for the quarter. Despite the increased costs associated with the gas operating production, Midnight expects to reduce its operating expenses during the year as additional production is brought on stream and as we tie-in additional oil production in Red Earth.

<b>Operating Expenses</b> (000's)	<b>Q1 2007</b>	Q1 2006	Q4 2006
Operating expenses	\$ 2,346	\$ 1,645	\$ 2,239
<b>Total (\$/boe)</b>	<b>\$ 11.64</b>	<b>\$ 9.68</b>	<b>\$ 11.51</b>

### 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 decreased from Q1 2006 and from Q4 2006 as a higher percentage of our production is being sold at the wellhead and a larger portion of our production is trucked as emulsion which is classified as an operating expense as title does not transfer until it has been processed.

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)	Q1 2007	Q1 2006	Q4 2006
Transportation expenses	\$ 19	\$ 191	\$ 49
Total (\$/boe)	\$ 0.09	\$ 1.12	\$ 0.25

## Interest Expense

The Q1 2007 interest expense totalled \$339,000. Included in interest expense for the quarter is \$85,000 of interest accrued on our unspent flow-through share obligation. Without the interest on the flow-through share obligation, interest expense totalled \$254,000 representing an effective interest rate of 5.7% on average bank debt of \$18.8 million for Q1 2007. During Q1 2006, we had average debt of \$14.9 million and our effective interest rate was 4.7%. During Q4 2006, we had average debt of \$20.0 million and our effective interest rate was 5.8%. Our interest in 2007 is expected to fluctuate with the changes in the Bank of Canada rates 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 Q1 2007 cash portion of general and administration ("G&A") expenses totalled \$713,000 (\$3.54/boe) compared to \$587,000 (\$2.56/boe) in Q1 2006 and \$580,000 (\$2.98/boe) in Q4 2006. Prior to Q1 2007, 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 Q1 2007 Midnight paid \$0.3 million for these direct services.

Midnight expected cash G&A to be \$3 to \$4 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 \$151,000 for Q1 2007 and capitalized a corresponding \$53,000. During the quarter an additional 55,000 stock options were granted while 601,800 options that were granted to Daylight employees under the TSA were forfeited. Midnight's unamortized portion of stock-based compensation is \$2.4 million at March 31, 2007.

The components of general and administration expense are as follows:

<b>General and Administration Expenses</b> (000's)	<b>Q1 2007</b>	Q1 2006	Q4 2006
Direct G&A	\$ 1,427	\$ 143	\$ 896
Technical service fee from Daylight	-	1,003	713
Overhead recoveries	(83)	(128)	(238)
Capitalized G&A	(631)	(582)	(791)
<b>Cash G&amp;A</b>	<b>\$ 713</b>	<b>\$ 436</b>	<b>\$ 580</b>
Stock-based compensation	98	151	101
<b>Net G&amp;A</b>	<b>\$ 811</b>	<b>\$ 587</b>	<b>\$ 681</b>
<b>Cash G&amp;A (\$/boe)</b>	<b>\$ 3.54</b>	<b>\$ 2.56</b>	<b>\$ 2.98</b>
Stock-based compensation (\$/boe)	0.49	0.89	0.52
<b>Net G&amp;A (\$/boe)</b>	<b>\$ 4.03</b>	<b>\$ 3.45</b>	<b>\$ 3.50</b>

### Depletion, Depreciation and Accretion

For Q1 2007, depletion, depreciation and accretion ("DD&A") was \$5.9 million (\$29.45/boe) versus \$4.6 (\$27.19/boe) million for Q1 2006 and \$5.7 million (\$29.34/boe) for Q4 2006. The increase is a result of higher production and a larger capital base being depleted as well as depleting at a higher rate from higher finding and development costs.

### Taxes

For Q1 2007, the future tax recovery was \$122,000 versus a \$457,000 recovery in Q4 2006 and an expense of \$216,000 in Q1 of 2006. The difference in the expected rate of 32.1% and the effective rate is primarily from differences relating to stock-based compensation and other non-deductible items.

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.

Midnight does not expect to become taxable on an income tax basis in 2007 and has approximately \$132 million in tax pools to shelter taxable income in future years.

### Funds from Operations and Net Income

Q1 2007 funds from operations totalled \$5.4 million or \$0.11 per basic and diluted share. Funds from operations for Q1 2006 were \$5.2 million or \$0.13 per basic and diluted share. For Q4 2006, funds from operations totalled \$4.6 million or \$0.10 per basic and diluted share. For Q1 2007, the net loss was \$424,000 compared to Q4 2006 net loss of \$565,000 and net income of \$208,000 for Q1 2006.

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

(\$/boe)	Q1 2007	Q1 2006	Q4 2006
Sales price	\$ 54.06	\$ 54.07	\$ 48.35
Royalties	9.88	9.73	7.51
Operating expenses	11.64	9.68	11.51
Transportation expenses	0.09	1.12	0.25
<b>Operating netback</b>	<b>\$ 32.45</b>	<b>\$ 33.54</b>	<b>\$ 29.08</b>
General and administration	3.54	2.56	2.98
Interest	1.68	1.01	1.49
Other income	-	(0.70)	-
Capital tax	-	0.11	-
<b>Cash flow netback</b>	<b>\$ 27.23</b>	<b>\$ 30.56</b>	<b>\$ 24.61</b>
Depletion, depreciation and accretion	29.45	27.19	29.34
Stock-based compensation	0.49	0.89	0.52
Future tax (reduction)	(0.61)	1.26	(2.35)
<b>Net income (loss)</b>	<b>\$ (2.10)</b>	<b>\$ 1.22</b>	<b>\$ (2.90)</b>

The following table provides reconciliations to the change in funds from operations and net income (loss) for Q1 2007 to Q1 2006 and for Q1 2007 to Q4 2006.

Change in Funds from Operations and Net Income (000's)	Q1 2007 to Q1 2006		Q1 2007 to Q4 2006	
	Funds from Operations	Net Income (Loss)	Funds from Operations	Net Income
Comparative period	\$ 5,187	\$ 208	\$ 4,555	\$ (565)
Increase (decrease) in revenue:				
Change in production volumes	1,704	1,704	339	339
Change in prices	(1)	(1)	1,145	1,145
Change in royalties	(336)	(336)	(528)	(528)
Change in other income	(119)	(119)	-	-
(Increase) decrease in expenses:				
Operating	(701)	(701)	(107)	(107)
Transportation	172	172	30	30
Interest	(169)	(169)	(49)	(49)
Cash general and administration	(277)	(277)	(133)	(133)
Stock-based compensation	-	53	-	3
Depletion, depreciation and accretion	-	(1,313)	-	(224)
Taxes	17	355	-	(335)
Abandonment expenditures	(91)	-	134	-
Current period	<b>\$ 5,386</b>	<b>\$ (424)</b>	<b>\$ 5,386</b>	<b>\$ (424)</b>

## Capital Expenditures

During Q1 2007 Midnight drilled 10 gross (3.6 net) wells comprised of 9 gross (2.6 net) natural gas wells and 1 gross (1.0 net) oil well with 100% success. Four (2.2 net) of our natural gas wells were drilled in the Deep Basin and the remaining 5 (0.4 net) were drilled in West Central. Drilling costs accounted for 48% of our capital expenditures in the quarter. Midnight spent an additional \$2.4 million on completion operations and \$2.8 million on facilities, pipelines and equipment. Geological and geophysical expenditures include capitalized G&A and seismic expenditures. Capital expenditures were balanced amongst our principal properties with \$4.5 million spent on our oil properties in Red Earth, \$6.1 million on our Deep Basin gas opportunities, \$1.2 million in non-operated West Central and the remaining spent on minor properties.

In addition to the cash capital expenditures, we capitalized \$53,000 of stock-based compensation and the related future tax liability of \$11,000 consistent with the exploration compensation that we have added to our property base. Midnight has approximately 162,000 net acres of undeveloped land at March 31, 2007.

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

<b>Capital Expenditures</b> (000's)	<b>Q1 2007</b>	Q1 2006	Q4 2006
Land	\$ 68	\$ 3,682	\$ 99
Geological and geophysical	1,206	1,093	3,371
Drilling	6,093	13,086	1,726
Completions	2,442	4,613	1,619
Facilities, pipelines and equipment	2,773	7,011	1,837
<b>Total expenditures</b>	<b>\$ 12,582</b>	<b>\$ 29,485</b>	<b>\$ 8,652</b>

## Equity

During Q1 2007, Midnight issued 55,000 options to non-executive employees, 601,800 options that were granted to Daylight employees were forfeited, and no options were exercised. At March 31, 2007 the Company had 3,090,000 options outstanding at an average exercise price of \$2.69. Of these 151,667 have vested and are exercisable at an average price of \$3.53. At May 10, 2007 the Company had 47,827,829 common shares, 3,319,500 stock options and 2,083,333 warrants outstanding.

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.

<b>Share Information</b> (000's)	<b>Q1 2007</b>	Q1 2006	Q4 2006
Shares outstanding			
Basic	47,828	38,328	47,828
Diluted	53,001	41,495	53,548
Weighted average shares outstanding			
Basic	47,828	38,328	45,556
Diluted	47,828	38,776	45,556

## 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 March 31, 2007 was \$83.7 million.

<b>Trading History on the TSX</b>	<b>Q1 2007</b>	Q1 2006	Q4 2006
High	\$ 2.39	\$ 4.70	\$ 3.38
Low	\$ 1.35	\$ 3.70	\$ 2.26
Close	\$ 1.75	\$ 3.94	\$ 2.37
Volume (000's)	4,699	4,973	4,505

At March 31, 2007, Midnight had drawn \$19.9 million on its \$30.0 million credit facility and had a working capital deficit of \$9.3 million for a net debt position of \$29.2 million. 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 Company is currently in discussion with the bank to extend and increase the existing credit facility. 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 at \$30 million to match our estimated cash flow for the year. Expenditures for our flow-through program should be completed by the end of 2007.

### Contractual Obligations

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

<b>Contractual Obligations (000's)</b>	<b>Total</b>	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>After 5 Years</b>
Flow through share obligation	\$ 6,800	\$ 6,800	\$ -	\$ -	\$ -
Long-term debt	19,881	-	19,881	-	-
Asset retirement obligations	5,625	167	256	211	4,991
<b>Total Contractual Obligations</b>	<b>\$ 32,306</b>	<b>\$ 6,967</b>	<b>\$ 20,137</b>	<b>\$ 211</b>	<b>\$ 4,991</b>

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. 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 three months ended March 31, 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 three months ended March 31, 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](http://www.sedar.com). Information can also be obtained by contacting the Company at Midnight Oil Exploration Ltd., 2100, 144 4<sup>th</sup> Ave S.W., Calgary, Alberta T2P 3N4 or by email to [ir@midnightoil.ca](mailto:ir@midnightoil.ca) or by accessing our website at [www.midnightoil.ca](http://www.midnightoil.ca).

# Consolidated Balance Sheets

(000's) (unaudited)

	March 31, 2007	December 31, 2006
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 6,278	\$ 5,928
Deposits and prepaid expenses	166	189
	<u>6,444</u>	<u>6,117</u>
Future taxes	-	391
Petroleum and natural gas assets (note 2)	153,150	146,325
	<u>\$ 159,594</u>	<u>\$ 152,833</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 15,733	\$ 10,153
Long-term debt (note 3)	19,881	17,938
Future taxes	5,720	-
Asset retirement obligations (note 4)	1,943	1,930
Shareholders' equity:		
Share capital (note 5)	113,585	119,807
Warrants (note 5)	42	42
Contributed surplus (note 5)	1,385	1,234
Retained earnings	1,305	1,729
	<u>116,317</u>	<u>122,812</u>
Commitments (note 7)		
	<u>\$ 159,594</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

Three months ended March 31,

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

	2007	2006
<b>Revenues:</b>		
Petroleum and natural gas sales	\$ 10,894	\$ 9,191
Royalties	(1,990)	(1,654)
Other income	-	119
	<b>8,904</b>	<b>7,656</b>
<b>Expenses:</b>		
Operating	2,346	1,645
Transportation	19	191
Interest	339	170
General and administration	811	587
Depletion, depreciation and accretion	5,935	4,622
	<b>9,450</b>	<b>7,215</b>
Income (loss) before taxes	<b>(546)</b>	441
<b>Taxes:</b>		
Capital tax	-	17
Future tax (reduction)	(122)	216
	<b>(122)</b>	233
<b>Net income (loss)</b>	<b>(424)</b>	208
Retained earnings, beginning of period	1,729	1,684
<b>Retained earnings, end of period</b>	<b>\$ 1,305</b>	<b>\$ 1,892</b>
Income (loss) per share: (note 5)		
Basic	\$ (0.01)	\$ 0.01
Diluted	\$ (0.01)	\$ 0.01

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Three months ended March 31,

(000's) (unaudited)

	2007	2006
<b>Cash provided by (used in):</b>		
<b>Operations:</b>		
Net income (loss)	\$ (424)	\$ 208
Items not involving cash:		
Depletion, depreciation and accretion	5,935	4,622
Stock-based compensation	98	151
Future tax (reduction)	(122)	216
Abandonment expenditures	(101)	(10)
	<b>5,386</b>	5,187
Changes in non-cash working capital	<b>2,658</b>	(168)
	<b>8,044</b>	5,019
<b>Financing:</b>		
Increase in long-term debt	1,943	5,709
Changes in non-cash working capital	(162)	(5)
	<b>1,781</b>	5,704
<b>Investments:</b>		
Petroleum and natural gas additions	(12,582)	(29,485)
Changes in non-cash working capital	2,757	18,762
	<b>(9,825)</b>	(10,723)
Changes in cash	-	-
Cash, beginning of period	-	-
<b>Cash, end of period</b>	<b>\$ -</b>	<b>\$ -</b>
Taxes paid	\$ -	\$ 88
Interest paid	\$ 400	\$ 200

Cash is defined as cash and cash equivalents.

See accompanying notes to consolidated financial statements

## Notes to Consolidated Financial Statements

For the three months ended March 31, 2007 and 2006  
(Tabular amounts are stated in thousands of dollars except share and per share amounts)  
(Unaudited)

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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.

### 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 these 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:

	March 31, 2007	December 31, 2006
Cost	\$ 189,306	\$ 176,594
Accumulated depletion and depreciation	(36,156)	(30,269)
	\$ 153,150	\$ 146,325

During the three months ended March 31, 2007, the Company capitalized \$684,000 (2006 – \$582,000) of general and administration expenses related to exploration and development activities. Included in this amount is the non-cash related stock-based compensation of \$53,000. The future tax liability of \$11,000 associated with the capitalized stock-based compensation has also been capitalized.

The cost of unproven properties at March 31, 2007 of \$27,187,000 (2006 - \$27,126,000) has been excluded from the depletion and depreciation calculation. Future development costs of proven reserves of \$4,680,000 (2006 - \$7,717,000) have been included in the depletion and depreciation calculation.

## 3. 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 March 31, 2007, \$19,881,000 was drawn on this facility. The effective interest rate for the bank debt was 5.7% for the three months ended March 31, 2007. The \$30 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 \$5,625,000 which will be incurred from 2007 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 March 31, 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 March 31, 2007 and December 31, 2006.

A reconciliation of the asset retirement obligations is provided below:

	March 31, 2007	December 31, 2006
Balance, beginning of period	\$ 1,930	\$ 1,416
Liabilities incurred	66	679
Liabilities settled	(101)	(297)
Accretion expense	48	132
Balance, end of period	\$ 1,943	\$ 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, March 31, 2007	47,827,829	\$ 113,585

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.

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.

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 has been 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:

Per share amount have been calculated on the weighted average number of shares outstanding. The weighted average shares outstanding for the three months ended March 31, 2007 were 47,827,829 (2006 – 38,327,829). Diluted per share amounts are calculated based on the diluted weighted average number of shares outstanding. The diluted weighted average shares outstanding for the three months ended March 31, 2007 were 47,827,829 (2006 – 38,775,537).

The reconciling items between basic and diluted average common shares outstanding are stock options and warrants. For the three months ended March 31, 2007 there were 3,090,000 options that were anti-dilutive (2006 – 1,084,300) and 2,083,333 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:

	<b>Number of options</b>	<b>Weighted average exercise price</b>
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	55,000	2.10
Forfeited	(601,800)	3.48
Balance, March 31, 2007	3,090,000	\$ 2.69
Exercisable at March 31, 2007	151,667	\$ 3.53

(e) Warrants:

	<b>Number of Warrants</b>	<b>Amount</b>
Warrants:		
Balance December 31, 2006 and March 31, 2007	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. Two thirds of the warrants have vested and are exercisable at March 31, 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:

	<b>2007</b>	<b>2006</b>
Fair value of options granted	\$ 0.77	\$ 0.95
Risk free interest	4.0%	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:

	March 31, 2007	December 31, 2006
Balance, beginning of period	\$ 1,234	\$ 469
Stock-based compensation	151	765
Balance, end of period	\$ 1,385	\$ 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 three months ended March 31, 2007 Midnight paid \$0.3 million for these direct services. For the three months ended March 31, 2006, Midnight was charged \$0.4 million for general and administration expenses and \$0.6 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 March 31, 2007 the Company incurred \$13.6 million of qualifying expenditures and has an additional commitment to expend \$6.8 million on qualifying expenditures by December 31, 2007.

## Selected Quarterly Information

Financial (000's, except for per share amounts)	2007		2006				2005			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	
Petroleum and natural gas sales	\$ 10,894	\$ 9,410	\$ 10,099	\$ 10,988	\$ 9,191	\$ 8,772	\$ 5,997	\$ 5,050	\$ 3,170	
Royalties	1,990	1,462	1,966	1,969	1,654	2,172	1,678	1,401	702	
Operating expenses	2,346	2,239	1,657	1,764	1,645	1,044	902	969	782	
Transportation expenses	19	49	28	14	191	3	5	-	3	
Net backs	\$ 6,539	\$ 5,660	\$ 6,448	\$ 7,241	\$ 5,701	\$ 5,553	\$ 3,412	\$ 2,680	\$ 1,683	
G&A – cash charge	713	580	645	499	436	491	278	292	141	
Net interest (income)	339	290	324	235	170	(68)	58	4	(18)	
Abandonment expenditures	101	235	34	18	10	51	3	10	31	
Other income	-	-	-	(9)	(119)	-	-	-	-	
Capital tax	-	-	-	(17)	17	88	-	-	-	
Funds from operations	\$ 5,386	\$ 4,555	\$ 5,445	\$ 6,515	\$ 5,187	\$ 4,991	\$ 3,073	\$ 2,374	\$ 1,529	
Per share – Basic	0.11	0.10	0.13	0.16	0.14	0.16	0.12	0.09	0.06	
– Diluted	0.11	0.10	0.13	0.16	0.13	0.16	0.12	0.09	0.06	
Net income (loss)	\$ (424)	\$ (565)	\$ 320	\$ 82	\$ 208	\$ 864	\$ 487	\$ 158	\$ 160	
Per share – Basic	(0.01)	(0.01)	0.01	0.00	0.01	0.03	0.02	0.01	0.01	
– Diluted	(0.01)	(0.01)	0.01	0.00	0.01	0.03	0.02	0.01	0.01	
Additions to capital assets	\$ 12,582	\$ 8,652	\$ 13,670	\$ 9,945	\$ 29,485	\$ 55,285	\$ 8,175	\$ 4,482	\$ 8,565	
Net debt	29,170	21,974	33,579	25,297	41,028	16,730	11,344	6,242	4,134	
Total assets	159,594	152,833	147,677	138,842	134,452	111,171	54,187	47,350	45,106	
Shares outstanding										
Basic	47,828	47,828	42,328	42,328	38,328	38,328	26,328	26,328	26,328	
Diluted	53,001	53,548	45,914	45,903	41,495	41,511	29,360	29,393	28,821	
<b>Operations</b>										
Average daily production										
Natural gas (mcf/d)	6,891	7,352	7,637	10,091	5,926	4,694	4,885	5,151	3,924	
Oil & NGLs (bbls/d)	1,090	890	841	830	901	600	270	297	135	
Combined (boe/d)	2,239	2,115	2,114	2,512	1,889	1,382	1,084	1,156	788	
Average prices received										
Natural gas (\$/mcf)	\$ 7.82	\$ 6.84	\$ 5.85	\$ 5.98	\$ 7.39	\$ 11.73	\$ 9.70	\$ 7.62	\$ 6.92	
Oil & NGLs (\$/bbl)	61.39	58.25	77.01	72.38	64.17	66.19	64.97	53.64	58.96	
Combined (\$/boe)	\$ 54.06	\$ 48.35	\$ 51.92	\$ 48.07	\$ 54.07	\$ 69.02	\$ 60.13	\$ 48.01	\$ 44.68	
Royalties	9.88	7.51	10.11	8.61	9.73	17.09	16.82	13.33	9.89	
Operating expenses	11.64	11.51	8.52	7.72	9.68	8.22	9.05	9.20	11.03	
Transportation expenses	0.09	0.25	0.14	0.06	1.12	0.03	0.05	-	0.04	
Netback received (\$/boe)	\$ 32.45	\$ 29.08	\$ 33.15	\$ 31.68	\$ 33.54	\$ 43.68	\$ 34.21	\$ 25.48	\$ 23.72	

# Corporate Information

## DIRECTORS

### **Frederick N. Woods**

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

### **Peter T. Harrison** <sup>1, 2, 3, 4</sup>

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** <sup>1, 2, 3, 4</sup>

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

### **Jay D. Squiers** <sup>1, 2, 3, 4</sup>

Managing Director  
Fortress Investment Group LLC  
Dallas, Texas  
United States

Members of the following Committees

1 Audit

2 Compensation

3 Reserves

4 Corporate Governance

## ABBREVIATIONS

/d	per day
bbl(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

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Fax: 403-264-0085  
Email: [ir@midnightoil.ca](mailto:ir@midnightoil.ca)  
Website: [www.midnightoil.ca](http://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





**MIDNIGHT**  
**Oil Exploration Ltd.**

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