



## **MGM ENERGY CORP.**

### **2008 FIRST QUARTER REPORT**

- Letter to Shareholders
- Management's Discussion and Analysis
- Interim Financial Statements (Unaudited) as at and for the three months ended March 31, 2008 and 2007



April 29, 2008

Dear Shareholders,

Attached to this letter are MGM Energy Corp.'s financial statements as at and for the period ending March 31, 2008.

As discussed in my last quarterly letter, we were working diligently to implement our 2008 winter work program, and to bring it in on time and under budget. This winter we accomplished a very great deal:

- We drilled three wells with one rig – a first for the Canadian Arctic, and evidence of what can be accomplished with thorough planning. This re-enforced our strategy of staging materials and equipment on the Mackenzie Delta in the fall, prior to freeze-up. While we do not have all of the costs of these wells yet, we expect that they will be very close to our initial budget of \$60 million.
- We completed our three seismic programs, at a cost of \$33 million, on time and under budget. We will now be working to process this information, for use as we select drilling locations in the future.
- We completed the entire work program, both seismic and drilling – involving over 650,000 person hours of work – without a lost time injury to any employee or contractor. This is a result that would make any western Canada operator proud – to have achieved it in the harsh conditions of the Arctic is a testament to the commitment of our employees and supervisors.
- We had no serious environmental incidents in the entire drilling and seismic programs, and had only two reportable spills, both of which were immediately cleaned up with no impact on the environment.
- We drilled our first successful well at Langely E-07 .

Despite all that has been accomplished, this has been a very difficult year from a shareholder perspective (and all of our employees are shareholders). Two of the three wells which we drilled were dry holes. Dry holes are a reality of high risk exploration, which is what we have undertaken in Canada's North. As we have repeatedly said, dry holes will be drilled in Canada's Arctic, and we will drill some of them. But successful wells will also be drilled, and as we understand more about how to interpret seismic data in this region, we expect our success rates will improve.

I do not intend to minimize the pain felt by shareholders when a stock price falls as ours has. Having said that, we have always maintained that MGM Energy was a long term investment. As we prepare to establish our plans for 2008/09, I want to assure you that we will continue to do what is best for this Company over the long term.

MGM Energy holds assets today which I believe are worth more than our current share price suggests. We also have significant upside as a result of our existing exploration prospects, as well as those we are developing. MGM Energy has a diverse group of high quality Northern assets, experience that is very difficult to replicate, and a group of committed employees. We believe that ultimately, these strengths will be more readily – and we believe more fairly – valued in the market once concrete steps are taken towards a Mackenzie Valley pipeline.

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 Financial Statements of MGM Energy Corp. ("MGM Energy" or the "Company") as at and for the three months ended March 31, 2008 and MGM Energy's audited Financial Statements and MD&A 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 April 29, 2008. Additional information concerning MGM Energy, including its Annual Information Form, can be found on the SEDAR website at [www.sedar.com](http://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 transport its oil and natural gas successfully to market; the timing and costs of the Mackenzie Valley pipeline and facility construction and expansion, if any, and the ability of MGM Energy to secure adequate product transportation; the ability of MGM Energy to achieve 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, Paramount Resources Ltd. ("Paramount") completed a reorganization pursuant to a plan of arrangement under the ABCA (*Business Corporations Act (Alberta)*) involving Paramount, its shareholders and MGM Energy (the "MGM Spinout"). MGM

Energy acquired assets from Paramount effective January 12, 2007 at which point the results of operations and cash flows accrue to the Company.

This MD&A contains disclosure and discussions concerning the historic financial position, results of operations and cash flows relating to the assets acquired on the MGM Spinout 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 held 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 MGM Energy's audited Financial Statements as at and for the year ended December 31, 2007.

## Results of Operations

### Statement of Loss – Selected Items

(\$000s)	Three Months Ended March 31	
	2008	2007 <sup>(1)</sup>
Interest income	1,034	253
<b>Expenses</b>		
General and administrative	1,565	1,365
Stock-based compensation	371	782
Pipeline regulatory and access	44	78
Exploration	24,927	432
Lease rental	250	4
Dry hole expense	33,034	36,397
Interest and financing charges	66	20
Accretion and depreciation	86	25
Future income tax recovery	(13,680)	(11,507)
<b>Net loss</b>	<b>(45,629)</b>	<b>(27,343)</b>

<sup>(1)</sup> 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

	Three Months Ended March 31	
	2008	2007
Interest income for the period (\$000s)	1,034	253

MGM Energy earns interest income on short-term investments resulting from funds raised from equity issues prior to utilization on capital expenditures. Interest income increased by 309% from the first quarter of 2007 to the first quarter of 2008 as the Company had greater cash resources during the first quarter of 2008. Interest income for the balance of 2008 will be dependent on the prevailing market interest rates and the timing of capital expenditures and additional equity issues, if any. As at March 31, 2008, MGM Energy had \$75 million of short-term investments,

which bore interest at rates between 3.52% and 4.20% per annum and had original maturities of three months or less. The Company had no investments in asset-backed commercial paper at March 31, 2008.

### General and Administrative (G&A) Expenses

(\$000s)	Three Months Ended March 31	
	2008	2007
Gross G&A Expenses	1,570	1,365
Overhead Recoveries	(5)	-
Net G&A Expenses for the period	1,565	1,365

G&A expenses for the first quarter increased by 15% from the first quarter of 2007 to the first quarter of 2008 due to higher staffing levels. G&A expenses are anticipated to be in the \$6 million range for 2008 unless there is a significant increase or decrease in the level of activity during the year.

### Stock-Based Compensation Expense

(\$000s)	Three Months Ended March 31	
	2008	2007
Stock-Based Compensation Expense for the period	371	782

For the first quarter of 2008, stock-based compensation expense was \$0.4 million and was related to options granted to the Company's management, employees and directors during 2007 and the first quarter of 2008. The amount represents expense of \$0.5 million for the first quarter less a \$0.1 million reversal of amounts recorded in error in 2007.

### Pipeline Regulatory and Access Expense

(\$000s)	Three Months Ended March 31	
	2008	2007
Pipeline Regulatory and Access Expense for the period	44	78

Pipeline regulatory and access expense represents costs incurred by the Company associated with regulatory hearings and access on the planned Mackenzie Valley pipeline. These expenses chiefly related to participation in the NEB hearings and negotiation of the Capacity Request Agreement for the Mackenzie Gathering System.

## Exploration Expense

(\$000s)	Three Months Ended March 31	
	2008	2007
Exploration Expense for the period	<b>24,927</b>	432

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 was \$24.9 million in the first quarter 2008, of which \$24.5 million was related to the 2007/08 winter seismic program and the balance was employee and consultant costs.

## Lease Rental

(\$000s)	Three Months Ended March 31	
	2008	2007
Lease Rental Expense for the period	<b>250</b>	4

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 the first quarter of 2008, these costs related to a property located in the Central Mackenzie Valley.

## Dry Hole Expense

(\$000s)	Three Months Ended March 31	
	2008	2007
Dry Hole Expense for the period	<b>33,034</b>	36,397

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. The dry hole costs in the first quarter of 2008 relate to costs incurred during the quarter for the Atik P-19 and Aput C-43 wells which were drilled during the first quarter and were determined to be dry. The dry hole costs in the first quarter of 2007 were related to the Unipkat M-45 and Kumak I-25 wells which were drilled during the quarter and were not successful.

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. There is anticipated to be some additional dry hole costs charged in the second quarter of 2008 as there is additional construction and logistic costs to be incurred during the quarter, some of which costs will be allocated to the Atik P-19 and Aput C-43 wells. The third and final well in the winter drilling program, Langley E-07, was completed in the second quarter and encountered hydrocarbons.

## Interest and Financing Charges

(\$000s)	Three Months Ended March 31	
	2008	2007
Interest and Financing Charges for the period	66	20

Interest and financing charges include charges for letters of credit. There was a significant increase from the first quarter of 2007 to the first quarter of 2008 given the increased letters of credit outstanding in 2008.

## Depreciation and Accretion

(\$000s)	Three Months Ended March 31	
	2008	2007
Accretion of ARO Obligations for the period	24	25
Depreciation for the period	62	-

There was minimal change in the accretion of Asset Retirement Obligations (“ARO”) between the first quarter of 2007 to the first quarter of 2008 as the higher ARO liability from the addition of the Umiak assets during 2007 was offset by a reduction in ARO liability of other assets from a reassessment of potential liability 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

The future income tax recovery for the three months ended March 31, 2008 was \$13.7 million from the loss incurred during the quarter. The amount of the recovery is equal to the amount required to result in a future income tax asset of zero after taking into account the impact of the renunciation of flow-through shares in the first quarter of 2008. Because MGM Energy is a development stage enterprise, the company would normally not accrue a future income tax asset given the uncertainty involved with its future operations, however, the Company will accrue a future income tax asset equal to the expected tax effect arising from renunciation related to flow-through shares. As there have been no additional flow-through shares issued to date in 2008, there is a nil future income tax asset at March 31, 2008. The future income tax asset that existed at December 31, 2007 was reversed due to the renouncing of expenditure under flow-through share commitments during the first quarter of 2008. Future income tax recovery was \$11.5 million in the first quarter of 2007 from the loss incurred during the quarter.

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 was required to incur an equivalent amount of qualifying resource expenditures. MGM Energy estimates it has incurred the entire amount of qualifying expenditures relative to the flow-through shares issued in 2007 as at March 31, 2008.

## Net Loss and Net Loss Per Share

Net loss for the three months ended March 31, 2008 was \$45.6 million, compared to a net loss of \$27.3 million in 2007, with the increase chiefly the result of exploration costs during the first quarter of 2008. Net loss per basic share for the three months ended 2008 was \$0.35 per share. 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 expected that the Company will continue to generate losses for several years.

## Funds Flow From Operations

Funds flow from operations for the three months ended March 31, 2008 was negative \$0.9 million, compared to negative \$1.6 million in the first quarter of 2007, with the improvement the result of higher interest income during the first quarter of 2008. 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)	Three Months Ended March 31	
	2008	2007
Drilling and logistics	48,471	31,753
Land	(1,000)	-
Geological and geophysical	24,927	432
Other	22	111
<b>Total</b>	<b>72,420</b>	<b>32,296</b>

Capital expenditures during the first quarter of 2008 were predominantly related to the 2007/08 winter drilling and seismic programs. The \$48.5 million of drilling and logistics costs represent expenditures for the three wells drilled during the first quarter of 2008: Atik P-19, Aput C-43 and Langley E-07. There will be some additional costs in the second quarter of 2008 for the completion of the drilling of Langley E-07 and the demobilization of the equipment from the drilling areas. Of the \$24.9 million of geological and geophysical costs, \$24.5 million related to the three seismic programs completed in 2008: the 3D and 2D seismic programs on the Chevron/BP farm-in lands and the 3D seismic program in the Central Mackenzie Valley. The balance of the geological and geophysical costs relate to staffing and consultant costs plus other minor seismic costs. The land costs of negative \$1.0 million represent a refund of a deposit made in 2007, which was originally capitalized to land costs and which was recovered as a result of the drilling of the Atik P-19 well. Other costs are for minor furniture and equipment purchases.

## Summary of Quarterly Results

(\$000s, except as noted)	2008	2007				2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Interest Income	1,034	1,345	1,091	427	253	-	-	-
Net Income (Loss)	(45,629)	(31,310)	(1,829)	(1,849)	(27,343)	(2,915)	(109)	545
Per share - (\$/share) <sup>(1)(2)</sup>	(0.35)	(0.24)	(0.02)	(0.03)	(1.57)	n/a	n/a	n/a

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

<sup>(2)</sup> Basic and diluted.

## Liquidity and Capital Resources

As at March 31, 2008, MGM Energy had a working capital surplus of \$22.8 million, representing the remainder of funds raised in the August 3, 2007 equity issue. MGM Energy invests its cash resources in a variety of investments in accordance with the Company's investment policy. At March 31, 2008, MGM Energy had no investments in asset-backed commercial paper.

Management believes that MGM Energy has adequate cash resources to fund the remainder of 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 next few weeks, likely by the end of the second quarter. These plans will be dependent on a range of factors, including 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.

MGM Energy has a \$30 million senior secured revolving demand facility with a Canadian bank (the "Demand Facility"). 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 March 31, 2008, there were no borrowings under the Demand Facility, however, there were outstanding letters of credit totalling \$19.3 million. These letters of credit have not been drawn; however, they reduce the amount available to MGM Energy under the Demand Facility.

At April 29, 2008, MGM Energy had 128.9 million Common Shares issued and outstanding and 3.1 million stock options outstanding, of which 337,000 are exercisable.

## Contractual Obligations

MGM Energy has the following contractual obligations as at March 31, 2008:

(\$000s)	Recognized in financial statements	Term				Total
		Less than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years	
Asset retirement obligations	Yes- Partially	-	25	-	13,800	13,825
Obligations under leases	No	656	2,592	1,812	452	5,512
Capital spending commitment <sup>(1)</sup>	No	3,000	52,000	33,000	-	88,000
Total		3,656	54,617	34,812	14,252	107,337

<sup>(1)</sup> Includes 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 March 31, 2008, 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 described in Note 1 (Basis of Presentation).
- For the period ended March 31, 2008, other amounts billed by Paramount under a services agreement totalled \$0.1 million, including a 10 percent charge of approximately \$0.01 million.
- During 2007, MGM Energy received a rebate of lease payments of \$0.4 million related to its Colville Lake properties. As at March 31, 2008, MGM Energy and Paramount have not yet resolved the ownership of this rebate.

## **Outlook for 2008**

As at the date of this MD&A, the Company had completed 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, was completed in April 2008 and encountered natural gas. The total cost of the winter drilling and seismic programs is currently estimated to be in the \$95 million range, the original estimated cost of the program. MGM Energy's plans for the winter of 2008/09 have not yet been established. The amount of capital expenditures will be to a large extent 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 setting its capital expenditure plans for 2008/09 winter program in the next few weeks, likely by the end of second quarter.

## **Recent Accounting Pronouncements**

### ***Capital Disclosures and Financial Instruments – Disclosure and Presentation***

Beginning in 2008, MGM Energy has adopted the 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**

There are a number of risks facing participants in the Canadian oil and gas industry. Some of the risks are common to all businesses while others are specific to the sector and others are specific to MGM Energy. Information with respect to such risks is set out in the Company's annual report for the year ended December 31, 2007.

## **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. Information with respect to the accounting policies selected by the Company and the use of estimates is set out in the Company's annual report for the year ended December 31, 2007 and the unaudited financial statements for the three months ended March 31, 2008.

**Interim Financial Statements (Unaudited)**

**As at and for the three months ended March 31, 2008 and 2007**

**MGM Energy Corp.**  
**Balance Sheets (Unaudited)**  
(\$000s)

	As at March 31 2008	As at December 31 2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 78,348	\$ 111,301
Accounts receivable	1,677	730
	<b>80,025</b>	112,031
<b>Property, plant and equipment</b> (Note 3)	<b>251,976</b>	237,320
<b>Future income taxes</b> (Note 8)	-	13,302
	<b>\$ 332,001</b>	\$ 362,653
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 57,033	\$ 15,799
Due to related parties (Note 10)	150	81
	<b>57,183</b>	15,880
<b>Asset retirement obligations</b> (Note 5)	<b>1,457</b>	1,172
	<b>58,640</b>	17,052
<b>Shareholders' Equity</b>		
Share capital (Note 6)	377,293	404,275
Contributed surplus (Note 7)	2,678	2,307
Deficit	(106,610)	(60,981)
	<b>273,361</b>	345,601
	<b>\$ 332,001</b>	\$ 362,653

See the accompanying notes to the Financial Statements.

**MGM Energy Corp.**  
**Statements of Loss and Comprehensive Loss**  
**(Unaudited)**

(\$000s, except as noted)

For the period prior to January 12, 2007, the results of operations and cash flows of MGM Energy Corp. have been prepared on a carve-out basis from Paramount Resources Ltd. as is described in Note 1.

	<b>Three Months Ended March 31</b>	
	<b>2008</b>	2007
		(Note 1)
<b>Revenue</b>		
Interest income	\$ 1,034	\$ 253
<b>Expenses</b>		
General and administrative	1,565	1,365
Stock-based compensation (Note 7)	371	782
Pipeline regulatory and access	44	78
Exploration	24,927	432
Lease rental	250	4
Dry hole (Note 3)	33,034	36,397
Interest and financing charges	66	20
Accretion of asset retirement obligations (Note 5)	24	25
Depreciation	62	-
	<b>60,343</b>	39,103
<b>Loss before tax</b>	<b>(59,309)</b>	(38,850)
Future income tax recovery (Note 8)	<b>(13,680)</b>	(11,507)
<b>Net loss and comprehensive loss</b>	<b>\$ (45,629)</b>	\$ (27,343)
<b>Net loss per Common Share (\$/share)</b>		
Basic	<b>(0.35)</b>	(1.57)
Diluted	<b>(0.35)</b>	(1.57)
<b>Weighted average Common Shares outstanding (000s)</b>		
Basic	<b>128,945</b>	17,393
Diluted	<b>128,945</b>	17,393

**Statements of Deficit (Unaudited)**

(\$000s)

	<b>Three Months Ended March 31</b>	
	<b>2008</b>	2007
Deficit, beginning of period	\$ (60,981)	\$ -
Net loss	<b>(45,629)</b>	(27,343)
Allocation to net investment by Paramount Resources Ltd.	-	1,350
<b>Deficit, end of period</b>	<b>\$ (106,610)</b>	\$ (25,993)

See the accompanying notes to the Financial Statements.

**MGM Energy Corp.**  
**Statements of Cash Flows (Unaudited)**

(\$000s)

For the period prior to January 12, 2007, the results of operations and cash flows of MGM Energy Corp. have been prepared on a carve-out basis from Paramount Resources Ltd. as is described in Note 1.

	<b>Three Months Ended March 31</b>	
	<b>2008</b>	2007
		(Note 1)
<b>Operating activities</b>		
Net loss	\$ (45,629)	\$ (27,343)
Add (deduct):		
Stock-based compensation	371	782
Exploration	24,927	432
Dry hole	33,034	36,397
Accretion of asset retirement obligations (Note 5)	24	25
Asset retirement obligation expenditures	-	(400)
Depreciation	62	-
Future income tax recovery	(13,680)	(11,507)
<b>Funds flow used in operations</b>	<b>(891)</b>	<b>(1,614)</b>
Change in non-cash working capital	2,760	639
	<b>1,869</b>	<b>(975)</b>
<b>Financing activities</b>		
Repayment of note to Paramount Resources Ltd. resulting from spin-out	-	(12,000)
Proceeds on settlement of note	-	163
Common shares issued, net of issuance costs	-	78,545
Net investment by Paramount Resources Ltd. for period prior to spin-out	-	3,195
	-	69,903
<b>Investing activities</b>		
Capital expenditures	(72,420)	(32,296)
Reorganization costs	-	(1,000)
Change in non-cash working capital	37,598	27,449
	<b>(34,822)</b>	<b>(5,847)</b>
Increase (decrease) in cash and cash equivalents	(32,953)	63,081
Cash and cash equivalents, beginning of period	111,301	-
<b>Cash and cash equivalents, end of period</b>	<b>\$ 78,348</b>	<b>\$ 63,081</b>

See the accompanying notes to the Financial Statements.

# NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

## 1. Basis of Presentation

MGM Energy Corp. (“MGM Energy” or the “Company”) 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. There can be no assurance, however, that the Company’s efforts to obtain additional financing will ultimately be successful.

These interim unaudited financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). On January 12, 2007, Paramount Resources Ltd. (“Paramount”) completed a reorganization pursuant to a plan of arrangement under the ABCA (*Business Corporations Act (Alberta)*) involving Paramount, its shareholders and MGM Energy (the “MGM Spinout”). MGM Energy acquired 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 assets 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.

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 interim unaudited 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.**

## 2. Significant Accounting Policies

These interim unaudited financial statements of MGM Energy have been prepared by management in accordance with accounting policies generally accepted in Canada utilizing the same accounting policies as used in the financial statements for the year ended December 31, 2007 except for the adoption of *Capital Disclosures* and *Financial Instruments – Disclosure* as disclosed in notes 6 and 9, respectively. The company has also adopted *Financial Instruments – Presentation* and there is no impact on the financial statements or notes thereto. The interim financial statement note disclosures do not include all disclosures applicable for annual financial statements. Accordingly, the interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2007.

### 3. Property, Plant and Equipment

	March 31, 2008		December 31, 2007	
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	\$ 251,415	\$ -	\$ 251,415	\$ 236,719
Other	755	194	561	601
	<b>\$ 252,170</b>	<b>\$ 194</b>	<b>\$ 251,976</b>	<b>\$ 237,320</b>

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.

#### *Continuity of Suspended Exploratory Well Costs*

	Three Months Ended March 31, 2008	Year Ended December 31, 2007
Balance, beginning of period	\$ 52,778	\$ 70,268
Additions pending the determination of proved reserves	15,476	7,691
Well costs charged to dry hole expense	-	(25,181)
Balance, end of period	<b>\$ 68,254</b>	<b>\$ 52,778</b>

#### *Aging of Capitalized Exploratory Well Costs*

	March 31 2008	December 31 2007
Exploratory well costs capitalized for a period of one year or less	\$ 23,167	\$ 10,152
Exploratory well costs capitalized for a period of greater than one year	45,087	45,150
Balance, end of period	<b>\$ 68,254</b>	<b>\$ 55,302</b>
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	7	6

At March 31, 2008, \$68.3 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.

The dry hole expense of \$33.0 million for the three months ended March 31, 2008 relate to two wells drilled during the 2007/08 winter program and \$36.4 million for the three months ended March 31, 2007 relate to two wells drilled during the 2006/07 winter program.

### 4. Demand Facility

In October, 2007, MGM Energy entered into a \$30 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 to repay the facility or to have funds available in cash or short-term investments at least equal to the borrowings under the facility, excluding letters of credit, for a period of three consecutive business days each quarter. At March 31, 2008, there was no debt outstanding on the facility, however, there were undrawn letters of credit outstanding of \$19.3 million that reduce the amount available to MGM Energy under the facility.

## 5. Asset Retirement Obligations

	<b>Three Months Ended March 31, 2008</b>	
Asset retirement obligations, beginning of period	\$	1,172
Liabilities incurred		261
Liabilities settled		-
Accretion expense		24
Asset retirement obligations, end of period	\$	1,457

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 March 31, 2008 are \$13.8 million (December 31, 2007 - \$11.3 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.

## 6. 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"). There were no Class A Preferred Shares or Preferred Shares outstanding at December 31, 2007 and March 31, 2008.

### *Issued and Outstanding*

<b>Common Shares</b>	<b>Shares</b>	<b>Amount</b>
Balance, December 31, 2007	128,944,844	\$ 404,275
Tax adjustment on flow-through share renunciations		(26,982)
<b>Balance, March 31, 2008</b>	<b>128,944,844</b>	<b>\$ 377,293</b>

### *Flow-Through Shares*

During 2007, MGM Energy issued a total of \$104.8 million of Common Shares on a "flow-through" basis. As a result, the Company was required to incur an equivalent amount of qualifying resource expenditures. As at March 31, 2008, MGM Energy estimates it has incurred the entire amount of qualifying expenditures relative to the flow-through shares issued in 2007.

### *Capital Disclosure*

MGM Energy's near-term objectives regarding capital are to ensure that it has sufficient cash resources to fund its ongoing operations for at least a year and to fund any planned winter drilling and seismic programs prior to committing to the programs. As all of MGM Energy's operations are located in the Northwest Territories, almost all capital expenditures will be incurred during the winter months, although the capital expenditures have to be committed during the preceding summer to ensure that equipment and services will be available. Given MGM

Energy's stage of development and that there is currently no certainty regarding the completion of the Mackenzie Valley Pipeline, debt financing is highly unlikely for MGM Energy at this time. Therefore it is likely that all capital requirements for at least the next year will be funded from issuance of equity. On an annual basis, MGM Energy will determine the potential winter drilling and seismic programs and will proceed with those programs only to the extent that equity capital is available at a share price that is acceptable to MGM Energy. MGM Energy is not subject to any externally imposed capital requirements.

## 7. 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 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, option holders 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.

<i>MGM Energy Options</i>		
	Weighted Average Exercise Price	Options
	(\$ / share)	
Balance, December 31, 2007	\$ 3.50	3,146,000
Granted during the first quarter of 2008	2.12	40,000
Balance, March 31, 2008	\$ 3.46	3,186,000
Options exercisable, March 31, 2008	\$ 4.97	337,000

Additional information about MGM Energy's stock options outstanding at March 31, 2008 is as follows:

Exercise Prices	Outstanding		Exercisable
	Number	Weighted Average Contractual Life	Number
(\$ / share)		(years)	
\$2.12 – \$3.00	1,738,000	6.19	-
\$3.01 – \$4.00	100,000	3.59	-
\$4.01 - \$5.00	1,348,000	3.08	337,000
Total	3,186,000	4.79	337,000

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.

## *Contributed Surplus*

A reconciliation of contributed surplus is provided below.

	<b>Three Months Ended March 31, 2008</b>
Balance, beginning of period	\$ 2,307
Stock-based compensation expense	371
Balance, end of period	\$ 2,678

## **8. Income Taxes**

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

	<b>Three Months Ended</b>	
	<b>March 31, 2008</b>	March 31, 2007
Loss before tax	\$ (59,309)	\$ (38,850)
Effective Canadian statutory income tax rate	29.5 %	31.0 %
Expected tax recovery	\$ (17,496)	\$ (12,044)
Increase (decrease) resulting from:		
Statutory and other rate differences	2,229	302
Net investment by Paramount Resources Ltd.	-	68
Stock-based compensation	109	164
Valuation allowance	1,155	-
Other	323	3
Future tax recovery	\$ (13,680)	\$ (11,507)

### *Components of Future Income Tax Asset:*

	<b>March 31, 2008</b>	December 31, 2007
Property, plant and equipment – carrying value in excess of tax basis	\$ (11,237)	\$ 2,111
Asset retirement obligations	375	302
Loss carryforwards	9,067	7,744
Share issuance costs and other	2,950	3,145
Valuation allowance	(1,155)	-
Future income tax asset	\$ -	\$ 13,302

## **9. 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.

Based on the average cash and cash equivalent balance for the quarter ended March 31, 2008, had interest rates during the quarter been 100 basis points higher assuming all other variables remained constant, the net loss for the quarter would have been \$0.2 million lower. An equal and offsetting impact would have occurred had interest rates been 100 basis points lower and assuming all other variables remained constant.

## **10. Related Party Transactions**

### ***Paramount Resources Ltd.***

At March 31, 2008, 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 during the three months ended March 31, 2008:

- For the period ended March 31, 2008, other amounts billed by Paramount under a services agreement totalled \$0.1 million, including a 10 percent charge of approximately \$0.01 million.
- During 2007, MGM Energy received a rebate of lease payments of \$0.4 million related to its Colville Lake properties. As at March 31, 2008, MGM Energy and Paramount have not yet resolved the ownership of this rebate.

## **11. Subsequent Event**

On April 7, 2008, MGM Energy announced that its Langley E-07 well encountered natural gas and would be suspended pending development.

## 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** <sup>(2) (3)</sup>  
West Vancouver, British Columbia

**Daryl H. Gilbert** <sup>(1) (2)</sup>  
Calgary, Alberta

**Robert B. Hodgins** <sup>(1) (4)</sup>  
Calgary, Alberta

**Robert Peterson** <sup>(2) (3)</sup>  
Aurora, Ontario

**C.H. (Clay) Riddell** <sup>(4)</sup>  
Calgary, Alberta

**James H.T. Riddell**  
Calgary, Alberta

**Robert R. Rooney** <sup>(1) (3) (4)</sup>  
Calgary, Alberta

**Henry W. Sykes, QC**  
President

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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")



<sup>(1)</sup> Member of Audit Committee

<sup>(2)</sup> Member of Environmental, Health and Safety Committee

<sup>(3)</sup> Member of Compensation Committee

<sup>(4)</sup> Member of Corporate Governance Committee