



Management's Discussion and Analysis
For the period ended December 31, 2007

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited Financial Statements of MGM Energy Corp. ("MGM Energy" or the "Company") as at and for the year ended December 31, 2007. Information 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 information. Readers are referred to the advisories concerning such matters under the heading "Forward-Looking Information Disclaimer" below.

This MD&A is dated March 7, 2008. Additional information concerning MGM Energy, including its Annual Information Form, can be found on the SEDAR website at www.sedar.com.

Forward-Looking Information Disclaimer

Certain information included in this MD&A constitutes forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain or can be identified by statements that 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, capital raising, business strategy and objectives, exploration, development and production plans and the timing thereof, operating and other costs.

Such forward-looking statements or information are based on a number of assumptions that 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 the 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 enjoy 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 that could cause actual results to differ materially from those anticipated by MGM Energy and described in the forward-looking statements or information.

Basis of Presentation

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. On January 12, 2007, MGM Energy was a party to a plan of arrangement under the ABCA (*Business Corporations Act (Alberta)*) 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.

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 cash flows 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 2007 Annual Information Form and audited Financial Statements as at and for the year ended December 31, 2007.

Results of Operations

Statement of Income (Loss) – Selected Items

(\$000s)	2007 ⁽¹⁾	2006 ⁽¹⁾
Interest income	3,116	-
Expenses		
General and administrative	6,281	638
Stock-based compensation	2,561	(123)
Pipeline regulatory and access	598	-
Exploration	11,191	399
Lease rental	1,051	198
Dry hole expense	66,423	3,355
Interest and financing charges	236	-
Accretion and depreciation	331	30
Future income tax recovery	(23,225)	(1,720)
Net loss	(62,331)	(2,777)

⁽¹⁾ Amounts included in the table above 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. See "Basis of Presentation" above.

Interest Income

	2007	2006
Interest income for the year (\$000s)	3,116	-
Average interest rate earned during the year (%)	5.24%	-

MGM Energy earns interest income on short-term investments resulting from funds raised from equity issues prior to utilization on capital expenditures. During 2006, there were no short-term investments allocated to MGM Energy as part of the "carve-out" from Paramount. During 2007, interest income of \$3.1 million was earned on funds raised from the equity issues throughout the year. Interest income for 2008 will be dependent on the prevailing market interest rates and the timing of capital expenditures and additional equity issues, if any. As at December 31, 2007, MGM Energy had \$110 million of short-term investments, which bore interest at rates between 4.47% and 4.71% per annum and have original maturities of three months or less. The Company had no investments in asset-backed commercial paper at December 31, 2007.

General and Administrative (G&A) Expenses

(\$000s)	2007	2006
Gross G&A Expenses	6,288	638
Overhead Recoveries	(7)	-
Net G&A Expenses for the year	6,281	638

G&A expenses increased significantly from 2006 to 2007 due to the costs in 2007 associated with establishing MGM Energy as a separate entity and staffing the Company as a stand-alone public company. G&A expenses are anticipated to be in the \$6 million range in 2008 unless there is a significant increase or decrease in the level of activity during the year.

Stock-Based Compensation Expense

(\$000s)	2007	2006
Stock-Based Compensation Expense for the year	2,561	(123)

Stock-based compensation expense was negative in 2006 due to cancelled options for personnel employed by Paramount that were allocated to MGM Energy's assets. For 2007, expense was \$2.9 million representing expense related to options granted to the Company's management, employees and directors during the year. This amount included expense of \$0.1 million recognized by MGM Energy in respect of stock options previously granted by Paramount to certain employees and officers of MGM Energy.

Pipeline Regulatory and Access Expense

(\$000s)	2007	2006
Pipeline Regulatory and Access Expense for the year	598	-

Pipeline regulatory and access expense represents costs incurred by the Company associated with regulatory hearings and access on the planned Mackenzie Valley pipeline. There were minimal expenses during 2006 and \$0.6 million during 2007, chiefly related to participation in the NEB hearings and negotiation of the Capacity Request Agreement for the Mackenzie Gathering System. Costs for 2008 are expected to be in the same range as in 2007.

Exploration Expense

(\$000s)	2007	2006
Exploration Expense for the year	11,191	399

MGM Energy utilizes the successful efforts method of accounting, and therefore, all exploration costs are expensed as incurred. Included in exploration expense are the cost of purchasing and shooting seismic and the cost of geological and geophysical employees and consultants. Exploration expense of \$11.2 million in 2007 included \$5.7 million of pre-work for 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 will be substantially higher in 2008 as the Company has budgeted \$35 million of seismic for the 2007/2008 winter program, of which only \$5.7 million was incurred in 2007.

Lease Rental

(\$000s)	2007	2006
Lease Rental Expense for the year	1,051	198

Lease rental expense represents costs associated with annual lease rentals of properties held by the Company and under the successful efforts method of accounting, they are charged to expense as incurred. During 2006, these costs totalled \$0.2 million and were related to properties in the Central Mackenzie Valley area and during 2007 the costs totalled \$1.1 million and were primarily related to properties in the Mackenzie Delta area. Lease Rental costs

for 2008 are anticipated to be approximately \$2 Million representing lease rental and renewal payments on several of MGM Energy's properties

Dry Hole Expense

(\$000s)	2007	2006
Dry Hole Expense for the year	66,423	3,355

Under the successful efforts method of accounting, dry hole expense represents the cost of drilling exploratory wells for which no economically recoverable reserves are found. There were seven wells that were charged to dry hole expense for 2006 and 2007, as follows:

- Two of the dry holes were drilled during the 2006/2007 winter drilling program. Of these costs \$3,3 million was incurred prior to December 31, 2006 and expensed in 2006 and \$34,341 was incurred in 2007 and expensed in 2007.
- Two of the wells were drilled during the 2007/08 winter drilling program; Atik P-19 and Aput C-43. The Atik well was spudded in December 2007 and completed in February 2008 while the Aput well was spudded in February 2008 and completed in March 2008. The dry hole expense related to these two wells is \$10,9 million and represents the direct drilling costs of the Atik well incurred prior to December 31, 2007 as well as the allocation to the Atik and Aput wells of logistics and ice-road building costs incurred prior to December 31, 2007. The balance of the costs to drill the wells will be charged to dry hole expense in the first and second quarter of 2008 when the expenditures are incurred.
- Three of the wells were drilled by Paramount and its partner in 2004 and 2005 and had not previously been charged to dry hole expense as there was an ongoing assessment of these wells. The wells involved were in the Nogha and Turton Lake areas and had an original cost to drill of \$21.3 million. MGM Energy reassessed the wells during 2007 and determined that no additional work was to be completed on them and/or the land encompassing the wells would expire prior to additional work being completed. As a result, the cost of these three wells was charged to dry hole expense in the fourth quarter of 2007. This charge is not related to any wells in which the Company has previously attributed resources.

The amount of dry hole expense during any period is not possible to predict, as it is dependent on the success of the drilling program, which will not be known until its completion.

Interest and Financing Charges

(\$000s)	2007	2006
Interest and Financing Charges for the year	236	-

Interest and financing charges include fees related to the establishment and increase of the Demand Facility and charges for letters of credit. There were no costs related to either during 2006 and the cost was \$0.2 million in 2007. The costs for 2008 are expected to be similar to the 2007 level.

Depreciation and Accretion

(\$000s)	2007	2006
Accretion of ARO Obligations for the year	199	30
Depreciation for the year	132	-

Accretion of Asset Retirement Obligations (“ARO”) increased by 563% from 2006 to 2007 due to the addition of the Umiak assets purchased in 2007. Depreciation expense represents the depreciation of the office furniture and fixtures in the Company’s office that were purchased throughout 2007 as MGM Energy established its own head office. There was no amortization of property, plant and equipment as the Company had no production during either year.

Income Taxes

Future income tax recovery was \$1.7 million in 2006, which rose to \$23.2 million in 2007 given the larger loss incurred during 2007. As at December 31, 2007, MGM Energy Corp. had the following tax pools (\$million):

Canadian oil & gas property expense	186.8
Canadian development expense	-
Canadian exploration expense	4.1
Undepreciated capital cost	2.6
Share issuance costs	11.0
Tax losses carried forward	30.0

Based on MGM Energy’s current capital expenditure plans and earnings forecasts, the Company is not anticipating being taxable for the next several years. During 2007, MGM Energy 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. MGM Energy estimates it has incurred approximately \$51 million of qualifying expenditures relative to the flow-through shares issued in 2007 as at December 31, 2007. The Company anticipates incurring the balance of the required expenditures in 2008 given the expected cost of the winter drilling and seismic programs.

Net Loss and Net Loss Per Share

Net loss for 2007 was \$62.3 million, compared to a net loss of \$2.8 million in 2006, with the increase chiefly the result of the dry hole expense during 2007. Net loss per basic share in 2007 was \$0.79 per share. There is no loss per share figure in 2006 as the Company was not capitalized until it was spun-out of Paramount on January 12, 2007. Given that MGM Energy currently has no production, nor is any production expected until the completion of a pipeline to transport crude oil and natural gas from the areas where the Company is active, it is likely that the Company will continue to generate losses for several years.

Funds Flow From Operations

Funds flow from operations for 2007 was negative \$5.5 million, compared to negative \$1.1 million in 2006, with the increase due to the higher G&A expenses during 2007. Funds flow from operations is effectively Interest Income less G&A expenses, Pipeline Regulatory and Access, lease rentals and interest costs as all other income statement items are either non-cash or are expenses which are included as Capital Expenditures in “Investing Activities” for purposes of the Statement of Cash Flows. As with “Net Loss” discussed above, MGM Energy expects that Funds

Flow From Operations will continue to be negative for several years until the Company begins to generate production revenue.

Capital Expenditures

(\$000s)	2007	2006
Drilling and logistics	47,873	8,571
Acquisitions	173,061	-
Land	11,000	-
Geological and geophysical	11,191	399
Other	733	-
Total	243,858	8,970

Of the total drilling and logistics costs in 2007 of \$47.9 million, \$29.6 million relate to MGM Energy's 2006/07 winter drilling program for the Farm-in Properties, with two wells being drilled: "Kumak I-25" and "Unipkat M-45". Neither well appeared to contain commercial quantities of hydrocarbons. As a result, the Kumak I-25 well was cased and suspended without further testing and the Unipkat M-45 well was abandoned. The remainder of the costs for 2007 were logistics, ice-road construction and inventory purchases for the 2007/08 winter drilling program, plus 2007 drilling costs related to the first well ("Atik P-19"), which spudded on December 23, 2007. The drilling of the Atik P-19 well was completed in February 2008, did not encounter material amounts of hydrocarbons and was abandoned. The Aput C-43 well was spudded in February 2008, completed in March 2008 and similarly did not encounter commercial quantities of hydrocarbons. The direct costs of the Atik well in 2007 and the pro rata share of the logistics and ice-road construction costs for the Atik and Aput wells incurred in 2007 was \$10.9 million, and was charged to dry hole expense in 2007. Drilling and logistics costs for 2006 were represented by \$7.4 million of costs incurred in 2006 for the 2006/07 winter drilling program, which were expensed as dry-hole and \$1.2 million related to other costs.

On May 30, 2007 MGM Energy purchased the Umiak Assets for an aggregate cost of \$173.1 million, with all of the costs charged to Acquisitions. There were no acquisitions in 2006. During 2007, the Land costs were \$11 million in lease continuation payments made by MGM Energy on the Mackenzie Delta Farm-in Property, which were capitalized. Geological and geophysical expenditures incurred during 2007 relate to pre-work of the 2008 winter seismic program, the purchase of 2D seismic and processing costs for existing seismic data.

Fourth Quarter Results

The following is a summary of MGM Energy's 2007 results for the three months ended December 31, 2007:

(\$000s)	Three Months Ended		
	December 31/07	September 30/07	December 31/06
Interest income	1,345	1,091	-
Expenses			
General and administrative	1,928	1,522	289
Stock-based compensation	381	750	(118)
Pipeline regulatory and access	172	166	-
Exploration	8,221	2,154	253
Lease rental	262	789	198
Dry hole expense	32,182	(2,156)	3,355
Interest and financing charges	100	40	-
Accretion and depreciation	137	97	10
Future income tax recovery	(10,728)	(442)	(1,071)
Net loss	(31,310)	(1,829)	(2,916)
Capital Expenditures	17,640	18,935	7,021

Overall results for the fourth quarter of 2007 were consistent with the results of the third quarter, other than the dry hole expense, reflecting that the Company's revenues are currently limited to earning interest income on excess cash. Interest income in the fourth quarter of 2007 represented an average interest rate of 4.7% on average cash balances of \$114 million. General and administrative expenses of \$1.9 million during the quarter were slightly higher than the third quarter costs of \$1.5 million, primarily due to the accrual of bonuses during the fourth quarter, which will be paid in the first quarter of 2008. The dry hole expense of \$32.2 million in the fourth quarter of 2007 represents the 2007 costs of \$10.9 million allocated to the Atik P-19 and Aput C-43 wells that were completed in February and March, respectively, and found not to contain any material amounts of hydrocarbons and \$21.3 million related to the write-down of three wells drilled in 2004 and 2005. Regarding these three wells, MGM Energy determined in the fourth quarter of 2007 that no additional work would be completed on them and that their carrying value should be reduced to zero. All other costs during the quarter were consistent with costs in the third quarter of 2007, other than exploration expenses, which were \$8.2 million in the fourth quarter compared to \$2.2 million in the third quarter. The large increase was due to the increase in seismic costs for the 2007/08 winter seismic program, which under the Successful Efforts method of accounting are expensed as incurred. The income statement for the fourth quarter of 2007 is not comparable to the fourth quarter of 2006 as MGM Energy was not a stand-alone entity during 2006 and was significantly less active.

Summary of Quarterly Results

(\$000s, except as noted)	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest Income	1,345	1,091	427	253	-	-	-	-
Net Income (Loss)	(31,310)	(1,829)	(1,849)	(27,343)	(2,915)	(109)	545	(297)
Per share - (\$/share) ⁽¹⁾⁽²⁾	(0.24)	(0.02)	(0.03)	(1.57)	n/a	n/a	n/a	n/a

⁽¹⁾ Loss per share for 2006 periods is not presented as the results of operation have been presented on a carve-out basis.

⁽²⁾ Basic and diluted.

Liquidity and Capital Resources

As at December 31, 2007, MGM Energy had a working capital surplus of \$97.2 million, as the majority of the funds raised in the August 3, 2007 equity issue will not be spent until the first and second quarter of 2008. 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 December 31, 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. Other than interest income on excess cash balances, MGM Energy currently has no other means of generating revenue. The Company is dependent on raising additional equity and/or debt to finance its ongoing operations and capital programs. The Company intends to establish its capital and operating expenditure plans for the 2008/09 winter programs in the second or third quarter of 2008. These plans will be dependent on the success of the 2007/08 winter drilling program, the progress on the Mackenzie Valley Pipeline and the state of the capital markets. The Company intends to raise sufficient capital in 2008 prior to making commitments for its 2008/09 capital program. Based on the Company's current plans, there will be sufficient funds remaining after the 2007/08 winter drilling and seismic programs to fund the operations of the Company for more than a year in the event that the Company decides not to raise additional capital in 2008 and does not complete a drilling or seismic program during the 2008/09 winter.

In May, 2007, MGM Energy entered into a \$20 million senior secured revolving demand facility with a Canadian bank (the "Demand Facility"), which was subsequently increased to \$30 million given increased Letter of Credit requirements associated with the winter drilling program. Of the \$30 million Demand Facility, up to \$10 million is available for borrowings and the entire amount is available for letters of credit. 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, that MGM Energy repays the Demand Facility or have funds available in cash or short-term investments at least equal to borrowings under the facility (excluding outstanding Letters of Credit) for a period of at least three consecutive business days. At December 31, 2007, there were no borrowings under the Demand Facility, however, there were outstanding letters of credit totalling approximately \$26.6 million. These letters of credit have not been drawn; however, they reduce the amount available to MGM Energy under the Demand Facility.

At March 7, 2008, MGM Energy had 128.9 million Common Shares issued and outstanding and 3.1 million stock options outstanding, of which 312,000 are exercisable.

Contractual Obligations

MGM Energy has the following contractual obligations as at December 31, 2007:

<i>(\$000s)</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	-	11,300	11,325
Obligations under leases	No	656	2,592	1,812	452	5,512
Capital spending commitment ⁽¹⁾	No	63,000	55,000	33,000	-	151,000
Total		63,656	57,617	34,812	11,752	167,837

⁽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 totalling \$54 million over the next five years. As a condition of the Exploration Licences, the Company was required to post security of 25% of its share 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 December 31, 2007, Paramount held 21.5 million common shares of MGM Energy, representing 16.7% 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 audited financial statements. The transaction was accounted for using the carrying value of the property transferred, with the exception of the 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% of such costs. For the year ended December 31, 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 year ended December 31, 2007, other amounts billed by Paramount under the Services Agreement totalled \$1.1 million, including a 10% charge of approximately \$0.1 million. There were no amounts charged in 2006 as MGM Energy was not a separate entity during that time.
- As a result of the MGM Spinout, certain employees and officers of MGM Energy held stock options previously issued by Paramount. The stock-based compensation expense relating to these options for the period January 12, 2007 to December 31, 2007 totalled \$0.1 million and has been included in stock-based compensation expense. All of these options expired prior to December 31, 2007.
- Paramount Resources participated in the August 3, 2007 Common Share issuance, purchasing 3,270,000 Common Shares for gross proceeds of \$9.0 million.
- During 2007, MGM Energy received a rebate of lease payments of \$0.4 million related to its Colville Lake properties. MGM Energy and Paramount have not yet determined the entitlement to this rebate.

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.

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

During the year ended December 31, 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.

Outlook for 2008

As at the date of this MD&A, the Company was in the middle of its 2007/08 winter program, consisting of drilling three wells and a 2D and 3D seismic program on the Chevron/BP Farmin lands and a 3D seismic program in the Central Valley. The first well, Atik P-19, was completed in February 2008 and the second well, Aput C-43, was completed in March 2008. Both were found not to contain any material amounts of hydrocarbons. The third well, Langley E-07, will be completed in April 2008. MGM Energy's plans for the winter of 2008/09 have not yet been established. The amount of capital expenditures will be based on the ability of the Company to raise additional equity at an acceptable share price. The potential for raising funds will be a function of, among other things, the state of the equity markets in general and for oil and gas companies in particular, the status of the Mackenzie Valley Pipeline and the results of the Company's drilling program. The Company will be assessing the equity markets during the second and third quarters and will be setting its capital expenditure plans for 2008/09 winter program accordingly. The drilling program for the 2008/09 winter could vary from no wells up to eight wells, with total costs ranging up to \$250 million.

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.

International Financial Reporting Standards

In 2006, the Accounting Standards Board (AcSB) adopted a new strategic plan for financial reporting in Canada, "Accounting Standards in Canada: New Directions". For publicly accountable enterprises (PAEs), the AcSB will

converge Canadian GAAP with International Financial Reporting Standards (IFRS) over a period from 2006 to 2011. After this time period, Canadian GAAP will be replaced by IFRS and cease to exist as a separate, distinct basis of financial reporting for PAEs. Canada will continue to maintain its own standard-setting capability to carry out the strategic direction outlined above, although roles, structures, processes and resources may evolve.

Operational and Business Risks

Absence of Infrastructure to Transport the Company's Production

Due to the location of the Company's assets, there is no infrastructure currently available to transport oil, natural gas and NGLs from the Company's existing and future wells to market. While the Mackenzie Valley pipeline and related gathering system, which would enable the Company to transport its oil, natural gas and NGLs to market either with or without additional infrastructure being built by the Company, has been proposed and is currently the subject of regulatory hearings, there is no guarantee that it will be completed on a timely basis or at all. The Company's ability to market its oil, natural gas and NGLs, and therefore receive payment for its production, depends upon MGM Energy's ability to transport its oil, natural gas and NGLs to market. If the Company is unable to transport its oil, natural gas and NGLs to market within a reasonable time, the value of its assets, and therefore of the Common Shares, will be materially affected.

Exploration Risks

The exploration of the Company's oil and gas properties involves a high degree of risk that no production will be obtained or that the production obtained will be insufficient to recover drilling and completion costs. The costs of drilling, completing and operating wells are uncertain to a degree. Cost overruns can adversely affect the economics of the Company's exploration programs and projects. In addition, the Company's drilling plans may be curtailed, delayed or cancelled as a result of numerous factors, including, among others, equipment failures, weather or adverse climate conditions, shortages or delays in obtaining qualified personnel, shortages or delays in the delivery of or access to equipment, necessary regulatory or other third party approvals and compliance with regulatory requirements.

Operational Matters

The ownership and operation of oil and natural gas wells, pipelines and facilities involves a number of operating and natural hazards that may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to the Company's properties and possible liability to third parties. The Company employs prudent risk management practices and maintain suitable liability insurance, where available. The Company may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities could have a material adverse effect on the Company, its operations and financial condition.

Availability of Equipment and Qualified Personnel and Related Costs

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment and qualified personnel in the particular areas where such activities will be conducted. Demand for such limited equipment and qualified personnel may affect the availability of such equipment and qualified personnel to MGM Energy and may delay the Company's exploration and development activities. In addition, the costs of

qualified personnel and equipment in the Northwest Territories where the Company's assets are located are very high due to the availability of, and demands for, such qualified personnel and equipment in the area.

Resource Estimates

The resource estimates in respect of certain of the Company's assets and the area in which the Company's Assets are located are only estimates and the ultimate resources may be significantly less than the estimates. Estimates of resources depend in large part upon the reliability of available geological and engineering data. Geological and engineering data are used to determine the probability that a reservoir of oil and/or natural gas exists at a particular location, and whether, and to what extent, such hydrocarbons are recoverable from the reservoir.

Future Financings

The Company will require future financing to fund its future exploration, development and operations. There can be no assurance that additional financing will be available to the Company when needed or on terms acceptable to the Company. The Company's inability to raise funding to support ongoing operations and to fund capital expenditures or acquisitions may limit the Company's growth or may have a material adverse affect upon the Company.

Critical Accounting Estimates

The preparation of the Financial Statements in accordance with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. MGM Energy bases its estimates on historical experience and various other factors that are believed by management to be reasonable under the circumstances. Actual results could differ from these estimates. The following is a discussion of the accounting estimates that are considered critical.

Successful Efforts Accounting

MGM Energy follows the successful efforts method of accounting for its 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 pending evaluation as to whether proved reserves have been found. If economically recoverable reserves are not found, such costs are charged to earnings as dry hole costs. If economically recoverable reserves are found, such costs are depleted on a unit-of-production basis. The determination of whether economically recoverable quantities of reserves are found is dependent upon, among other things, the results of planned additional wells and the cost of required capital expenditures to produce the reserves found. The application of the successful efforts method of accounting requires the use of judgment to determine, among other things, the designation of wells as development or exploratory, and whether exploratory wells have discovered economically recoverable quantities of proved reserves. The results of a drilling operation can take considerable time to analyze, and the determination that proved reserves have been discovered requires both judgment and application of industry experience. The evaluation of petroleum and natural gas leasehold acquisition costs requires management's judgment to evaluate the fair value of exploratory costs related to drilling activity in a given area. Ultimately, these determinations affect the timing of deduction of accumulated costs and whether such costs are capitalized and amortized on a unit-of-production basis or are charged to earnings as dry hole expense.

Reserve Estimates

Estimates of MGM Energy's reserves are prepared in accordance with the Canadian standards set out in the Canadian Oil and Gas Evaluation Handbook and National Instrument 51-101. Reserve engineering is a subjective process of estimating underground accumulations of petroleum and natural gas that cannot be measured in an exact manner. The process relies on interpretations of available geological, geophysical, engineering and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various mandated economic assumptions and the judgment of the persons preparing the estimate.

At December 31, 2007, the only asset of MGM Energy that was evaluated by qualified independent reserves evaluators was the Ancillary Asset acquired from Paramount. All of the other assets owned by MGM Energy are not able to be designated as reserves given the uncertainty of the timing of the Mackenzie Valley Pipeline, therefore, they have not been evaluated by qualified independent reserve evaluators.

Impairment of Petroleum and Natural Gas Properties

MGM Energy currently has no proved properties that are subject to possible impairment as the Ancillary Asset is, for accounting purposes, considered a Paramount asset given the right of Paramount to repurchase the asset. Unproved leasehold costs and exploratory drilling in progress are capitalized and reviewed periodically for impairment. Costs related to impaired prospects or unsuccessful exploratory drilling are charged to earnings.

Acquisition costs for leases that are not individually significant are charged to earnings as the related leases expire. Further impairment expense could result if petroleum and natural gas prices decline in the future, or if the Mackenzie Valley Pipeline is indefinitely delayed or if negative reserves revisions are recorded, as it may be no longer economic to develop certain unproved properties. Management's assessment of, among other things, the results of exploration activities, commodity price outlooks, the potential of the Mackenzie Valley Pipeline and planned future development and sales, impacts the amount and timing of impairment provisions.

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 value of the 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 in depletion, depreciation and accretion expense in the consolidated statement of earnings, and for revisions in either the timing or the amount of the original estimated cash flows associated with the liability.

Upon retirement of its oil and gas assets, MGM Energy anticipates incurring substantial costs associated with abandonment and reclamation activities. Estimates of the associated costs are subject to uncertainty associated with the method, timing and extent of future retirement activities. Accordingly, the annual expense associated with future abandonment and reclamation activities is impacted by changes in the estimates of the expected costs and reserves. The total undiscounted abandonment liability is currently estimated at \$12.7 million, which is based on management's estimate of costs and in accordance with existing legislation and industry practice.

Stock-based Compensation

The Company has a stock option plan whereby officers, directors and employees are granted options to purchase common shares. The exercise price of each option equals the market price of the common shares on the date of the

grant. MGM Energy uses the fair value method of accounting for stock options granted. In determining the fair value of the stock options granted, the Black-Scholes model was used and assumptions regarding interest rates, underlying volatility of the Company's stock and expected life of the options were made.

Disclosure and Internal Controls

MGM Energy's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting as defined in MI 52-109.

Disclosure controls and procedures have been designed to ensure that information to be disclosed by MGM Energy is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company's CEO and CFO have evaluated the effectiveness of MGM Energy's disclosure controls and procedures as at December 31, 2007 and have concluded that they provide reasonable assurance that all material information relating to MGM Energy is disclosed in a timely manner.

During the fourth quarter of 2007, the Company's internal control system changed as a result of bringing virtually all of the accounting and information technology functions in-house after having been provided by Paramount since the Company's inception. As at December 31, 2007, the Chief Executive Officer and Chief Financial Officer evaluated the design and implementation of the Company's revised internal controls over financial reporting. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the design of internal controls over financial reporting is sufficiently effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with Canadian GAAP. It should be recognized, however, that no system of internal control over financial reporting can provide more than reasonable assurance as to the effectiveness of such reporting. Further, in a company such as MGM Energy, limited staff numbers preclude comprehensive segregation of duties and detailed review of financial records.