



MIDNIGHT

Oil Exploration Ltd.

Attention Business/Financial Editors:

Midnight Oil Exploration Ltd. adds high potential new core area with quality light oil production and large multi-zone exploration prospect inventory through \$46 million Strategic Acquisition and \$40 million Bought-Deal Financing

RED EARTH ALBERTA PROPERTY ACQUISITION

CALGARY, September 26, 2005 / CCNMatthews / - Midnight Oil Exploration Ltd. ("Midnight") (MOX:TSX) is pleased to announce that it has entered into an acquisition agreement to acquire high quality, long life oil and natural gas reserves and 94,000 gross (67,700 net) undeveloped acres on a large high potential growth prospect in the Red Earth area of Alberta for \$46 million (subject to closing adjustments). The prospect inventory on the exploration lands, include multiple drill ready locations, targeting the high-impact oil reservoirs of the Keg River and Granite Wash. The assets to be acquired by Midnight are assets which will be acquired by Daylight Energy Trust ("Daylight") as part of its recently announced corporate acquisition of Tempest Energy Corp. The Midnight asset acquisition will have an effective date of October 1, 2005 and is expected to close subsequent to the closing of Daylight's acquisition of Tempest Energy Corp. planned to occur on or about November 30, 2005.

"This transaction follows a model we have used before and repeated with very successful results. There are two components – first a solid, high quality, light oil production base and secondly a large inventory of multi-zone high potential exploration prospects to expand and grow the production base," said Fred Woods, President and CEO of Midnight. "This acquisition very much matches our proven technical skills applied to a tremendous opportunity base covering a large undeveloped land base. We've already conducted a detailed geo-technical analysis and identified a multi-year drill ready and high potential prospect inventory targeting the prolific Keg River and Granite Wash reservoirs at Red Earth."

Acquisition Highlights:

Solid high value light oil and tremendous inventory of high impact exploration prospects

1. Reserves:
 - Total proved 1.1 million boe
 - Proven plus probable 2.1 million boe

2. Production:
 - Current 600 boe/d (September allowables)
 - Closing 825 boe/d (Forecast Nov 30)

3. Land and Seismic:
 - Undeveloped land 94,000 gross (67,700 net) acres - value of \$8.4 million
 - 3D seismic 144 square kilometers - value of \$3.4 million

4. Upside – drilling:
 - Locations identified to date 35 to 45 gross
 - 2005 – 06 program 21 gross (16.3 net)

5. Operatorship and Working Interests:
 - Exploration lands Midnight operated
 - Development lands Joint operated
 - Working Interest Average 70 percent

6. Tax Pools
 - \$46 million COGPE 80% UCC 20%

Benefits of the transaction

The acquisition of these properties provides Midnight with a large suite of high-impact drilling opportunities. The acquisition includes existing production of 600 boe per day of high quality 40° API crude oil and is forecast to increase to 825 boe per day by closing based on recent drilling (assuming allowables). In addition, Midnight is acquiring a focused undeveloped land base of 67,700 net undeveloped acres adjoining and surrounding existing production and 144 square kilometers of 3-D seismic that, combined with Midnight's detailed geo-technical analysis, is instrumental in locating the Keg River and Granite Wash targets. These properties will add a new high potential core area to Midnight's prospect portfolio that will augment and complement the development opportunities in its West Central Alberta core area and its high-potential multi-zone gas prospects in the Deep Basin and the Peace River Arch. This expanded portfolio grows and diversifies production and opportunities and solidifies Midnight's prospects to continue to deliver strong growth. Midnight's 2006 capital budget of \$50 million allocates \$19 million for 21 gross and 16.3 net drilling locations to the Red Earth area. Acquisition metrics for reserves and production after deducting costs of undeveloped land and seismic are attractive as are the financial metrics. Post equity financing, these metrics are 20% accretive per share on fourth quarter cash flow and 19% accretive per share on estimated 2006 cash flow.

Upon closing of the Red Earth acquisition, Midnight will have the following key operating and financial characteristics:

- Balanced Production Base
 - o Estimated 2006 production of approximately 3,700 boe/d (55% natural gas, 45% light oil and NGLs);

- Strong Cash Flow and High Netbacks
 - o Estimated 2006 cash flow of approximately \$49 million based on US\$55/Bbl WTI, \$9.50/Mcf AECO and \$0.84US exchange rate. (Forward strip US\$65/Bbl WTI, \$11.00/Mcf AECO and \$0.84US exchange rate) results in high netback production (\$37/boe);

- Accretive transaction per share
 - o On a per share basis; on Q4 production (+12%), Q4 cash flow (+20%), and total proved plus probable reserves (+35%);

- Addition of an exciting new high potential core area
 - o Production base and exploration upside in Red Earth Alberta;

- Expanded undeveloped land base
 - o Total increased to 587,000 gross (238,000 net) acres;
- Basic shares outstanding increase to 38.3 million;(after financing discussed below)
 - o fully diluted shares outstanding to 41.3 million; and
- 2006 preliminary capital expenditure budget of \$50 million to pursue identified development drilling prospects and opportunities on Midnight's significant undeveloped land holdings.

Financing

Midnight has also entered into a bought-deal financing agreement with a syndicate of underwriters co-led by GMP Securities Ltd. and Sprott Securities Inc., and including Canaccord Capital Corp., CIBC World Markets Inc., FirstEnergy Capital Corp. and MGI Securities Inc. to issue 10,000,000 subscription receipts ("Subscription Receipts") at a price of \$4.00 per Subscription Receipt for aggregate gross proceeds of \$40 million (the "Offering"). The Underwriters have also been granted an option, exercisable prior to closing, to increase the Offering by up to 2,000,000 additional Subscription Receipts to increase the Offering to \$48 million, if fully exercised.

Each Subscription Receipt will entitle the holder to receive one common share of Midnight upon the closing of the acquisition of the Red Earth properties. The acquisition will be completed subsequent to the acquisition by Daylight Energy Trust of Tempest Energy Corp. which is expected to close on or about November 30, 2005.

The Offering is being completed on a private placement basis and is expected to close on or about October 6, 2005. The proceeds of the Offering will be held in escrow pending completion of the acquisition. If the closing of the acquisition does not take place on or before December 30, 2005, holders of the Subscription Receipts will be entitled to a return of their full subscription price and their pro rata entitlement to the interest earned on the escrowed funds.

Completion of this financing is subject to receipt of all requisite regulatory approvals. The net proceeds from the financing will be used to fund the acquisition of the Red Earth properties and for increased capital expenditures.

Independent Review Committee of Midnight

Midnight and Daylight operate under an Administrative and Technical Services Agreement. The evaluation of Tempest was done jointly and the properties and opportunities were allocated to the respective parties consistent with their respective business strategies. To maintain Midnight's high standards of Corporate Governance, a "Special Committee" comprised of independent directors of Midnight was formed to review the transaction with Daylight and ensure the transaction was fair, reasonable and considered the continued longer term success of Midnight, from a financial and competitive perspective. This committee engaged independent legal counsel and Sprott Securities Inc. as financial advisors to the transaction.

Forward Looking Statements

Certain information set forth in this press release, including management's assessment of the future plans and operations of Midnight, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond these parties' control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The actual results, performance or achievement of Midnight could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Midnight will derive therefrom. Midnight disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Note: Boe means barrel of oil equivalent on the basis of 1 boe to 6,000 cubic feet of natural gas. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 1 boe for 6,000 cubic feet of natural gas is based on an energy equivalency conversion primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Midnight Oil Exploration Ltd. is a crude oil and natural gas exploration and production company headquartered in Calgary, Alberta, Canada. Its common shares trade on the TSX under the symbol "MOX".

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