



MGM Energy Corp. Third Quarter Report

- Letter to Shareholders
- Management's Discussion and Analysis
- Interim Financial Statements (Unaudited)
as at and for the three and nine months ended September 30, 2007

November 1, 2007

Dear Shareholders,

Attached to this letter are MGM Energy Corp.'s financial statements as at and for the period ending September 30, 2007.

The third quarter was an extremely productive one for MGM Energy. We completed our review of re-processed seismic data covering potential locations in the Mackenzie Delta; selected the final drilling locations; prepared and sent out requests for bids on all of the material and services we require for the winter's drilling program, and continued the regulatory process to ensure we were in a position to undertake our work on schedule.

Drilling activity in the Mackenzie Delta is restricted to those times when rivers, lakes and the land are frozen. Ice roads – generally built on rivers - are the most common method of transporting materials and workers in this region, and the ice roads are not generally ready to carry heavy loads until mid January. As a result, drilling generally does not start until late January, or as was the case last year, early February. Since we are required to demobilize all equipment before the roads melt, we generally have to be out of the field by mid-April. That results in a very short drilling season. It is also true, though, that the more wells that can share the same infrastructure, the lower the cost of the individual wells will be. So we have a short drilling season, but we would like to drill as many wells as possible.

This is where innovation and ingenuity come in. This year, for the first time in the North, we are staging all of the equipment necessary to drill three wells and acquire our seismic program on barges (24 in total), which we have anchored separately near the well and seismic locations. These barges hold not only the rig and seismic equipment, but camps for workers, and all of the consumables (mud, drill pipe, fuel, etc.), trucks, generators, etc., which we expect to need to undertake our winter programs. As a result, while we will still ultimately need ice roads, we will not have to wait for those roads to start drilling our first well, and that should allow us to get started by the end of December, weather permitting.

Early in the fourth quarter we entered into a Capacity Request Agreement with the proponents of the Mackenzie Valley pipeline project (a group of large energy companies with discovered resources in the area and the Aboriginal Pipeline Group). This agreement gives us access (as either a shipper or an owner) to 200 million cubic feet/day of the total 245 million cubic feet/day of available capacity on the gathering system which will feed into the main pipeline. The gathering system is the unregulated portion of the pipeline project which will collect gas from the various fields and deliver it to a central gas plant to be built near Inuvik. The total capacity of the gathering system is approximately 1.075 billion cubic feet/day of natural gas, with 830 million cubic feet/day of capacity reserved for the proponents' own "anchor" fields. We entered into this agreement because it gives us certainty, on what we consider reasonable terms, that the gas which we currently own and gas we expect to own or control will be delivered to the Mackenzie Valley pipeline, once it is built. We view this as an important step in our strategy, and are pleased we were able to conclude the agreement.

Over the next quarter you should expect that our expenditures will continue to ramp up as we finish preparations for and begin to conduct our winter capital program. Based upon our forecasted expenditures, we have the capital available to conduct this program, and are working diligently to bring the program in under budget.

Henry W. Sykes
President
MGM Energy Corp.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited Interim Financial Statements of MGM Energy Corp. ("MGM Energy" or the "Company") as at and for the three and nine months ended September 30, 2007. Information included in this MD&A and the Financial Statements has been presented in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP"), unless otherwise stated.

This MD&A contains forward-looking statements. Readers are referred to the advisories concerning such matters under the heading "Advisories" at the end of this MD&A.

This MD&A is dated November 1, 2007. Additional information concerning MGM Energy, including its Annual Information Form, can be found on the SEDAR website at www.sedar.com.

Overview

MGM Energy is an independent Canadian public company, the principal business of which is to acquire, develop, optimize, exploit and produce oil and natural gas in Northern Canada. The Company was incorporated under the *Business Corporations Act* (Alberta) (the "ABCA") on October 31, 2006.

On January 12, 2007, MGM Energy was a party to a plan of arrangement under the ABCA which involved Paramount Resources Ltd. ("Paramount") and its shareholders, through which MGM Energy acquired its principal assets from Paramount (the "MGM Spinout"). Immediately following the MGM Spinout, the principal assets of MGM Energy were:

- rights and obligations under an area-wide farm-in agreement (the "Farm-in Agreement") respecting Mackenzie Delta, Northwest Territories Exploration Licence #394, Exploration Licence #427 and Inuvik Concession Blocks 1 and 2 (the "Farm-in Properties"); and
- oil and gas properties in the Colville Lake / Sahtu area of the Central Mackenzie Valley, Northwest Territories (the "Colville Properties").

In addition to its principal assets, MGM Energy acquired from Paramount under the MGM Spinout, an interest in one well in the Cameron Hills area of the southern portion of the Northwest Territories (the "Ancillary Asset") to ensure that MGM Energy met the minimum listing requirements of the Toronto Stock Exchange. Paramount has the option, subject to certain conditions, to reacquire the Ancillary Asset from MGM Energy for \$5 million, the selling price of the asset to MGM Energy (the "Repurchase Option"). Because of the nature of the Repurchase Option, for accounting purposes the Ancillary Asset is deemed to be retained by Paramount.

Except for limited periods of testing, none of MGM Energy's assets have ever been placed into production. As a result, MGM Energy does not have any commercial operating results and is considered a development stage enterprise.

Through the MGM Spinout:

- MGM Energy issued Paramount a demand promissory note in the principal amount of \$12.0 million, bearing interest at 10 percent per annum, and 18.2 million voting Class A Preferred Shares, which note was subsequently repaid by MGM Energy and which shares were subsequently converted into voting common shares of MGM Energy ("Common Shares") on a share-for-share basis; and

- MGM Energy issued Paramount's shareholders an aggregate of approximately 2.8 million Common Shares and approximately 14.2 million warrant units, with each warrant unit consisting of one MGM Energy short term warrant (each, a "Short Term Warrant") and one MGM Energy longer term warrant (each, a "Longer Term Warrant").

CAUTIONARY NOTE: This MD&A contains disclosure and discussions concerning: (i) the historic financial position, results of operations and cash flows relating to the Farm-in Properties and the Colville Properties; and (ii) the results of operations and cash flows relating to the Ancillary Asset, on a carve-out basis from Paramount as if MGM Energy had operated as a stand-alone entity subject to Paramount's control prior to January 12, 2007. Commencing January 12, 2007, MGM Energy holds these assets, with the results of operations and cashflows accruing to the benefit of the Company. As a result, readers are cautioned that the historical information relating to periods prior to January 12, 2007 may not necessarily be indicative of the results that would have been obtained if MGM Energy had operated as a stand-alone entity prior to January 12, 2007.

For further details concerning the MGM Spinout, readers are referred to MGM Energy's 2006 Annual Information Form and unaudited Interim Financial Statements as at and for the three and nine months ended September 30, 2007 (the "Interim Financial Statements").

Principal Properties and Projects

Mackenzie Delta Farm-in

The Mackenzie Delta lies at the end of the Mackenzie River in the Northwest Territories where it enters the Beaufort Sea, approximately 2,200 kilometres north of Calgary, Alberta. The Mackenzie Delta has been the focus of natural gas exploration since the 1960s. Several major discoveries have been made in the Mackenzie Delta since that time, with 21 onshore Significant Discovery Licences awarded to date. There is no commercial natural gas production in the Mackenzie Delta, as currently there is no pipeline or gathering system to transport production to market. As well, pipelines have not been constructed north of Norman Wells in the Central Mackenzie Valley and will be required to move liquid hydrocarbons discovered north of Norman Wells to market.

MGM Energy's operations in the Mackenzie Delta have been focused on exploration activities on the Farm-in Properties under the Farm-in Agreement. Chevron Canada Limited ("Chevron") was the prior operator of the Farm-in Properties, and provided contract operator services to MGM Energy through the 2006/07 winter drilling season. Effective April 1, 2007 MGM Energy assumed the role of operator of the Farm-in Properties from Chevron.

Under the Farm-in Agreement:

- MGM Energy can earn a staged 50 percent interest in the Farm-in Properties by drilling 11 wells within a four year period and making certain lease continuation payments. The aggregate of such lease continuation payments is expected to be at least \$11 million although it may range up to \$21 million (of which \$11 million has been paid to date and the balance, if any, is to be paid in 2010). If all of the drilling commitments under the Farm-in Agreement are satisfied, MGM Energy will also earn a 50 percent interest in three discoveries previously made in the Mackenzie Delta by the counterparties to the Farm-in Agreement;

- Of the 11 wells, MGM Energy must drill at least five test wells; two of which have been drilled during the 2006/2007 drilling season, and three wells planned for the 2007/2008 winter drilling season. Once the five test wells have been drilled, MGM Energy may elect to stop further drilling and earn a reduced interest in the Farm-in Properties and no interest in the three discoveries. In that event, MGM Energy would remain responsible for the continuation payments and seismic commitment; and
- Approximately \$50 million of seismic must be acquired.

Paramount continued to be jointly and severally liable for the obligations of MGM Energy under the Farm-in Agreement to the extent that such obligations were not satisfied by MGM Energy so long as MGM Energy was an “affiliate” of Paramount as referred to in the Farm-in Agreement. As a result of equity issuances by MGM Energy during 2007, MGM Energy and Paramount are no longer “affiliates” as defined in the Farm-in Agreement.

Colville Properties

The Colville Lake area in the Central Mackenzie Valley, Northwest Territories has been the focus of natural gas exploration since the 1970s. Paramount made two new discoveries (at Nogha and Maunoir) in the area. There is no commercial oil or natural gas production in the Colville Lake area or the Mackenzie Valley, as currently there is no pipeline or gathering system to transport production.

The Colville Properties cover approximately 600,000 hectares (approximately 385,000 hectares net). During the first nine months of 2007, there were no activities undertaken by MGM Energy with respect to the Colville Properties, however MGM Energy plans to conduct a seismic program in the first quarter of 2008.

Umiak Assets

On May 30, 2007 MGM Energy closed an acquisition of petroleum and natural gas assets located primarily in the Mackenzie Delta and elsewhere in the Northwest Territories (the “Umiak Assets”) for an aggregate cost of \$172.7 million, subject to final adjustments. MGM Energy assigned the entire amount of the purchase price to petroleum and natural gas properties and recognized a \$1.4 million asset retirement obligation related to those assets.

The Umiak Assets consist of a 60 percent working interest in the Umiak discovery in the Mackenzie Delta, a 60 percent working interest in federal Exploration Licence #434, substantial seismic data, interests in 14 significant discovery licences both onshore and offshore in the Mackenzie Delta and other assets consisting principally of material and equipment.

The Umiak discovery is located approximately 15 kilometres to the east of Imperial Oil’s Taglu field, one of the anchor fields for the Mackenzie Valley pipeline project. MGM Energy believes that Umiak itself is of sufficient size to support a stand-alone development.

Proposed Mackenzie Valley Pipeline

The Mackenzie Valley pipeline is a proposed 1,220 kilometre pipeline and gathering system to transport natural gas from existing and currently undiscovered natural gas fields in the Mackenzie Delta through the Mackenzie Valley to North American markets.

Imperial Oil Resources Ventures Limited, on behalf of itself and ConocoPhillips Canada (North) Limited, Shell Canada Limited, ExxonMobil Canada Properties and the Aboriginal Pipeline Group, has submitted applications to the National Energy Board for regulatory approvals required for the Mackenzie Valley pipeline as well as applications to the boards, panels and agencies responsible for assessing and regulating energy developments in the Northwest Territories. Applications were submitted beginning in October 2004. The pipeline proponents have

publicly stated that they will make a decision on whether to proceed with pipeline construction after receiving regulatory approval. Approvals in respect of the required applications are required before fieldwork can begin on the Mackenzie Valley pipeline.

Preliminary plans target construction of the pipeline over four years once all necessary permits, licenses and authorizations have been obtained.

Paramount has publicly stated that it supports the construction of the Mackenzie Valley pipeline and has been involved in certain of the hearings in respect of the pipeline. MGM Energy has adopted the statements and evidence of Paramount in this regard. In October, 2007, MGM Energy announced the signing of a Capacity Request Agreement with the owners of the Mackenzie Gathering System (“MGS”). This agreement provides MGM Energy with 200 mmcf/day of capacity on the MGS, which will feed into the Mackenzie Valley pipeline. In addition, the Capacity Request Agreement gives MGM Energy the option to own a share of the MGS.

If construction of the Mackenzie Valley pipeline and related gathering systems is deferred, delayed or not approved, MGM Energy will examine its available options to transport its natural gas to market, including the staged construction by the Company or the support by the Company for the construction by others of alternate pipeline and gathering systems.

Results of Operations

Statement of Income (Loss) – Selected Items

(\$ thousands)	Three Months Ended		Nine Months Ended	
	September 30/07	September 30/06 ⁽¹⁾	September 30/07	September 30/06 ⁽¹⁾
Interest income	1,091	-	1,771	-
Expenses				
General and administrative	1,522	220	4,353	349
Stock-based compensation	750	(115)	2,180	(5)
Pipeline regulatory and access	166	-	426	-
Exploration	2,154	1	2,970	146
Lease rental	789	-	789	-
Dry hole expense	(2,156)	-	34,241	-
Interest and financing charges	40	-	136	-
Accretion and depreciation	97	6	194	20
Future income tax recovery	(442)	(3)	(12,497)	(649)
Net Income (loss)	(1,829)	(109)	(31,021)	139

⁽¹⁾ Amounts included in the table above for the three and nine months ended September 30, 2006 have been presented on a carve-out basis from Paramount as if MGM Energy had operated as a stand-alone entity subject to Paramount’s control. No significant activities took place with respect to the Colville Properties or Ancillary Asset during the three and nine months ended September 30, 2006. See the cautionary note above under the heading “Overview”.

Interest Income - MGM Energy earned interest income from short-term investments of \$1.1 million for the three months ended September 30, 2007, (nine months ended September 30, 2007 – \$1.8 million). These short-term investments bear interest at rates between 4.35 percent and 5.10 percent per annum and have original maturities of three months or less. The increase in interest income from \$0.4 million in the second quarter of 2007 was due to the investment of the proceeds of the August 3, 2007 equity issue pending expenditures related to the Company’s 2007/08 capital program.

General and Administrative Expense - General and administrative expense for the three months ended September 30, 2007 totalled \$1.5 million (nine months ended September 30, 2007 – \$4.4 million) and included a number of costs relating to the establishment of MGM Energy’s operations as a public company and its compliance with regulatory requirements.

Stock-based Compensation Expense - Stock-based compensation expense for the three months ended September 30, 2007 totalled \$0.8 million, which included expenses of \$0.2 million recognized by MGM Energy (nine months ended September 30, 2007 – \$0.5 million) in respect of stock options previously granted by Paramount to certain employees and officers of MGM Energy.

Pipeline Regulatory and Access Expense – Pipeline regulatory and access expense for the three months ended September 30, 2007 totalled \$0.2 million, (nine months ended September 30, 2007 – \$0.4 million) and included costs associated with regulatory hearings and access on the planned Mackenzie Valley pipeline.

Exploration Expense - Exploration expense of \$2.2 million for the three months ended September 30, 2007 consists primarily of pre-work of the 2008 winter seismic program, the purchase of 2D seismic over one of MGM Energy’s areas and processing costs for existing seismic data. Exploration expense for the nine months ended September 30, 2007 was \$3.0 million. All of the exploration costs are expensed as incurred under the successful efforts method of accounting.

Lease Rental – Lease rental expense for the three months ended September 30, 2007 totalled \$0.8 million, (nine months ended September 30, 2007 – \$0.8 million) and included costs associated with lease continuation expenses in the Mackenzie Delta area.

Dry Hole Expense - Dry hole expense of \$34.2 million for the nine months ended September 30, 2007 related entirely to costs associated with the 2006/2007 winter drilling program at Kumak I-25 and Unipkat M-45. The dry hole recovery of \$2.2 million recorded for the three months ended September 30, 2007 resulted from a change in the estimated final cost of the 2006/2007 winter drilling program.

Interest and Financing Charges – Interest and financing charges include a one-time fee for set-up of the Demand Facility and charges for letters of credit.

Capital Expenditures

(\$ thousands)	2007				Total
	Jan 1 – 11 ⁽¹⁾	Jan 12 – Mar 31	April 1 – June 30	July 1 - Sept 30	
Drilling and logistics	3,177	28,576	825	6,015	38,592
Land	-	-	173,750	10,244	183,994
Geological and geophysical	-	432	384	2,154	2,971
Other	-	111	28	522	661
Total	3,177	29,119	174,987	18,935	226,218

⁽¹⁾ Capital expenditures for the period January 1, 2007 to January 11, 2007 have been presented on a carve-out basis from Paramount as if MGM Energy had operated as a stand-alone entity subject to Paramount’s control prior to January 12, 2007. See the cautionary note above under the heading “Overview”.

The majority of the drilling and logistics costs for the nine months ended September 30, 2007 relate to MGM Energy’s 2007 winter drilling program for the Farm-in Properties, with two wells being drilled on Exploration Licence #394 lands: “Kumak I-25” and “Unipkat M-45”. Neither well appeared to contain commercial quantities of hydrocarbons. As a result, Kumak I-25 well was cased and suspended without further testing and Unipkat M-45 well was abandoned. The total estimated cost incurred in 2007 in respect of these wells was \$29.6 million; \$3.2 million of such costs being incurred between January 1, 2007 and January 11, 2007 when Paramount owned the

rights and obligations under the Farm-in Agreement. There was a dry hole expense recovery of \$2.2 million recorded for the three months ended September 30, 2007 resulting from a change in the estimated final cost of the 2006/2007 winter drilling program.

During the three months ended September 30, 2007, there were \$8.2 million of drilling and logistics costs related to the 2008 winter drilling program of three wells on the Farm-in properties. Although the drilling program is restricted to those months of the year when the ground is frozen, most of the consumable items used in the drilling process, such as tubing, casing and drilling mud were purchased and barged to the staging areas prior to the freezing of the rivers. Drilling and logistics costs in the third quarter related primarily to the purchase of these consumables and transportation costs.

On May 30, 2007 MGM Energy purchased the Umiak Assets for an aggregate cost of \$172.7 million subject to final adjustments, with all of the costs charged to land costs. In addition, during the three months ended September 30, 2007, there was a \$10 million payment made by MGM Energy on the Mackenzie Delta Farm-in Property which was capitalized to land costs.

Geological and geophysical expenditures incurred during the three months ended September 30, 2007 relate to pre-work of the 2008 winter seismic program, the purchase of 2D seismic over one of MGM Energy's areas and processing costs for existing seismic data. These expenditures are treated as exploration expense on the Statement of Income (Loss) under the successful efforts method of accounting, but are included in the capital expenditure for the purpose of Statement of Cash Flows.

Liquidity and Capital Resources

As at September 30, 2007, MGM Energy had a working capital surplus of \$114.9 million, as compared to a working capital surplus of \$28.9 million at June 30, 2007. The increase in the working capital was the result of the equity issue completed on August 3, 2007. The gross proceeds of the equity issue were \$111.5 million with net proceeds of \$106.6 million. MGM Energy invests its cash resources in a variety of investments in accordance with the Company's investment policy. At September 30, 2007, MGM Energy had no investments in asset-backed commercial paper.

As a result of the equity issue, management believes that MGM Energy has adequate cash resources to fund the 2007/2008 winter drilling and seismic programs.

On May 15, 2007, MGM Energy entered into a \$20 million senior secured revolving demand facility with a Canadian bank (the "Demand Facility"). Borrowings under the Demand Facility bear interest at floating rates based on the lender's prime rate or banker's acceptance rate, at the discretion of MGM Energy, plus an applicable margin. The terms of the Demand Facility require, on a quarterly basis, MGM Energy to repay the Demand Facility or have funds available in cash or short-term investments at least equal to drawings under the facility for a period of at least three consecutive business days. At September 30, 2007, there was no borrowings under the Demand Facility, however, there were outstanding letters of credit totalling approximately \$13.5 million. These letters of credit have not been drawn; however, they reduce the amount available to MGM Energy under the Demand Facility.

At October 31, 2007, MGM Energy had 128.9 million Common Shares issued and outstanding and 3.1 million stock options outstanding, none of which are exercisable.

Contractual Obligations

MGM Energy has the following contractual obligations as at September 30, 2007:

<i>(\$ thousands)</i>	Recognized in financial statements	Less than 1 Year	1 – 3 years	4 – 5 years	After 5 years	Total
Asset retirement obligations	Yes- Partially	-	25	-	6,400	6,425
Obligations under leases	No	656	1,624	1,811	1,585	5,676
Capital spending commitment ⁽¹⁾	No	85,000	25,000	63,000	-	173,000
Total		85,656	26,649	64,811	7,985	185,101

⁽¹⁾ Includes MGM Energy drill rig commitment during the first quarter of 2008 and minimum work commitments under Exploration Licences and the Mackenzie Delta Farm-in.

MGM Energy is obligated under certain Northwest Territories Exploration Licences to fulfill minimum work commitments totaling \$54 million over the next five years. As a condition of the Exploration Licences, the Company was required to post security of 25 percent of these work commitments via letters of credit. The posted security is released in proportion to the actual work expenditures over the life of Exploration Licence.

Related Party Transactions

Paramount Resources Ltd.

At September 30, 2007, Paramount held 21.5 million common shares of MGM Energy, representing 16.7 percent of the issued and outstanding common shares of MGM Energy at such time. In addition to the common shares of MGM Energy held by Paramount, MGM Energy and Paramount have certain common members of management and directors. The following provides a summary of the related party transactions between MGM Energy and Paramount:

- MGM Energy acquired the Spinout Assets from Paramount pursuant to the MGM Spinout, as is more fully described in Note 1 (Structure and Formation of the Company) to the interim unaudited financial statements. The transaction was accounted for using the carrying value of the property transferred, with the exception of Ancillary Asset. MGM Energy repaid the \$12.0 million principal amount demand promissory note and accrued interest during the first quarter. In addition, Paramount repaid a \$0.2 million principal amount demand promissory note due to MGM Energy.
- Paramount provided certain operational, administrative, and other services to MGM Energy and funded on MGM Energy's behalf, certain capital expenditures related to the Farm-in Agreement pursuant to a services agreement dated January 12, 2007 (the "Services Agreement"). Under the Services Agreement, MGM Energy pays Paramount its reasonable costs incurred in providing services to MGM Energy plus 10 percent of such costs. For the nine months ended September 30, 2007, Paramount funded \$1.0 million of capital expenditures related to the Farm-in Agreement on MGM Energy's behalf. In addition, MGM Energy recorded costs billed by Paramount of \$1.7 million in respect of the costs of the MGM Spinout and other set-up costs benefiting MGM Energy. These transactions were recorded in these Financial Statements at their exchange amounts.
- For the nine month period ended September 30, 2007, other amounts billed by Paramount under the Services Agreement totaled \$1.1 million, including a 10 percent charge of approximately \$0.1 million, (\$0.4 million for the three month period end September 30, 2007, including the 10 percent charge).
- As a result of the MGM Spinout, certain employees and officers of MGM Energy hold stock options previously issued by Paramount. The stock-based compensation expense relating to these options for the period January 12, 2007 to September 30, 2007 totaled \$0.5 million (\$0.2 million for the three month period ended September 30, 2007) and has been included in stock-based compensation expense.

Other

During February 2007, MGM Energy completed a private placement to certain directors of MGM Energy of 160,000 flow-through Common Shares at a price of \$6.25 per share and 210,000 Common Shares at a price of \$5.00 per share, each accompanied by one Longer Term Warrant, for aggregate gross proceeds of \$2,050,000.

Certain directors and officers of MGM Energy participated in the May 30, 2007 Common Share issuance, purchasing 5,612,000 Common Shares and 2,364,935 Common Shares issued on a flow-through basis for aggregate gross proceeds to MGM Energy of \$26.5 million.

Paramount Resources participated in the August 3, 2007 Common Share issuance, purchasing 3,270,000 Common Shares for gross proceeds of \$9.0 million. An officer and director of MGM Energy purchased 1,740,000 Common Shares on a flow-through basis for gross proceeds of \$6.0 million through the August issuance.

During the three months ended September 30, 2007, MGM Energy purchased, at fair market value, office furniture and fixtures from Trilogy Energy Trust for \$0.4 million. Trilogy Energy Trust is a related party to MGM Energy due to Paramount's ownership interest in both parties.

Summary of Quarterly Results

<i>(\$ thousands, except as noted)</i>	2007			2006				2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total Revenue ⁽¹⁾	1,091	427	253	-	-	-	-	-
Net Income (Loss) ⁽²⁾	(1,829)	(1,849)	(27,343)	(2,915)	(109)	545	(297)	(15,185)
Per share - (\$/share) ⁽³⁾⁽⁴⁾	(0.02)	(0.03)	(1.57)	n/a	n/a	n/a	n/a	n/a

⁽¹⁾ Total Revenue consists of interest income.

⁽²⁾ The quarterly information prior to January 12, 2007 was prepared on a carve-out basis from Paramount as if MGM Energy had operated as a stand-alone entity subject to Paramount's control. Readers are referred to the cautionary note above under the heading "Overview".

⁽³⁾ Loss per share for all 2005 and 2006 periods is not presented as the results of operation have been presented on a carve-out basis.

⁽⁴⁾ Basic and diluted.

Recent Accounting Pronouncements

Capital Disclosures and Financial Instruments – Disclosure and Presentation

Beginning in 2008, MGM Energy will be required to adopt new accounting standards for *Capital Disclosures and Financial Instruments – Disclosure and Presentation*. The new standards require companies to disclose their objectives, policies and procedures for managing capital, as well as whether externally imposed capital requirements have been complied with and enhanced disclosure risks associated with financial instruments, including how these risks are managed.

Advisories

Forward-looking Statements and Estimates

Certain statements included in this document constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain or can be identified by statements which include words such as "anticipate", "assume", "based", "believe", "can", "continue", "depend", "estimate", "expect", "forecast", "if", "intend", "may", "plan", "project", "propose", "result", "upon", "will", "within" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include but are not limited to estimates of future capital expenditures, business strategy and objectives, exploration, development and production plans and the timing thereof, operating and other costs, and expectations as to how MGM Energy's working capital requirements and planned 2007/2008 capital program will be funded.

Such forward-looking statements or information are based on a number of assumptions which may prove to be incorrect. Assumptions have been made regarding, among other things:

- the ability of MGM Energy to obtain required capital to finance its exploration, development and operations;
- the ability of MGM Energy to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities;
- the ability of MGM Energy to market its oil and natural gas successfully to current and new customers;
- the ability of MGM Energy to transport its oil and natural gas successfully to market;
- the timing and costs of Mackenzie Valley pipeline and facility construction and expansion and the ability of MGM Energy to secure adequate product transportation;
- the ability of MGM Energy to obtain drilling success consistent with expectations;
- the timely receipt of required regulatory approvals; and
- future oil and gas prices.

Although MGM Energy believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because MGM Energy can give no assurance that such expectations will prove to be correct. Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by MGM Energy and described in the forward-looking statements or information. These risks and uncertainties include but are not limited to:

- the ability of MGM Energy's management to execute its business plan;
- delays in and/or abandonment of the Mackenzie Valley Pipeline project;
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- the ability of MGM Energy to obtain required capital to finance its exploration, development and operations and the adequacy and costs of such capital;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- risks and uncertainties involving the geology of oil and gas deposits;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of resource estimates and resource life;
- the uncertainty of estimates and projections relating to exploration and development costs and expenses;

- the uncertainty of estimates and projections relating to future production and the results of exploration, development and drilling;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- MGM Energy's ability to enter into or renew leases;
- health, safety and environmental risks;
- MGM Energy's ability to secure adequate product transportation;
- the ability of MGM Energy to add production and reserves through development and exploration activities;
- weather conditions;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld;
- changes in taxation laws and regulations and the interpretation thereof;
- changes in environmental and other regulations and the interpretation thereof;
- the cost of future abandonment activities and site restoration;
- the ability to obtain necessary regulatory approvals;
- risks associated with existing and potential future lawsuits and regulatory actions against MGM Energy;
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- loss of the services of any of MGM Energy's executive officers or key employees;
- the requirement to fulfill obligations under the farm-in agreement assigned in connection with Paramount's spinout of MGM Energy;
- the impact of market competition;
- general economic and business conditions; and
- other risks and uncertainties described elsewhere in this management's discussion and analysis or in MGM Energy's other filings with Canadian securities authorities.

MGM Energy cautions that the list of assumptions and risks set forth above is not exhaustive. Some of the risks, uncertainties and other factors which negatively affect the reliability of forward looking information are discussed in MGM Energy's public filing, which are available on the SEDAR website at www.sedar.com.

The forward-looking statements or information contained in this document are made as of the date hereof and MGM Energy undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

MGM Energy Corp.

Interim Financial Statements (Unaudited)

As at and for the three and nine months ended September 30, 2007

MGM Energy Corp.
Balance Sheets (Unaudited)
(\$ thousands)

For periods prior to January 12, 2007, the financial statements of MGM Energy Corp., including the results of operations and cash flows, have been prepared on a carve-out basis from Paramount Resources Ltd. as is described in Note 2. These financial statements may not be indicative of the results that would have been attained if MGM Energy Corp. had operated as a stand-alone entity for these periods.

	As at September 30 2007	As at December 31 2006
		(Note 2)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 123,573	\$ -
Accounts receivable	1,032	1,360
	124,605	1,360
Property, plant and equipment (Note 4)	262,199	70,268
Future income taxes (Note 9)	2,574	-
	\$ 389,378	\$ 71,628
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 9,038	\$ 6,774
Due to related parties (Note 12)	656	-
	9,694	6,774
Asset retirement obligations (Note 6)	3,155	439
Future income taxes	-	3,895
	12,849	11,108
Contingencies and Commitments (Notes 7 & 13)		
Shareholders' Equity		
Share capital (Note 7)	404,275	-
Contributed surplus (Note 8)	1,925	-
Net investment by Paramount Resources Ltd. (Note 2)	-	60,520
Deficit	(29,671)	-
	376,529	60,520
	\$ 389,378	\$ 71,628

See the accompanying notes to these interim Financial Statements.

MGM Energy Corp.
Statements of Income (Loss) (Unaudited)

(\$ thousands, except as noted)

For periods prior to January 12, 2007, the financial statements of MGM Energy Corp., including the results of operations and cash flows, have been prepared on a carve-out basis from Paramount Resources Ltd. as is described in Note 2. These financial statements may not be indicative of the results that would have been attained if MGM Energy Corp. had operated as a stand-alone entity for these periods.

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
		(Note 2)	(Note 2)	(Note 2)
Revenue				
Interest income	\$ 1,091	\$ -	\$ 1,771	\$ -
Expenses				
General and administrative (Note 12)	1,522	220	4,353	349
Stock-based compensation (Note 8)	750	(115)	2,180	(5)
Pipeline regulatory and access	166	-	426	-
Exploration	2,154	1	2,970	146
Lease rental	789	-	789	-
Dry hole (Note 4)	(2,156)	-	34,241	-
Interest and financing charges	40	-	136	-
Accretion of asset retirement obligations (Note 6)	64	6	134	20
Depreciation	33	-	60	-
	3,362	112	45,289	510
Loss before tax	(2,271)	(112)	(43,518)	(510)
Future income tax recovery (Note 9)	(442)	(3)	(12,497)	(649)
Net income (loss) and other comprehensive income (loss)	\$ (1,829)	\$ (109)	\$ (31,021)	\$ 139
Net loss per Common Share (\$/share)				
Basic	(0.02)		(0.50)	
Diluted	(0.02)		(0.50)	
Weighted average Common Shares outstanding (thousands) (Note 7)				
Basic	114,532		62,516	
Diluted	114,532		62,516	

Statements of Deficit (Unaudited)

(\$ thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Deficit, beginning of period	\$ (27,842)	\$ -	\$ -	\$ -
Net income (loss)	(1,829)	(109)	(31,021)	139
Allocation to net investment by Paramount Resources Ltd.	-	109	1,350	(139)
Deficit, end of period	\$ (29,671)	\$ -	\$ (29,671)	\$ -

See the accompanying notes to these interim Financial Statements.

MGM Energy Corp.
Statements of Cash Flows (Unaudited)

(\$ thousands)

For periods prior to January 12, 2007, the financial statements of MGM Energy Corp., including the results of operations and cash flows, have been prepared on a carve-out basis from Paramount Resources Ltd. as is described in Note 2. These financial statements may not be indicative of the results that would have been attained if MGM Energy Corp. had operated as a stand-alone entity for these periods.

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2007	2006	2007	2006
		(Note 2)	(Note 2)	(Note 2)
Operating activities				
Net income (loss) and other comprehensive income (loss)	\$ (1,829)	\$ (109)	\$ (31,021)	\$ 139
Add (deduct):				
Stock-based compensation – non cash portion	750	(115)	2,180	(114)
Exploration	2,154	1	2,970	146
Dry hole	(2,156)	-	34,241	-
Accretion of asset retirement obligations (Note 6)	64	6	134	20
Asset retirement obligation expenditures	(2)	-	(402)	-
Depreciation	33	-	60	-
Future income tax recovery	(442)	(3)	(12,497)	(649)
Funds flow from operations	(1,428)	(220)	(4,335)	(458)
Change in non-cash working capital (Note 11)	278	346	546	(88)
	(1,150)	126	(3,789)	(546)
Financing activities				
Repayment of note	-	-	(12,000)	-
Proceeds on settlement of note	-	-	163	-
Common shares issued, net of issuance costs	106,400	-	355,106	-
Net investment by Paramount Resources Ltd. (Note 2)	-	275	3,195	2,822
	106,400	275	346,464	2,822
Investing activities				
Capital expenditures (Note 4)	(18,935)	(1,092)	(226,218)	(1,949)
Reorganization costs	-	-	(1,000)	-
Change in non-cash working capital (Note 11)	3,086	691	8,116	(327)
	(15,849)	(401)	(219,102)	(2,276)
Increase in cash and cash equivalents	89,401	-	123,573	-
Cash and cash equivalents, beginning of period	34,172	-	-	-
Cash and cash equivalents, end of period	\$ 123,573	\$ -	\$ 123,573	\$ -
Supplemental cash flow information (Note 11)				

See the accompanying notes to these interim Financial Statements.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

(\$ thousands, except as noted)

1. Structure and Formation of the Company

MGM Energy Corp. ("MGM Energy" or the "Company") is an independent Canadian public company, the principal business of which is to acquire, develop, optimize, exploit and produce oil and natural gas in Northern Canada. The Company was incorporated under the *Business Corporations Act* (Alberta) (the "ABCA") on October 31, 2006 as 1278517 Alberta Ltd. On December 4, 2006, the Company's articles were amended to change its name to "MGM Energy Corporation" and subsequently on January 9, 2007 the articles were further amended to change its name to "MGM Energy Corp."

MGM Energy is considered to be a development stage enterprise, as it has yet to generate revenue from its planned principal operations. Similar to other development stage enterprises, the recoverability of amounts shown for property, plant and equipment are dependent upon the ability of the Company to obtain necessary financing for its planned exploration and development activities and to discover, develop, transport and market economically recoverable quantities of petroleum and natural gas.

MGM Spinout

On January 12, 2007, Paramount Resources Ltd. ("Paramount") completed a reorganization pursuant to a plan of arrangement under the ABCA involving Paramount, its shareholders and MGM Energy (the "MGM Spinout").

Through the MGM Spinout:

- MGM Energy became the owner of (i) rights and obligations under an area-wide farm-in agreement (the "Farm-in Agreement") respecting Mackenzie Delta, Northwest Territories Exploration Licence #394, Exploration Licence #427 and Inuvik Concession Blocks 1 and 2 (the "Farm-in Properties"); (ii) oil and gas properties in the Colville Lake / Sahtu area of the Central Mackenzie Valley, Northwest Territories (the "Colville Properties"); and (iii) an interest in one well in the Cameron Hills area of the southern portion of the Northwest Territories (the "Ancillary Asset"), all of such property formerly being owned by Paramount (collectively referred to as the "Spinout Assets");
- MGM Energy issued Paramount a demand promissory note in the principal amount of \$12.0 million, bearing interest at 10 percent per annum, and 18.2 million voting Class A Preferred Shares, which note was subsequently repaid by MGM Energy and which shares were subsequently converted into voting common shares of MGM Energy ("Common Shares") on a share-for-share basis; and
- MGM Energy issued Paramount's shareholders an aggregate of approximately 2.8 million Common Shares and approximately 14.2 million warrant units, with each warrant unit consisting of one MGM Energy short term warrant (each, a "Short Term Warrant") and one MGM Energy longer term warrant (each, a "Longer Term Warrant").

Each warrant entitled the holder to purchase one Common Share or one flow-through Common Share as described in Note 7 (Share Capital). Each Longer Term Warrant was not exercisable, and was not separable from the corresponding Short Term Warrant included in the warrant unit, unless the corresponding Short Term Warrant was exercised.

Paramount has the option, subject to certain conditions, to reacquire the Ancillary Asset from MGM Energy for \$5 million, the same price that it sold such asset to MGM Energy through the MGM Spinout (the "Repurchase

Option”). Because of the nature of the Repurchase Option, for accounting purposes the Ancillary Asset is deemed to be retained by Paramount.

The transfer of the Spinout Assets from Paramount to MGM Energy did not result in a substantive change in ownership of the Spinout Assets and therefore the transaction was accounted for using the carrying value of the property transferred, with the exception of the amount recorded in property, plant and equipment in respect of the Ancillary Asset, which was not recorded. The carrying values of assets and related liabilities transferred to MGM Energy on January 12, 2007 were as follows:

Property, plant and equipment	\$	71,859
Asset retirement obligations		(439)
Note receivable		163
Accounts payable		(1,000)
Future income taxes		(13,369)
Net carrying value	\$	57,214

The amounts recorded in MGM Energy’s financial statements in respect of consideration for the Spinout Assets on January 12, 2007 were as follows:

Note payable	\$	12,000
Common Shares		3,508
Class A Preferred Shares		41,706
Total	\$	57,214

No amounts were attributed to the Short Term Warrants or the Longer Term Warrants.

MGM Energy shared 50 percent of the costs of the MGM Spinout with Paramount. Included in the net carrying value above, is \$1.0 million in respect of MGM Energy’s share of such costs. The carrying value of Class A Preferred Shares was reduced by an equivalent amount.

2. Basis of Presentation

These Financial Statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). As described in Note 1, MGM Energy acquired the Spinout Assets from Paramount effective January 12, 2007 at which point the results of operations and cash flows accrue to the Company. These Financial Statements present the historic financial position, results of operations and cash flows of the Farm-in Properties and the Colville Properties and results of operations and cash flows of the Ancillary Asset on a carve-out basis from Paramount as if MGM Energy had operated as a stand-alone entity subject to Paramount’s control prior to January 12, 2007. Because of the nature of the Repurchase Option, the Ancillary Asset is deemed to be retained by Paramount and has not been recorded by MGM Energy, but applicable asset retirement obligations, operating results and cash flows of the Ancillary Asset are reflected in these Financial Statements. The book value of the Ancillary Asset as at December 31, 2006 was \$1.6 million.

Each of Paramount’s core areas has distinct operating staff, capital budgets and targets. Paramount also has shared services such as drilling, facilities and construction, accounting, land administration and corporate compliance. Historically, Paramount has maintained accounting records necessary to support its consolidated financial statements and for other internal and tax reporting purposes. Certain expenses, assets and liabilities applicable to the Spinout Assets for periods prior to January 12, 2007 can be derived directly from the accounting records of Paramount, and it has been necessary to allocate certain items in the manner described below.

Accounts receivable, property, plant and equipment, accounts payable and accrued liabilities, and the liability for asset retirement obligations as at December 31, 2006 have been derived directly from the accounting records of Paramount.

For periods prior to January 12, 2007 the amounts for operating costs, geological and geophysical costs, dry hole costs, lease rental costs, accretion of asset retirement obligations and write-down of petroleum and natural gas properties have been derived directly from the accounting records of Paramount. As the Spinout Assets have never produced, except for limited periods of testing, there has been no revenue, royalties, transportation costs, or depletion and depreciation in respect of such properties. Similarly, no gains or losses associated with financial instruments related to revenue were allocated to the Spinout Assets because of their non-producing nature.

General and administrative costs incurred by Paramount for periods prior to January 12, 2007 have been allocated on a pro rata basis using the estimated percentage of time spent by individual employees on the Spinout Assets during the relevant period.

For periods prior to January 12, 2007, the income tax balances for the costs of acquiring, exploring for and developing the Spinout Assets, and the costs of associated tangible equipment, are blended with those of Paramount's other areas. The future income tax liability as at December 31, 2006 resulted from the utilization of specific tax pools for the purpose of satisfying certain flow-through share commitments.

For purposes of presentation of the statement of cash flows prior to January 12, 2007, cash receipts and disbursements were deemed to be transferred to and from Paramount's corporate account concurrent with the respective inflow or outflow of cash and are presented as "Net investment by Paramount Resources Ltd."

As a result of the basis of presentation described above, these financial statements may not be indicative of the results that would have been attained if MGM Energy had operated as a stand-alone entity prior to January 12, 2007.

3. Summary of Significant Accounting Policies

(a) *Joint Operations*

A portion of MGM Energy's activities are conducted jointly with others and accordingly, these Financial Statements reflect only the Company's proportionate share of any revenues, expenses, assets and liabilities.

(b) *Measurement Uncertainty and Use of Estimates*

The timely preparation of these Financial Statements in conformity with Canadian GAAP requires that management make estimates and assumptions and use judgment that affects: (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and (ii) the reported amounts of expenses during the reported periods. Such estimates primarily relate to unsettled transactions and events as of the date of the Financial Statements. Actual results could differ materially from these estimates.

The amounts recorded for accretion and asset retirement obligations are based on estimates of future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact of changes in these estimates and assumptions on the financial statements of future periods could be material.

(c) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash and short-term investments with original maturities of three months or less. The short-term investments are classified as held-to-maturity and measured at amortized cost using the effective interest method.

(d) *Property, Plant and Equipment*

Property, plant and equipment are recorded at cost. MGM Energy follows the successful efforts method of accounting for petroleum and natural gas operations. Under this method, acquisition costs of oil and gas properties and costs of drilling and equipping development wells are capitalized. Costs of drilling exploratory wells are initially capitalized. If economically recoverable reserves are not found, such costs are charged to earnings as dry hole expense. Exploration wells are assessed annually, or more frequently as economic conditions dictate, for determination of reserves, and as such, success. Costs of drilling exploratory wells remain capitalized when a well has found a sufficient quantity of reserves to justify completion as a producing well and sufficient progress is being made to assess the reserves and the economic and operating viability of the well. All other exploration costs, including geological and geophysical costs and annual lease rentals are charged to earnings when incurred. Producing areas and significant unproved properties are assessed annually, or more frequently as economic events dictate, for potential impairment. Any impairment loss is the difference between the carrying value of the asset and its fair value.

(e) *Depletion and Depreciation*

Capitalized costs of proved oil and gas properties are depleted using the unit of production method. For purposes of these calculations, natural gas volumes are converted to barrels on an energy equivalent basis.

The costs of successful exploratory wells and development wells are depleted over proved developed reserves while acquired resource properties with proved reserves are depleted over proved reserves. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves. Costs become subject to depletion as proved reserves are recognized. Other property plant and equipment are depreciated over their estimated useful lives.

Costs associated with significant development projects are not depleted until commercial production commences.

(f) *Asset Retirement Obligations*

MGM Energy recognizes the fair value of an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of the fair value can be made. The fair values of asset retirement obligations are capitalized as part of the cost of the related long-lived asset and depreciated on the same basis as the underlying asset. The accumulated asset retirement obligation is adjusted for the passage of time, which is recognized as accretion expense in the statements of loss, and for revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligation reduce the asset retirement obligation to the extent of the liability recorded. Differences between the actual costs incurred upon settlement of the asset retirement obligation and the liability recorded are recognized in the period in which the settlement occurs.

(g) *Future Income Taxes*

MGM Energy follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized for the effect of any difference between the carrying amount of an asset or liability reported in the financial statements and its respective tax basis, using substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in substantively enacted income tax rates, with adjustments being recognized in the results of operations in the period in which the change occurs.

(h) *Flow-Through Shares*

MGM Energy has financed a portion of its exploration activities through the issue of flow-through shares. As permitted under the *Income Tax Act* (Canada), the tax attributes of eligible expenditures incurred with the proceeds of flow-through share issuances are renounced to subscribers. On the date that MGM Energy files the renouncement documents with the tax authorities, a future income tax liability is recognized and shareholders' equity is reduced, for the tax effect of expenditures renounced to subscribers.

(i) *Stock-Based Compensation*

MGM Energy has granted stock options to employees and directors, the details of which are described in Note 8 (Stock-based Compensation).

MGM Energy uses the fair value method to recognize compensation expense associated with the MGM Energy options and non-reciprocal awards of stock options previously made by Paramount to certain MGM Energy employees and officers. Fair values are determined using the Black-Scholes-Merton option-pricing model and relevant assumptions on the date options are granted. Compensation costs are recognized over the vesting period of the stock options.

(j) *Recent Accounting Pronouncements*

Capital Disclosures and Financial Instruments – Disclosure and Presentation

Beginning in 2008, MGM Energy will be required to adopt new accounting standards for *Capital Disclosures and Financial Instruments – Disclosure and Presentation*. The new standards require companies to disclose their objectives, policies and procedures for managing capital, as well as whether externally imposed capital requirements have been complied with and enhanced disclosure risks associated with financial instruments, including how these risks are managed.

(k) *Comparative Figures*

Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.

4. Property, Plant and Equipment

	September 30, 2007			December 31, 2006
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	\$ 261,595	\$ -	\$ 261,595	\$ 70,268
Other	664	60	604	-
	\$ 262,259	\$ 60	\$ 262,199	\$ 70,268

As the Company is in the development stage and has no production, all capitalized costs associated with non-producing petroleum and natural gas properties are currently not subject to depletion.

On May 30, 2007 MGM Energy closed an acquisition of petroleum and natural gas assets located primarily in the Mackenzie Delta and elsewhere in the Northwest Territories for an aggregate cost of \$172.7 million, subject to final adjustments. MGM Energy assigned the entire amount of the purchase price to petroleum and natural gas properties and recognized a \$1.4 million asset retirement obligation related to those assets.

The dry hole recovery of \$2.2 million recorded for the three months ended September 30, 2007 resulted from a change in the estimated final cost of the 2006/2007 winter drilling program.

Continuity of Suspended Exploratory Well Costs

	Nine Months Ended September 30, 2007	Twelve Months Ended December 31, 2006
Balance, beginning of period	\$ 70,268	\$ 65,001
Additions pending the determination of proved reserves	9,215	5,267
Well costs charged to dry hole expense	(3,989)	-
Balance, end of period	\$ 75,494	\$ 70,268

Aging of Capitalized Exploratory Well Costs

	Nine Months Ended September 30, 2007	Twelve Months Ended December 31, 2006
Exploratory well costs capitalized for a period of one year or less	\$ 10,882	\$ 5,267
Exploratory well costs capitalized for a period of greater than one year	64,612	65,001
Balance at end of period	\$ 75,494	\$ 70,268
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	10	9

At September 30, 2007, \$75.5 million of capitalized exploratory well costs relate to the Colville Lake Properties and the Farm-in Properties. The commerciality of the gas related to such properties is being evaluated in conjunction with the planned drilling program and anticipated timing for construction of the Mackenzie Valley Pipeline.

5. Demand Facility

On May 15, 2007, MGM Energy entered into a \$20 million senior secured revolving demand facility bearing interest at the lender's prime rate or banker's acceptance rate, at the discretion of MGM Energy, plus an applicable margin. MGM Energy is required repay the facility or to have funds available in cash or short-term investments at least equal to the drawings on the facility for a period of three consecutive business days each quarter. At September 30, 2007, there was no debt outstanding on the facility.

At September 30, 2007, MGM Energy had undrawn letters of credit outstanding of \$13.5 million that reduce the amount available to MGM Energy under the facility.

6. Asset Retirement Obligations

	Nine Months Ended September 30, 2007
Asset retirement obligations, beginning of period	\$ 439
Liabilities incurred	926
Liabilities assumed with Umiak properties	1,422
Revisions in estimated cost of abandonment	636
Liabilities settled	(402)
Accretion expense	134
Asset retirement obligations, end of period	\$ 3,155

The total future asset retirement obligation was estimated by management based on MGM Energy's net ownership in all wells, estimated work to reclaim and abandon the wells, and the estimated timing of the costs to be incurred in future periods. The undiscounted cash flows estimated to settle the asset retirement obligations associated with MGM Energy's oil and gas properties at September 30, 2007 are \$6.4 million (December 31, 2006 - \$0.6 million). The majority of these obligations are not expected to be settled for several years, or decades, and have been discounted using credit-adjusted risk-free rates between 7 7/8 percent and 10 percent, and assuming an inflation rate of 3 percent.

7. Share Capital

Authorized

MGM Energy's authorized capital is comprised of an unlimited number of Common Shares, 18.2 million voting Class A Preferred Shares convertible to Common Shares on a one-for-one basis without any further consideration and an unlimited number of preferred shares, issuable in series ("Preferred Shares"). All Class A Preferred Shares were converted into Common Shares on a one-for-one basis on February 16, 2007.

The Preferred Shares are issuable in one or more series. The Board of Directors of MGM Energy may determine the designation, rights, privileges, restrictions and conditions attached to each series of Preferred Shares before the issue of such series. The Preferred Shares will be entitled to a preference over Common Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of the liquidation, dissolution or winding up of the Company.

Issued and Outstanding

Common Shares	Shares	Amount
Balance, December 31, 2006	1	\$ 0
Issued on MGM Spinout	2,832,673	3,508
Cancelled on MGM Spinout	(1)	0
Issued on exercise of Short Term and Longer Term Warrants	13,824,021	76,504
Conversion of Class A Preferred Shares	18,200,000	41,706
Issued for cash	94,088,150	292,120
Share issuance costs, net of tax benefit	-	(9,563)
Balance, September 30, 2007	128,944,844	\$ 404,275

In February 2007, MGM Energy completed a private placement of 210,000 Common Shares at \$5.00 per share and 160,000 Common Shares issued on a flow-through basis at \$6.25 per share, with each Common Share accompanied by one Longer Term Warrant. The gross proceeds of this issue were \$2.1 million.

In May 2007, MGM Energy issued 42,726,193 Common Shares at \$3.10 per share and 11,991,957 Common Shares issued on a flow-through basis at \$3.85 per share, for gross proceeds of \$178.6 million.

In August 2007, MGM Energy issued 33,000,000 Common Shares at \$2.75 per share and 6,000,000 Common Shares issued on a flow-through basis at \$3.45 per share, for gross proceeds of \$111.5 million.

Class A Preferred Shares	Shares	Amount
Balance, December 31, 2006	-	\$ -
Issued on MGM Spinout	18,200,000	41,706
Converted to Common Shares	(18,200,000)	(41,706)
Balance, September 30, 2007	-	\$ -

On February 16, 2007 all of the issued and outstanding Class A Preferred Shares were converted into 18.2 million Common Shares.

Outstanding Warrants	Short Term Warrants	Longer Term Warrants
Balance, Jan 1, 2007	-	-
Issued on MGM Spinout	14,163,365	14,163,365
Issued on Private Placement	-	370,000
Exercised	(13,824,141)	(95)
Expired	(339,224)	(14,533,270)
Balance, September 30, 2007	-	-

Each Short Term Warrant entitled the holder thereof to acquire, at the holder's option, either (i) one Common Share at a price of \$5.00; or (ii) one flow-through Common Share at a price of \$6.25 and was exercisable until February 16, 2007. A total of 7.9 million Short Term Warrants were exercised for Common Shares and 5.9 million Short Term Warrants were exercised for flow-through Common Shares for aggregate gross proceeds to MGM Energy of \$76.5 million.

As a result of the exercise of the Short Term Warrants, 13.8 million Longer Term Warrants were separated from the corresponding Short Term Warrants and became exercisable. Each Longer Term Warrant entitled the holder thereof to acquire, at the holder's option, either (i) one Common Share at a price of \$6.00; or (ii) one flow-through Common Share at a price of \$7.50. The Longer Term Warrants expired on September 30, 2007.

Flow-Through Shares

During 2007, MGM Energy has issued a total of \$104.8 million of Common Shares on a "flow-through" basis. As a result, the Company must incur an equivalent amount of qualifying resource expenditures. At September 30, 2007, MGM Energy estimates it has incurred approximately \$35 million of qualifying expenditures relative to the flow-through shares issued in 2007.

Per Share Information

Prior period share information is not presented as the results of operation have been presented on a carve-out basis.

8. Stock-Based Compensation

MGM Energy Options

MGM Energy has a stock option plan (the “Plan”) that enables the Board of Directors or its Compensation Committee to grant to key MGM Energy employees and directors options to acquire Common Shares of the Company. The exercise price of an option is no lower than the closing market price of the Common Shares on the day preceding the date of grant. Upon exercise of options under the Plan, optionholders receive either (i) a share certificate for the Common Shares; or (ii) a cash payment in an amount equal to the positive difference, if any, between the market price and the exercise price of the number of Common Shares in respect of which the option is exercised (a “Cash Surrender”). MGM Energy, however, can refuse to accept a Cash Surrender and therefore require that the holder exercise their vested options for cash and acquire Common Shares.

MGM Energy Options

	Weighted Average Exercise Price	Options
	<i>(\$ / share)</i>	
Balance, January 1, 2007	\$ -	-
Granted on MGM Spinout	5.00	1,248,000
Granted since Spinout	2.62	1,828,000
Balance, September 30, 2007	\$ 3.58	3,076,000
Options exercisable, September 30, 2007	\$ -	-

Additional information about MGM Energy’s stock options outstanding at September 30, 2007 is as follows:

Exercise Prices	Outstanding		Exercisable
	Number	Weighted Average Contractual Life	Number
<i>(\$ / share)</i>		<i>(years)</i>	
\$2.42 – \$3.00	1,628,000	9.47	-
\$3.01 – \$4.00	100,000	4.09	-
\$4.01 - \$5.00	1,348,000	3.58	-
Total	3,076,000	6.71	-

Up to July 2007, options granted by MGM Energy had a term of approximately 4.5 years. The term of options granted subsequent to July 2007 was ten years.

The fair value of each option granted is estimated on the grant date using the Black-Scholes-Merton option-pricing model with weighted average assumptions for grants as follows:

<i>For the nine months ended September 30, 2007</i>	
Weighted average fair value of options granted (\$/option)	\$ 1.71
Risk-free interest rate	4.21%
Expected lives (years)	5.6
Expected volatility	0.50
Annual dividend per share (\$/Common Share)	\$ -

Non-Reciprocal Awards to MGM Energy Employees

MGM Energy recognized compensation expense of \$0.5 million for the period January 12, 2007 to September 30, 2007 in respect of non-reciprocal awards of stock options to MGM Energy employees previously made by Paramount. This amount was credited to contributed surplus.

9. Income Taxes

The following table reconciles income taxes calculated at the Canadian statutory rate to MGM Energy's recorded future tax recovery:

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Loss before tax	\$ (2,271)	\$ (43,518)
Effective Canadian statutory income tax rate	31%	31%
Expected tax recovery	\$ (704)	\$ (13,491)
Increase (decrease) resulting from:		
Statutory and other rate differences	27	351
Effect of tax rate change	-	(31)
Net investment by Paramount Resources Ltd.	-	68
Stock based compensation	232	596
Other	3	10
Future tax recovery	\$ (442)	\$ (12,497)

Components of Future Income Tax Asset:

	September 30, 2007
Property, plant and equipment – carrying value in excess of tax basis	\$ (3,848)
Asset retirement obligations	923
Loss carry forwards	2,062
Share issuance costs	3,437
Future income tax asset	\$ 2,574

10. Financial Instruments

Interest rate risk

MGM Energy is exposed to interest rate risk to the extent that changes in market interest rates impact MGM Energy's short term deposits that have floating interest rates and to the extent borrowings are made under the debt facility.

11. Changes in Non-cash Working Capital

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Accounts receivable	\$ 972	\$ 239	\$ (1,032)	\$ (50)
Accounts payable and accrued liabilities	1,796	798	9,038	(365)
Due to related parties	596	-	656	-
	\$ 3,364	\$ 1,037	\$ 8,662	\$ (415)
Operating activities	\$ 278	\$ 346	\$ 546	\$ (88)
Investing activities	3,086	691	8,116	(327)
	\$ 3,364	\$ 1,037	\$ 8,662	\$ (415)

Supplemental cash flow information

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Interest paid	\$ -	\$ -	\$ 20	\$ -
Taxes paid	\$ -	\$ -	\$ -	\$ -

12. Related Party Transactions

Paramount Resources Ltd.

At September 30, 2007, Paramount held 21.5 million common shares of MGM Energy, representing 16.7 percent of the issued and outstanding common shares of MGM Energy at such time. In addition to the common shares of MGM Energy held by Paramount, MGM Energy and Paramount have certain common members of management and directors. The following provides a summary of the related party transactions between MGM Energy and Paramount:

- MGM Energy acquired the Spinout Assets from Paramount pursuant to the MGM Spinout, as is more fully described in Note 1 (Structure and Formation of the Company). The transaction was accounted for using the carrying value of the property transferred, with the exception of Ancillary Asset. MGM Energy repaid the \$12.0 million principal amount demand promissory note and accrued interest during the first quarter. In addition, Paramount repaid a \$0.2 million principal amount demand promissory note due to MGM Energy.
- Paramount provided certain operational, administrative, and other services to MGM Energy and funded on MGM Energy's behalf, certain capital expenditures related to the Farm-in Agreement pursuant to a services agreement dated January 12, 2007 (the "Services Agreement"). Under the Services Agreement, MGM Energy pays Paramount its reasonable costs incurred in providing services to MGM Energy plus 10 percent of such costs. For the nine months ended September 30, 2007, Paramount funded \$1.0 million of capital expenditures related to the Farm-in Agreement on MGM Energy's behalf. In addition, MGM Energy recorded costs billed by Paramount of \$1.7 million in respect of the costs of the MGM Spinout and other set-up costs benefiting MGM Energy. These transactions were recorded in these Financial Statements at their exchange amounts.
- For the nine month period ended September 30, 2007, other amounts billed by Paramount under the Services Agreement totaled \$1.1 million, including a 10 percent charge of approximately \$0.1 million, (\$0.4 million for the three month period end September 30, 2007, including the 10 percent charge).

- As a result of the MGM Spinout, certain employees and officers of MGM Energy hold stock options previously issued by Paramount. The stock-based compensation expense relating to these options for the period January 12, 2007 to September 30, 2007 totaled \$0.5 million (\$0.2 million for the three month period ended September 30, 2007) and has been included in stock-based compensation expense.

Other

During February 2007, MGM Energy completed a private placement to certain directors of MGM Energy of 160,000 flow-through Common Shares at a price of \$6.25 per share and 210,000 Common Shares at a price of \$5.00 per share, each accompanied by one Longer Term Warrant, for aggregate gross proceeds of \$2.1 million.

Certain directors and officers of MGM Energy participated in the May 30, 2007 Common Share issuance, purchasing 5,612,000 Common Shares and 2,364,935 Common Shares issued on a flow-through basis for aggregate gross proceeds to MGM Energy of \$26.5 million.

Paramount Resources participated in the August 3, 2007 Common Share issuance, purchasing 3,270,000 Common Shares for gross proceeds of \$9.0 million. An officer and director of MGM Energy purchased 1,740,000 Common Shares on a flow-through basis for gross proceeds of \$6.0 million through the August issuance.

During the three months ended September 30, 2007, MGM Energy purchased, at fair market value, office furniture and fixtures from Trilogy Energy Trust for \$0.4 million. Trilogy Energy Trust is a related party to MGM Energy due to Paramount's ownership interest in both parties.

13. Contingencies and Commitments

(a) *Commitments*

During 2006, Paramount entered into an area wide farm-in agreement respecting the Farm-in Properties. On January 12, 2007, Paramount assigned all of its rights and obligations under the Farm-in Agreement to MGM Energy through the MGM Spinout.

Under the Farm-in Agreement:

- MGM Energy can earn a staged 50 percent interest in the Farm-in Properties by drilling 11 wells within a four year period and making certain lease continuation payments. The aggregate of such lease continuation payments is expected to be \$11 million although it may range up to \$21 million (of which \$11 million has been paid to September 30, 2007 and the balance, if any, is to be paid in 2010);
- Approximately \$50 million of seismic must be acquired;
- If all of the drilling commitments under the Farm-in Agreement are satisfied, MGM Energy will also earn a 50 percent interest in three discoveries previously made in the Mackenzie Delta by the counterparties to the Farm-in Agreement; and
- Of the 11 wells, MGM Energy must drill at least five test wells; two of which have been drilled during the 2006/2007 drilling season, and three wells are planned for the 2007/2008 winter drilling season. MGM Energy currently estimates that the cost of drilling the minimum three wells during the 2007/2008 winter drilling season will be approximately \$60 million. Once the five test wells have been drilled, MGM Energy may elect to stop further drilling and earn a reduced interest in the Farm-in Properties and no interest in the three discoveries. In that event, MGM Energy would remain responsible for the continuation payments and seismic commitment referenced above.

Paramount continued to be jointly and severally liable for the obligations of MGM Energy under the Farm-in Agreement to the extent that such obligations were not satisfied by MGM Energy so long as MGM Energy was an “affiliate” of Paramount as referred to in the Farm-in Agreement. As a result of equity issuances by MGM Energy during 2007, MGM Energy and Paramount are no longer “affiliates” as defined in the Farm-in Agreement.

At September 30, 2007, MGM Energy has the following commitments:

	2007	2008	2009	2010	2011	After 2011
Capital spending commitments	\$ -	\$ 85,000	\$ 12,000	\$ 13,000	\$ 30,000	\$ 33,000
Obligation under lease	\$ 164	\$ 656	\$ 780	\$ 906	\$ 906	\$ 2,264

MGM Energy is obligated under certain Northwest Territories Exploration Licenses to fulfill minimum work commitments totaling \$54 million over the next five years, which are included in the above table. As a condition of the Exploration Licenses, the Company was required to post security of 25 percent of these work commitments via letters of credit. The posted security is released in proportion to the actual work expenditures over the life of Exploration License.

SHAREHOLDER INFORMATION

OFFICERS

C.H. (Clay) Riddell
Chief Executive Officer

Henry W. Sykes, QC
President

Gary L. Bunio
Chief Operating Officer

Nancy F. Dilts
Vice President Legal and Regulatory

John Hogg
Vice President Exploration

Rick Miller
Chief Financial Officer

DIRECTORS

Michael N. Chernoff ^{(2) (3)}
West Vancouver, British Columbia

Daryl H. Gilbert ^{(1) (2)}
Calgary, Alberta

Robert B. Hodgins ^{(1) (4)}
Calgary, Alberta

Robert Peterson ^{(2) (3)}
Aurora, Ontario

C.H. (Clay) Riddell ⁽⁴⁾
Calgary, Alberta

James H.T. Riddell
Calgary, Alberta

Robert R. Rooney ^{(1) (4)}
Calgary, Alberta

Henry W. Sykes, QC ⁽³⁾
President

HEAD OFFICE

4100 First Canadian Centre
350 7 Avenue SW
Calgary, Alberta
Canada T2P 3N9
Telephone: (403) 781-7800
Facsimile: (403) 781-7801
www.mgmenergy.com

INQUIRIES

info@mgmenergy.com

CONSULTING ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

AUDITORS

Ernst & Young LLP
Calgary, Alberta

BANKERS

Bank of Montreal
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Investor Service
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
("MGX")

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Environmental, Health and Safety Committee

⁽³⁾ Member of Compensation Committee

⁽⁴⁾ Member of Corporate Governance Committee