



Q2

For the six months ended June 30, 2005

QUARTERLY REPORT

PRESIDENT'S MESSAGE

Midnight delivered strong production growth and excellent financial and operating results.

"The highlight of the second quarter was our 50% growth quarter over quarter," stated Fred Woods, President of Midnight. *"Certainly, the extreme weather impacted our second quarter results, but we are very active in the field now - drilling wells, completing and tying in our drilling successes, adding production and continuing to generate growth. The rains and wet field conditions slowed our overall capital program relative to drilling and tie-ins, but we were still able to deliver strong production growth and excellent financial and operating results."*

Highlights

The financial and operational highlights are provided for the periods indicated below:

Financial (000's, except for share amounts)	Three months ended June 30, 2005	Three months ended March 31, 2005	% Change
Petroleum and natural gas sales (net of transportation)	\$ 5,050	\$ 3,167	59%
Cash flow from operations	2,374	1,529	55%
Per share – Basic	0.09	0.06	50%
– Diluted	0.09	0.06	50%
Net income	\$ 158	\$ 160	(1)%
Per share – Basic	0.01	0.01	(-)%
– Diluted	0.01	0.01	(-)%
Additions to capital assets	\$ 4,482	\$ 8,565	(47)%
Net debt	6,242	4,134	51%
Shares outstanding			
Basic	26,327,829	26,327,829	0%
Diluted	29,393,162	28,821,162	2%
Operations			
Average daily production			
Natural gas (mcf/d)	5,151	3,924	31%
NGLs & crude oil (bbls/d)	297	135	121%
Combined (boe/d)	1,156	788	47%
Average prices received			
Natural gas (\$/mcf)	\$ 7.62	\$ 6.92	10%
NGLs & crude oil (\$/bbl)	53.62	58.71	(9)%
Combined (\$/boe)	\$ 48.01	\$ 44.64	8%
Royalties (\$/boe)	13.33	9.89	35%
Operating expenses (\$/boe)	9.20	11.03	(17)%
Netback received (\$/boe)	\$ 25.48	\$ 23.72	7%

OPERATIONS

Midnight Oil Exploration Ltd. ("Midnight") enjoyed continued drilling success during the second quarter of 2005. We drilled two (0.3 net) natural gas wells with 100% success in the quarter. Since inception in December 2004, we have drilled 18 (4.2 net) wells with 100% success.

Midnight continues to pursue an aggressive deep gas drilling program with over 90 percent of our net wells drilled being exploratory tests with an average depth of over 2,700 metres (8,900 feet). Through this successful drilling program, we have increased our production over 60% from 700 boe per day since Midnight's inception in December 2004 to average over 1,150 boe per day in the second quarter of 2005.

Midnight has a large multi-year prospect inventory focusing on the large reserve potential in its two core areas in the Peace River Arch and West Central Alberta. These areas provide a risk balanced opportunity base for our future growth. Peace River Arch prospects are more of the traditional high impact Midnight plays, while our West Central program is a large scale development exploitation with our joint venture partner Daylight Energy.

Peace River Arch

Midnight's Peace River Arch drilling program is focused on three main ventures; the Deep Basin, the Halfway Triassic, and Light Oil reservoirs.

During the second quarter of 2005, we added lands and opportunities in all three projects. Midnight currently holds over 155,000 gross (90,000 net) acres in its Peace River Arch core area.

In our Deep Basin Program, we target the large reserve multi-zone plays in the Cretaceous which is anchored by the deeper "resource play" potential of the Cadomin formation. This program extends from the Wapiti area up to Cutbank Ridge B.C. During the first half of the year, we expanded our landholding (adding just under 10,000 net acres) and added production by tying in drilling successes from our winter program.

At Cutbank Ridge, Midnight (50% W.I.) made a multi-zone new pool gas discovery. This new pool discovery supported our extension of the Cadomin prospect fairway into a high potential multi-zone area. Potential for the deeper Cadomin play is in the range of 1 to 2 bcf supplemented by shallower zones with similar reserve targets. We were unable to gain access to this area due to weather during the quarter. However, we plan to return to this area this summer to complete the well and drill two additional offsets. Pipeline access is within one mile of our well and we anticipate completion and tie-ins later in the summer. Based on the results of this first well, Midnight acquired additional lands and now holds eighteen sections (over 13,300 gross, 9,500 net acres) on this play.

Our deeper Halfway Triassic exploration program is centered at Beaverlodge where Midnight also targets the multi-zone potential of the shallower Cretaceous aged formations. During the second quarter, we placed on-stream a new pool discovery from our winter program at sustained rates in excess of 2 mmcf per day. Immediate follow-up drilling has been delayed due to surface restrictions and we continue to add lands and opportunities in this highly prospective area. To the east, Midnight participated in the drilling (Midnight 40% W.I.) of a multi-zone new pool discovery. This discovery opened up a new prospect area for us and is part of a multi-well farm-in Midnight entered into during the second quarter. This continued success adds an additional new exploration play in this area that Midnight plans to pursue during the balance of the year. These new pool discoveries continue our 2003 and 2004 successful program led by the Midnight team in this high potential multi-zone area.

In the Peace River Arch area, at Beaverlodge, we placed on-stream the first well of a new oil pool we discovered. This well has been placed on-stream at allowable restricted rates of 50 bbls per day. This is a new prospect we have developed jointly with Daylight Energy that has multi-well follow-up potential. We have a two-stage multi-well development program planned. During the third quarter, we have commenced follow-up drilling and have added two additional successful wells that we are currently completing. This is part of a four well program being executed during the 3rd quarter 2005. Based on the results from this first phase of drilling we have planned five additional wells in the fall/winter program.

During the second quarter, Midnight significantly expanded our opportunity base through land acquisitions and farm-ins as well as our successful drilling results. Due to extreme weather, our program was restricted but our results support our planned 15 (7 net) well program for the balance of the year in our Peace River Arch core area.

West Central Alberta

In our West Central area, Midnight's operations are primarily focused on the large joint venture with Daylight Energy. In this area, Midnight holds 320,000 gross acres (75,000 net acres) and has a large multi-year development and exploitation program to augment its exploration program on the Peace River Arch.

At our greater Pine Creek area, we have a multi-well development exploitation program identified in this high potential area. Primary targets of this program are Notikewan, Bluesky, Gething and Nordegg. These wells will produce at rates of 1 to 4 mmcf per day with ultimate recoverable reserves of 2 to 5 bcf gross on a per well basis. This is an excellent multi-well multi-zone project area for Midnight as we have over 90 gross wells in inventory targeting new drilling and re-completion operations ranging from the Belly River to the Leduc.

At Oldman, we drilled 1 gross (0.1 net) well, multi-zone discovery continuing our 100% drilling success rate in this area. This well has been completed and tested at rates of over 3 mmcf per day and will be placed on-stream during the third quarter.

During the quarter, the wet conditions restricted access and we were unable to add production from our successful winter drilling program. Currently we are in the field working on pipeline construction and tie-ins adding production resulting from our highly successful winter program.

For the balance of 2005, we plan a 20 to 30 joint well program with Daylight Energy in our greater Pine Creek area. At Pembina, we hold 3,840 gross (1,500 net) acres and plan participation in our first Nisku well (MOX 37.5% W.I.). This is a high potential exploration well to be drilled jointly with one of the successful operators with existing production on this play. This well has been delayed as the operator goes through hearings related to gaining surface access.

CORPORATE

Midnight wishes to announce the formal resignation of Mr. Anthony Lambert, as Vice President, Operations and Chief Operating Officer of Midnight Oil Exploration Ltd. Mr. Lambert, as President and Chief Executive Officer of Daylight Energy, will continue to provide valuable service and assistance to Midnight pursuant to the Administrative and Technical Services Agreement between Midnight and Daylight and the close relationship between the companies. Mr. Lambert is one of the founders of Midnight and will continue as a member of the Board of Directors of Midnight.

Midnight is pleased to announce the appointment of Mr. Randy Ford to the position of Vice President, Operations for Midnight Oil Exploration Ltd. Mr. Ford has over 30 years of experience in the industry and previously worked with the Midnight team as Vice President, Drilling and Completions with Ulster Petroleum Ltd.

OUTLOOK

The extreme weather conditions of the second quarter slowed our pace of growth as we were basically held at bay relative to follow-up drilling and tie-ins of our successful winter program. In both our core areas field conditions restricted activity and as a result, we only conducted about half of our planned program. Expenditures for the quarter totalled only \$4.5 million with a substantial investment (\$1.3 million) on land.

With the slowed pace of investment we have over \$17 million remaining in our capital budget of \$30 million. We have targeted these funds for an aggressive capital program for the balance of the year. We plan to drill an additional 10 to 15 net wells developing our earlier drilling successes and pursuing our large exploration and development prospect inventory.

The weather certainly slowed our activity but we were able to generate growth of 50% from the previous quarter contributing to excellent financial and operating results. Notwithstanding the delays in our program, we continue to target exiting 2005 at the 2,300 boe per day range with an average 2005 production in the 1,300 to 1,600 boe per day range.

The Midnight team has a demonstrated track record of successful exploration in the Peace River Arch/Deep Basin. Combined with the vast exploitation opportunity base in our West Central area we have an excellent risk balanced portfolio that forms a solid foundation for our continued growth.

We continue to generate strong production growth and excellent financial and operating results. Success in our drilling program, expanding our prospect inventory and increasing our land base to over 475,000 gross (164,000 net) acres solidifies our future potential. We are very optimistic of our potential as a junior oil and gas exploration company. We look forward to the future as we continue to grow and create shareholder value delivering on the excellent potential of Midnight.

Signed: *"Fred Woods"*

Fred Woods
President and Chief Executive Officer

August 4, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis as provided by the management of Midnight Oil Exploration Ltd. ("Midnight") as of August 3, 2005, should be read in conjunction with the unaudited interim financial statements and accompanying notes for the period ended June 30, 2005 and the audited financial statements and accompanying notes for the period ended December 31, 2004. As we commenced operations on November 29, 2004 we have no comparable figures for the three and six months ended June 30, 2005 and thus the discussion and analysis focuses on the differences between the first and second quarter of 2005.

For selected quarterly information, please see the table on page 21 of this report.

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.

Non-GAAP Measurements - Within the Management Discussion and Analysis references are made to terms commonly used in the oil and gas industry. Cash flow and cash flow per share are not defined by GAAP in Canada and are referred to as non-GAAP measures. The term cash flow represents funds from operations as detailed in the Statements of Cash Flows before changes in non-cash working capital. The reconciliation between net income and cash flow can be found in the Statements of Cash Flows in the unaudited interim financial statements. Management utilizes cash flow to assess the Company's leverage and operating performance. Cash flow is also used by research analysts to value and compare oil and gas companies and is frequently included in published research when providing investment recommendations. Cash flow 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 and operating costs calculated on a boe basis. Total boes are calculated by multiplying the daily production by the number of days in the period.

Forward Looking Statements - Certain information regarding Midnight Oil Exploration Ltd. set forth in this document, including management's assessment of Midnight's future plans and operations, contains forward looking statements that involve substantial known and unknown risks and uncertainties. By their very nature, these forward looking statements are subject to numerous risks and uncertainties, certain of which are beyond Midnight's control. Actual results could differ materially from those currently anticipated due to any number of factors including such variables as new information regarding recoverable reserves, volatility of commodity prices, competition from other producers, environmental, legislative, regulatory and political changes along with other factors discussed in our annual information form. Accordingly, no assurance can be given that any events anticipated by the forward looking statements will transpire or occur, or if any of them do, what the impact to Midnight will be.

Relationship with Daylight Energy Trust ("Daylight")

In conjunction with the Plan of Arrangement, Midnight and Daylight entered into an Administrative and Technical Services Agreement which provides for the sharing of services required to manage Midnight's activities and govern the allocation of general and administration expenses between the entities. The Administrative and Technical Services Agreement has no set termination date and will continue until terminated by either party with three months prior written notice. Under this agreement, Daylight receives payment for certain technical and administration services provided to Midnight on a cost recovery basis as well as reimbursement for any costs incurred on Midnight's behalf. Pursuant to the Administrative and Technical Services Agreement, \$433,000 of fees were charged relating to general and administration activities and \$745,000 of fees were charged relating to capital expenditures for the six months ended June 30, 2005.

As a result of this technical services arrangement, the majority of the Company's accounts receivable and accounts payable as at June 30, 2005 are due from (to) Daylight.

Petroleum and Natural Gas Sales

For the three months ended June 30, 2005, petroleum and natural gas sales totaled \$5,050,000 and was comprised of natural gas sales of \$3,574,000, natural gas liquid sales of \$1,118,000, crude oil sales of \$333,000 and royalty income of \$25,000.

Production for the same period was 1,156 boe per day and was comprised of 5,151 mcf per day of natural gas and 240 bbls per day of natural gas liquids and 57 bbls per day of oil, providing a production mix of 74% natural gas, 21% natural gas liquids and 5% light quality crude oil. This mix has changed from the previous quarter when natural gas contributed 83% and natural gas liquids accounted for only 10%. During the quarter, Midnight brought on liquid rich wells in the Deep Basin and have been able to extract the liquids through a partner operated Deep Cut facility. We expect natural gas to make up a higher percentage of our production mix in the third quarter and our natural gas liquids to make up a smaller percentage.

Midnight's base production is comprised of the assets acquired through the Plan of Arrangement. During the three month period ended June 30, 2005, 592 boe per day or 51% of production was from these assets, focused in the West Central area of Alberta, with the remaining 564 boe per day or 49% coming from new production focused in the Peace River Arch area. This contrasts to the first quarter 2005 when 87% of the production was from our base production acquired through the Plan of Arrangement. The increase in our production is a result of bringing on new wells that were drilled in the first quarter of 2005.

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

Petroleum and Natural Gas Sales (000's)	Three months ended June 30, 2005	Three months ended March 31, 2005	Six months ended June 30, 2005
Natural Gas	\$ 3,574	\$ 2,444	\$ 6,018
Oil	333	332	665
Liquids	1,118	381	1,499
Royalty income	25	13	38
Total	\$ 5,050	\$ 3,170	\$ 8,220

Production	Three months ended June 30, 2005	Three months ended March 31, 2005	Six months ended June 30, 2005
Natural Gas (mcf/d)	5,151	3,924	4,541
Oil (bbls/d)	57	55	56
Liquids (bbls/d)	240	80	160
Total (boe/d)	1,156	788	973

Prices and Marketing	Three months ended June 30, 2005	Three months ended March 31, 2005	Six months ended June 30, 2005
Benchmark Prices			
AECO gas (\$/mcf)	\$ 7.35	\$ 6.86	\$ 7.11
WTI oil (\$US/bbl)	53.17	49.85	51.51
Cdn/US average exchange rate	0.820	0.804	0.809
Edmonton Par (\$Cdn/bbl)	66.13	61.16	63.63
Midnight's Average Selling Price, net of transportation			
Natural gas (\$/mcf)	\$ 7.62	\$ 6.92	\$ 7.32
NGLs & crude oil (\$/bbl)	53.62	58.71	55.20
Total (\$/boe)	\$ 48.01	\$ 44.64	\$ 46.65

Midnight markets its natural gas on a daily spot market basis at various delivery points in Alberta and therefore the average AECO spot market price in Canadian dollars per mcf is an appropriate benchmark for our gas. We continue to receive a slight premium to AECO for our gas sales and expect our future realized price to coincide with the AECO spot price. Our NGL and crude oil price has decreased as a percentage of the reference price as our second quarter liquids production includes more C2 which sells at a larger discount to the reference price. Our first quarter liquids production included more C5+ which sells at a premium to the reference price. This shift in production mix has decreased our realized price for NGLs and crude oil.

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

Royalties

Royalties for the three months ended June 30, 2005 totaled \$1,401,000 representing 27.8% of revenues or \$13.33 per boe. The royalty rate represents a 25% increase over the period ended March 31, 2005 rate of 22.1% as we have brought on new production which is subject to gross overriding royalties. Gross overriding royalties account for 23% of our total royalties for the three months ended June 30, 2005 versus only 4% of the total royalties for the first quarter. During the first quarter, we expected our overall royalty rate to increase slightly throughout 2005 as we brought on new production that is subject to higher royalty rates. This statement continues to be true except that we expect the percentage attributable to gross overriding royalties to decrease as our production base grows on lands owned by Midnight, resulting in an increase over the first quarter rates, but a decrease from the rates in the second quarter. During the period, gas royalties averaged 24%, associated liquids averaged 30% and oil averaged 14% of the total crown royalties.

Royalties (000's)	Three months ended June 30, 2005	Three months ended March 31, 2005	Six months ended June 30, 2005
Crown	\$ 1,226	\$ 703	\$ 1,929
Gross overriding	325	29	354
ARTC	(150)	(30)	(180)
Total	\$ 1,401	\$ 702	\$ 2,103

Operating Expenses

Operating costs for the period totaled \$969,000 or \$9.20 per boe. The reduction in operating costs per boe for the three months ended June 30, 2005 was achieved from bringing on new lower cost production than our original asset base, supplemented with the operating cost reduction efforts of Daylight in the West Central area. As per our previous guidance, we expect our per boe cost to decrease to average \$9 to \$10 per boe for 2005. For the six months ended June 30, 2005 we have already reduced our operating costs to \$9.94 per boe and expect fourth quarter operating costs to be below \$9.00 per boe.

Operating Expenses (000's)	Three months ended June 30, 2005	Three months ended March 31, 2005	Six months ended June 30, 2005
Operating expenses	\$ 969	\$ 782	\$ 1,751
Total (\$/boe)	\$ 9.20	\$ 11.03	\$ 9.94

Other Income

Other income is comprised of interest income of \$30,000 for the six months ended June 30, 2005. For the first quarter of 2005 we had a positive cash balance, earning interest income. During the second quarter we drew on our bank lines and as a result incurred interest expense of \$16,000 for the three months ended June 30, 2005. We expect to incur interest expense for the remainder of the year.

General and Administration Expenses

During the quarter, net general and administration ("G&A") expenses totaled \$292,000 or \$2.78 per boe and \$433,000 or \$2.46 for the six months ended June 30, 2005. Midnight's general and administration expenses have been allocated based on the Administrative and Technical Service Agreement with Daylight. This agreement enables Midnight to use the Daylight personnel to manage its operations. Through this agreement, Midnight is able to take advantage of Daylight's low overhead cost structure. Midnight is charged administration for its direct activities and for its proportionate share of overhead based on production and capital spending. Capitalized G&A is derived directly from the capital portion of the Administrative and Technical Service Agreement.

The components of general and administration expense is as follows:

General and Administration Expenses (000's)	Three months ended June 30, 2005	Three months ended March 31, 2005	Six months ended June 30, 2005
Direct general and administration	\$ 128	\$ 35	\$ 163
Technical service fee from Daylight	601	529	1,130
Overhead recoveries from Daylight	(64)	(51)	(115)
Capitalized general and administration	(373)	(372)	(745)
Net general and administration	\$ 292	\$ 141	\$ 433
\$/boe	\$ 2.78	\$ 1.99	\$ 2.46

During the three months ended June 30, 2005, net general and administration expenses increased as a result of direct fees incurred associated with audit, legal and reservoir engineering of \$75,000 and corporate investor and administration fees of \$24,000 with no comparable expenditures in the first quarter.

Consistent with the first quarter, we expect to maintain the annual net general and administrative budget in the \$2 to \$3 per boe range for 2005.

Depletion, Depreciation and Accretion

For the three months ended June 30, 2005, depletion and depreciation of the petroleum and natural gas assets and the accretion of the asset retirement obligation was \$1,940,000 versus \$1,128,000 for the first quarter. This increase was a result of the 47% increase in production volumes combined with a slightly higher finding and development cost. On a per boe basis, depletion, depreciation and accretion increased to \$18.44 per boe in the second quarter versus \$15.90 per boe for the first quarter. During the second quarter, Midnight's capital expenditures focused on building our asset base rather than actively drilling and as a result had minimal reserve additions. As drilling activity increases in the last half of the year, we expect the boe rate for depletion, depreciation and accretion to decline.

Stock-Based Compensation

The Company applies the fair value method for valuing stock option grants and warrants. Under this method, compensation cost attributable to all share options granted and warrants issued are measured at fair value at the grant and issuance date and expensed over the vesting period with a corresponding increase to contributed surplus. For the three months ended June 30, 2005, Midnight recognized stock-based compensation expense of \$109,000, a doubling of the first quarter expense as an additional 822,000 stock options were granted in the period. Midnight's unamortized portion of stock-based compensation increased from \$691,000 at March 31, 2005 to \$1,530,000 at June 30, 2005.

Taxes

The future tax expense for the three months ended June 30, 2005 was \$177,000 resulting in an effective tax rate of 53%. The difference in the expected rate of 37.6% and the effective rate is from permanent differences relating to stock based compensation and the difference between non-deductible crown royalties and the resource allowance.

Midnight has no current income taxes payable and is under the corporate exemption level for Large Corporation's Tax. Midnight does not expect to become taxable on an income tax basis in 2005. The Company has approximately \$44.6 million in tax pools to shelter taxable income in future years.

Cash Flow and Net Income

Cash flow from operations totaled \$2,374,000 for the three months ended June 30, 2005 versus \$1,529,000 for the three months ended March 31, 2005 representing a 55% increase. Cash flow per basic and diluted share was \$0.09 and \$0.06 for the corresponding periods. Net income for the three months ended June 30, 2005 totaled \$158,000 versus \$160,000 for the three months ended March 31, 2005. Net income per share on a basic and diluted basis was \$0.01 for both periods.

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

(\$/boe)	Three months ended June 30, 2005	Three months ended March 31, 2005	Six months ended June 30, 2005
Sales price	\$ 48.01	\$ 44.64	\$ 46.65
Royalties	13.33	9.89	11.94
Operating expenses	9.20	11.03	9.94
Operating netback	\$ 25.48	\$ 23.72	\$ 24.77
General and administration	2.78	1.99	2.46
Interest (income)	0.05	(0.25)	(0.07)
Cash flow netback	\$ 22.65	\$ 21.98	\$ 22.38
Depletion, depreciation and accretion	18.44	15.90	17.42
Stock-based compensation	1.03	0.75	0.92
Future tax	1.68	3.07	2.24
Net income	\$ 1.50	\$ 2.26	\$ 1.80

The following table outlines the factors leading to the change in cash flow and net income for the three months ended June 30, 2005 compared to the three months ended March 31, 2005.

Change in Cash Flow and Net Income (000's)	Cash flow	Net income
Quarter ended March 31, 2005	\$ 1,529	\$ 160
Increase (decrease) in revenue:		
Additional production volumes	1,187	1,187
Change in prices	693	693
Change in royalties	(699)	(699)
Change in other income	(6)	(6)
(Increase) decrease in expenses:		
Operating	(187)	(187)
Transportation	3	3
Interest	(16)	(16)
General and administration	(151)	(151)
Stock-based compensation	-	(55)
Depletion, depreciation and accretion	-	(812)
Future tax	-	41
Abandonment expenditures	21	-
Quarter ended June 30, 2005	\$ 2,374	\$ 158

Equity

During the quarter, Midnight granted 822,000 stock options to non-executive employees with an average exercise price of \$3.30 per share. The options vest equally over three years and expire five years from the date of grant. Midnight intends to limit option grants under its Stock Option Plan to 5% of the number of outstanding Midnight shares until December 1, 2005 and to 7.5% of the number of outstanding Midnight shares until December 1, 2006.

Share Information (000's)	Three months ended June 30, 2005	Three months ended March 31, 2005	Six months ended June 30, 2005
Shares outstanding			
Basic	26,328	26,328	26,328
Diluted	29,393	28,821	29,393
Weighted average shares outstanding			
Basic	26,328	26,328	26,328
Diluted	26,462	26,714	26,578

As at August 3, 2005 the Company had outstanding 26,327,829 common shares, 982,000 stock options and 2,083,333 warrants.

Capital Expenditures

For the three months ended June 30, 2005, Midnight drilled 2 (0.29 net) natural gas wells with a 100% success rate. During the period, Midnight continued to build on its asset base by increasing its undeveloped land by 3,500 net undeveloped acres in the Peace River Arch area. Additional expenditures were incurred to complete the first quarter exploration program and bring on the associated production with only \$503,000 of drilling expenditures relating to new drills in the quarter. Midnight incurred \$4,482,000 of expenditures during the second quarter as follows:

Capital Expenditures (\$000's)	Three months ended June 30, 2005	Three months ended March 31, 2005	Six months ended June 30, 2005
Land	\$ 1,331	\$ 1,327	\$ 2,658
Geological and geophysical	433	374	807
Drilling	1,688	4,363	6,051
Completions	656	1,780	2,436
Facilities pipelines and equipment	365	721	1,086
Petroleum and natural gas expenditures	\$ 4,473	\$ 8,565	\$ 13,038
Other fixed assets	9	0	9
Total expenditures	\$ 4,482	\$ 8,565	\$ 13,047

The second quarter helped set the stage for an active third quarter with 5 (1.25 net) wells successfully drilled to date with an additional 11 wells planned for the remainder of the quarter.

Liquidity and Capital Resources

Midnight Oil Exploration Ltd. was listed as a senior producer on the Toronto Stock Exchange on December 2, 2004 trading under the symbol "MOX". The Company's market capitalization at June 30, 2005 was \$92.4 million.

Trading History on the TSX	Three months ended June 30, 2005	Three months ended March 31, 2005	December 2, 2004 to December 31, 2004
High	\$ 4.05	\$ 4.98	\$ 4.20
Low	\$ 3.10	\$ 3.06	\$ 3.20
Close	\$ 3.51	\$ 4.01	\$ 3.40
Volume (000's)	7,468	7,363	6,559

At June 30, 2005, Midnight had net debt of \$6.2 million. Subsequent to the quarter end, Midnight increased its credit facility to \$10.5 million from \$8 million. The credit facility is available by way of Canadian and US dollar prime rate based loans, bankers' acceptances, Libor borrowings and letters of credit. The facility is available on a revolving basis until June 30, 2006. On this date, and at the Company's discretion, the facility is available on a non-revolving basis for a period of 366 days, at which time the facility would be due and payable. Alternatively, the facility may be extended for a further 364-day period at the request of the Company and subject to approval by the bank. The credit facility bears interest at the bank prime rate and is secured by a \$50 million first floating charge debenture and a general securities agreement.

Midnight anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of petroleum and natural gas reserves in the future. To execute its 2005 capital of program of \$30 million, the Company will require additional debt or equity financing. Failure to obtain such financing on a timely basis could cause Midnight to delay its capital program and as a result potentially forfeit its interest in certain properties or miss certain acquisition opportunities. If Midnight's revenues from its production decrease as a result of lower oil and natural gas prices or otherwise, it will affect Midnight's ability to expend the necessary capital to replace its reserves or to maintain its production. If Midnight's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to Midnight.

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
Technical service agreement	\$ 1,254	\$ 1,254	\$ -	\$ -	\$ -
Long-term debt	5,405	-	5,405	-	-
Asset retirement obligations	1,836	58	209	150	1,419
Total Contractual Obligations	\$ 8,495	\$ 1,312	\$ 5,614	\$ 150	\$ 1,419

Midnight enters into many contractual obligations in the course of conducting its day to day business. Material contract obligations consist only of our Administrative and Technical Service Agreement with Daylight 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.

Application of Critical Accounting Estimates

The significant accounting policies used by Midnight are disclosed in note 1 to the audited Financial Statements for the period ended December 31, 2004. 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. The following discussion identifies the critical accounting policies and practices of the Company and helps assess the likelihood of materially different results being reported.

Proved Reserves

Under the National Instrument 51-101 (NI 51-101) "Proved" reserves are defined as those reserves that can be estimated with a high degree of certainty to be recoverable. The level of certainty should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated Proved reserves. It does not mean that there is a 90% probability that the Proved reserves will be recovered; it means there must be at least a 90% probability that the given amount or more will be recovered.

"Proved plus Probable" reserves are the most likely case and are based on a 50 percent certainty that they will equal or exceed the reserves estimated.

These oil and gas reserve estimates are made using all available geological and reservoir data, as well as historical production data. All of the Company's reserves were evaluated and reported on by an independent qualified reserves evaluator. However, revisions can occur as a result of various factors including: actual reservoir performance, changes in price and cost forecasts or a change in the Company's plans. Reserve changes will impact the financial results as reserves are used in the calculation of depletion and are used to assess whether asset impairment occurs. Reserve changes also affect other Non-GAAP measurements such as finding and development costs, recycle ratios and net asset value calculations.

Depletion

The Company follows the full cost method of accounting for oil and natural gas properties. Under this method, all costs related to the acquisition of, exploration for and development of oil and natural gas reserves are capitalized whether successful or not. Depletion of the capitalized oil and natural gas properties and depreciation of production equipment which includes estimated future development costs less estimated salvage values are calculated using the unit-of-production method, based on production volumes in relation to estimated proven reserves.

An increase in estimated proved reserves would result in a reduction in depletion expense. A decrease in estimated future development costs would also result in a reduction in depletion expense.

Unproved Properties

The cost of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. An impairment test is performed on these assets to determine whether the carrying value exceeds the fair value. Any excess in carrying value over fair value is an impairment. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

Ceiling Test

The ceiling test is a cost recovery test intended to identify and measure potential impairment of assets. An impairment loss is recorded if the sum of the undiscounted cash flows expected from the production of the proved reserves and the lower of cost and market of unproved properties does not exceed the carrying values of the petroleum and natural gas assets. An impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk free rate. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment as a result of this ceiling test will be charged to operations as additional depletion and depreciation expense.

Asset Retirement Obligations

The Company records a liability for the fair value of legal obligations associated with the retirement of petroleum and natural gas assets. The liability is equal to the discounted fair value of the obligation in the period in which the asset is recorded with an equal offset to the carrying amount of the asset. The liability then accretes to its fair value with the passage of time and the accretion is recognized as an expense in the financial statements. The total amount of the asset retirement obligation is an estimate based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total amount of the estimated cash flows required to settle the asset retirement obligation, the timing of those cash flows and the discount rate used to calculate the present value of those cash flows are all estimates subject to measurement uncertainty. Any change in these estimates would impact the asset retirement liability and the accretion expense.

Plan of Arrangement

As disclosed in Note 2 to the Financial Statements, Midnight acquired assets from Vintage Petroleum Canada, Inc. and Midnight Oil & Gas Ltd. and accounted for these acquisitions using the purchase method based on fair values. The determination of fair value involves numerous estimates. The valuation of petroleum and natural gas assets is based on Midnight's estimate of proved plus probable reserves using estimated forecasted prices at the time of acquisition, plus an estimation of unproved properties. Management also estimates the fair value of other assets and liabilities acquired on the acquisition. This valuation could differ materially by altering the various assumptions which would have impacted the composition of the balance sheet.

Income Taxes

The determination of income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Other Estimates

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenues, royalties and operating costs as at a specific reporting date, but for which actual revenues and costs have not yet been received. In addition, estimates are made on capital projects which are in progress or recently completed where actual costs have not been received by the reporting date. The Company obtains the estimates from the individuals with the most knowledge of the activity and from all project documentation received. The estimates are reviewed for reasonableness and compared to past performance to assess the reliability of the estimates. Past estimates are compared to actual results in order to make informed decisions on future estimates.

New Accounting Standards to be Adopted in 2005

All policies adopted on commencement of our operations are compliant with all new applicable accounting standards.

Dated August 3, 2005

MIDNIGHT OIL EXPLORATION LTD.

Balance Sheets

(000's)

	June 30, 2005 (unaudited)	December 31, 2004 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ -	\$ 5,031
Accounts receivable	1,395	1,132
Deposits and prepaid expenses	80	-
	1,475	6,163
Future taxes	-	145
Petroleum and natural gas assets (note 1)	45,875	35,812
	\$ 47,350	\$ 42,120
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,312	\$ 3,261
Long-term debt (note 2)	5,405	-
Future taxes	250	-
Asset retirement obligations (note 3)	585	542
Shareholders' equity:		
Share capital (note 4)	38,240	38,240
Warrants (note 4)	42	47
Contributed surplus	183	15
Retained earnings	333	15
	38,798	38,317
	\$ 47,350	\$ 42,120

See accompanying notes to financial statements.

On behalf of the Board:

Signed "Tom Medvedic"

Signed "Paul Moynihan"

Director

Director

MIDNIGHT OIL EXPLORATION LTD.

Statements of Income and Retained Earnings

(000's, except per share amounts)

	Three months ended June 30, 2005 (unaudited)	Six months ended June 30, 2005 (unaudited)
Revenues:		
Petroleum and natural gas sales	\$ 5,050	\$ 8,220
Royalties	(1,401)	(2,103)
Other income	12	30
	<u>3,661</u>	<u>6,147</u>
Expenses:		
Operating	969	1,751
Transportation	-	3
General and administration	292	433
Interest	16	16
Stock-based compensation	109	163
Depletion, depreciation and accretion	1,940	3,068
	<u>3,326</u>	<u>5,434</u>
Income before taxes	335	713
Taxes:		
Future	177	395
	<u>177</u>	<u>395</u>
Net income	158	318
Retained earnings, beginning of period	175	15
Retained earnings, end of period	\$ 333	\$ 333
Income per share (note 4(c)):		
Basic	\$ 0.01	\$ 0.01
Diluted	\$ 0.01	\$ 0.01

See accompanying notes to financial statements.

MIDNIGHT OIL EXPLORATION LTD.

Statements of Cash Flows

(000's)

	Three months ended June 30, 2005 (unaudited)	Six months ended June 30, 2005 (unaudited)
Cash provided by (used in):		
Operations:		
Net income	\$ 158	\$ 318
Items not involving cash:		
Depletion, depreciation and accretion	1,940	3,068
Stock-based compensation	109	163
Future taxes	177	395
Abandonment expenditures	(10)	(41)
Funds from operations	2,374	3,903
Changes in non-cash working capital	(1,429)	(1,092)
	945	2,811
Financing:		
Increase in long-term debt	4,815	5,405
Changes in non-cash working capital	(338)	138
	4,477	5,543
Investments:		
Petroleum and natural gas additions	(4,482)	(13,047)
Changes in non-cash working capital	(940)	(338)
	(5,422)	(13,385)
Changes in cash	-	(5,031)
Cash, beginning of period	-	5,031
Cash, end of period	\$ -	\$ -
Cash taxes paid	\$ -	\$ -
Cash interest paid	\$ 11	\$ -

Cash is defined as cash and cash equivalents.

See accompanying notes to financial statements.

MIDNIGHT OIL EXPLORATION LTD.

Notes to Financial Statements

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

The interim financial statements for Midnight Oil Exploration Ltd. ("Midnight") 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 financial statements for the period from November 29, 2004 to December 31, 2004. The disclosures provided below are incremental to those included with the audited financial statements for the period from November 29, 2004 to December 31, 2004. The interim financial statements should be read in conjunction with the audited financial statements for the period from November 29, 2004 to December 31, 2004. As we commenced operations on November 29, 2004 we have no comparable figures for the three and six months ended June 30, 2005.

1. Petroleum and natural gas assets:

	June 30, 2005	December 31, 2004
Cost	\$ 49,246	\$ 36,138
Accumulated depletion and depreciation	(3,371)	(326)
Net book value	\$ 45,875	\$ 35,812

During the six month period, the Company capitalized \$745,000, of general and administration expenses related to exploration and development activities.

The cost of unproven properties at June 30, 2005 of \$16,686,000 has been excluded from the depletion and depreciation calculation. Future development costs of proven reserves of \$2,110,000 have been included in the depletion and depreciation calculation.

2. Long-term debt:

Midnight has a revolving term credit facility available up to \$10.5 million with a Canadian chartered bank. The facility is available on a revolving basis until June 30, 2006. On June 30, 2006, 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 prime rate and is secured by a \$50 million first floating charge debenture and a general securities agreement. At June 30, 2005, \$5,405,000 was drawn on this facility. The \$10.5 million borrowing base is subject to a semi-annual and annual review by the bank.

3. Asset retirement obligations:

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations is approximately \$1,836,000 which will be incurred between 2005 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. A credit-adjusted risk-free rate of 8% was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

	June 30, 2005	December 31, 2004
Balance, beginning of period	\$ 542	\$ -
Transfer of assets through Plan of Arrangement	-	542
Liabilities incurred	61	2
Liabilities settled	(41)	(5)
Accretion expense	23	3
Net book value	\$ 585	\$ 542

4. Share capital:

(a) Authorized:

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

(b) Issued and outstanding:

	Number of Shares	Amount
Common shares:		
Balance, December 31, 2004 and June 30, 2005	26,327,829	\$ 38,240

(c) Per share amounts:

Per share amounts have been calculated on the weighted average number of shares outstanding. The weighted average shares outstanding for the three and six months ended June 30, 2005 were 26,327,829. 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 and six months ended June 30, 2005 were 26,461,711 and 26,577,841 respectively, due to the dilutive effect of warrants and stock options.

(d) Stock options:

During the six months ended June 30, 2005, Midnight granted 982,000 options with a weighted average exercise price of \$3.37 per share. The options vest one third per year over three years on the anniversary of the date granted and expire at the end of five years. There were no options exercisable at June 30, 2005.

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

	Six months ended June 30, 2005
Weighted average fair value of options granted	\$ 1.25
Risk free interest	4.25%
Estimated hold period prior to exercise	4 years
Expected volatility	40%
Dividend per share	\$ 0.00

(e) Warrants:

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

Each warrant is exercisable into one common share of the Company at a price of \$3.00 per share, subject to the achievement of certain performance criteria. There were no warrants exercisable at June 30, 2005.

5. Relationship with Daylight

An Administrative and Technical Services Agreement with Daylight Energy Trust ("Daylight") provides for the shared services required to manage Midnight's activities and govern the allocation of general and administration expenses between the entities. Under this agreement, Daylight receives payment for certain technical and administration services provided to Midnight on a cost recovery basis. The Administrative and Technical Service Agreement has no set termination date and will continue until terminated by either party upon three months prior written notice to the other party. Pursuant to the Administrative and Technical Services Agreement, \$433,000 of fees were charged relating to general and administration activities and \$745,000 of fees were charged relating to capital expenditures for the six months ended June 30, 2005.

As a result of this technical service arrangement, the majority of the Company's accounts receivable and accounts payable as at June 30, 2005 are due from (to) Daylight.

Quarterly Information

Financial (000's, except for share amounts)	Three months ended June 30, 2005	Three months ended March 31, 2005	November 29, 2004 to December 31, 2004
Petroleum and natural gas sales (net of transportation)	\$ 5,050	\$ 3,167	\$ 976
Royalties	1,401	702	211
Operating expenses	969	782	249
Net backs	\$ 2,680	\$ 1,683	\$ 516
Cash flow from operations	2,374	1,529	397
Per share – Basic	0.09	0.06	0.02
– Diluted	0.09	0.06	0.02
Net income	\$ 158	\$ 160	\$ 15
Per share – Basic	0.01	0.01	0.00
– Diluted	0.01	0.01	0.00
Additions to capital assets	\$ 4,482	\$ 8,565	\$ 2,680
Net debt (surplus)	6,242	4,134	(2,902)
Total assets	47,350	45,106	42,120
Shares outstanding			
Basic	26,327,829	26,327,829	26,327,829
Diluted	29,393,162	28,821,162	28,661,162
Operations			
Average daily production			
Natural gas (mcf/d)	5,151	3,924	3,549
NGLs & crude oil (bbls/d)	297	135	132
Combined (boe/d)	1,156	788	723
Average prices received			
Natural gas (\$/mcf)	\$ 7.62	\$ 6.92	\$ 7.00
NGLs & crude oil (\$/bbl)	53.62	58.71	50.75
Combined (\$/boe)	\$ 48.01	\$ 44.64	\$ 43.58
Royalties (\$/boe)	13.33	9.89	9.40
Operating expenses (\$/boe)	9.20	11.03	11.14
Netback received (\$/boe)	\$ 25.48	\$ 23.72	\$ 23.04

Abbreviations

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



CORPORATE INFORMATION

DIRECTORS

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

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

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

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

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

Members of the following Committees

¹ Audit

² Compensation

³ Reserves

OFFICERS

Frederick N. Woods
President and Chief Executive Officer

W. Randy Ford
Vice-President, Operations

Thomas F. Moslow
Vice-President, Exploration

Judith A. Stripling
Vice-President, Finance and Chief Financial Officer

Andrew D. Weldon
Vice-President, Land

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
Gilbert Laustsen Jung Associates Ltd.
Calgary, Alberta

Registrar and Transfer Agent
Valiant Trust Company
Calgary, Alberta

HEAD OFFICE

Sunlife Plaze, North Tower
Suite 1000, 144 - 4th Avenue S.W.
Calgary, Alberta T2P 3N3
Phone: 403-303-8500 Fax: 403-266-6988
Email: ir@midnightoil.ca Website: www.midnightoil.ca