



MGM ENERGY CORP.

2008 SECOND QUARTER REPORT

- Letter to Shareholders
- Management's Discussion and Analysis
- Interim Financial Statements (Unaudited) as at and for the three and six months ended June 30, 2008

July 31, 2008

Dear Shareholders,

Attached to this letter are MGM Energy Corp.'s financial statements as at and for the period ending June 30, 2008.

As previously announced, since the end of the first quarter, we completed our last well, Langely E-07, as a successful gas well and we demobilized our people and material from the Mackenzie Delta. We have begun analyzing the results of this well, and interpreting the seismic data which we shot during this last winter. That seismic data, in combination with data we currently have, should allow us to select multiple well locations – more than necessary to complete the Chevron/BP farm-out over the next two winters - without the need to acquire additional seismic.

The decision to continue with the Chevron/BP farm-in, requiring as it did that we raise substantial additional equity at a price that we believe does not reflect the true value of this company, was not an easy one. However, we believe it was the right decision for the long term. The money raised is enough to fund our drilling program for 2008/2009, as well as our general corporate requirements.

Our immediate focus is to finalize our plans for the upcoming drilling season. As we stated in our recent prospectus, we anticipate drilling 3 or 4 wells on our Chevron/BP farm-in lands this winter. We are in the midst of finalizing our locations now, and look forward to announcing our drilling plans in due course.

As you might expect, our other focus is on the regulatory process for approval of the Mackenzie Valley pipeline project. We continue to be disappointed with the lack of visible progress with respect to this project. In particular, we continue to be very disappointed that the Joint Review Panel, the report and recommendations of which are a necessary step in the regulatory process, continues to decline to provide any insight or guidance as to when its report might be forthcoming. We believe this conduct is irresponsible, and displays a lack of regard for people and process. Given unequivocal public statements by many Northern leaders demanding the issuance of a decision or, at the very least, a timetable for the issuance of such a decision, the Joint Review Panel is undoubtedly aware of the impact that its inaction is having. We add our voice to those Northern leaders and call on the Joint Review Panel to provide a timetable for the issuance of a decision.

On April 1, 2007, a federal Cabinet Directive on Streamlining Regulation was issued. That Directive said, in part: "This Directive will make Canada a best-in-class regulator by ensuring that efficiency and effectiveness are key considerations in the development and implementation of regulations." In addition, Minister of Indian Affairs and Northern Development Chuck Strahl recently released a report prepared by Neil McCrank, entitled "Road to Improvement – The Review of the Regulatory Systems Across the North." The report is detailed and thorough and contains a number of recommendations for improving Northern regulatory processes (it can be found at <http://www.ainc-inac.gc.ca/nr/prs/m-a2008/ri08-eng.asp>). What will be important is the actions that will be taken as a result of this report. We encourage our shareholders to write to their Member of Parliament to remind government of their responsibilities in this area.

As in all my communications, I want to thank our board, our employees, and our shareholders for their support as we embark upon this winter's operations.

Henry W. Sykes
President
MGM ENERGY CORP.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim Financial Statements of MGM Energy Corp. ("MGM Energy" or the "Company") as at and for the three and six months ended June 30, 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 July 30, 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 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 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 June 30		Six Months Ended June 30	
	2008	2007	2008	2007 ⁽¹⁾
Interest income	435	427	1,469	680
Expenses				
General and administrative	1,151	1,462	2,716	2,827
Stock-based compensation	635	648	1,006	1,430
Pipeline regulatory and access	11	182	55	260
Exploration	3,366	384	28,293	816
Lease rental and land costs	2,960	-	3,210	4
Dry hole expense	(602)	-	32,432	36,397
Interest and financing charges	73	76	139	96
Accretion and depreciation	96	72	182	97
Future income tax recovery	(2,936)	(548)	(16,616)	(12,055)
Net loss	(4,319)	(1,849)	(49,948)	(29,192)

⁽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

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Interest income for the period	435	427	1,469	680

MGM Energy earns interest income on short-term investments resulting from funds raised from equity issues prior to utilization on capital expenditures. Interest income was essentially unchanged from the second quarter of 2007 to the second quarter of 2008 as higher cash balances during the second quarter of 2008 was offset by lower interest rates. Interest income for the balance of 2008 will be dependent on the prevailing market interest rates and the timing of capital expenditures. As at June 30, 2008, MGM Energy had \$22 million of short-term investments, which bore interest at rates between 2.75% and 3.55% per annum and had original maturities of three months or less. The Company had no investments in asset-backed commercial paper at June 30, 2008.

General and Administrative (G&A) Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Gross G&A Expenses	1,155	1,462	2,725	2,831
Overhead Recoveries	(4)	-	(9)	-
Net G&A Expenses for the period	1,151	1,462	2,716	2,831

G&A expenses for the three month period ended June 30, 2008 decreased by 21% from the same period in 2007 due to employee and consultant costs of the exploration group which were included in G&A expenses in 2007 but are included in Exploration Expense in 2008 and the timing of certain expenses. The G&A expenses of \$1.2 million for the second quarter of 2008 remain consistent with expected G&A expenses of \$6 million for the full year 2008.

Stock-Based Compensation Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Stock-Based Compensation Expense for the period	635	648	1,006	1,430

For the three month period ended June 30, 2008, stock-based compensation expense was unchanged from the same period in 2007. The expense is related to options granted to the Company's management, employees and directors during 2007 and the first two quarters of 2008. The expense for the quarter of \$0.6 million represents costs related to options granted of \$0.7 million less a \$0.1 million reversal of amounts previously expensed for options that were forfeited during the quarter.

Pipeline Regulatory and Access Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Pipeline Regulatory and Access Expense for the period	11	182	55	260

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 June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Exploration Expense for the period	3,366	384	28,293	816

MGM Energy utilizes the successful efforts method of accounting, 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 \$3.4 million for the three month period ended June 30, 2008, of which \$3.1 million was related to the 2007/08 winter seismic program and the balance was related to 2008 projects and employee and consultant costs.

Lease Rental and Land Costs

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Lease Rental and Land Costs for the period	2,960	-	3,210	4

Lease rental and land cost expense represents costs associated with annual lease rentals of properties held by the Company and costs associated with land on which the minimum capital expenditure commitments are not met prior to the lease expiry date. Under the successful efforts method of accounting, these costs are charged to expense as incurred. During the second quarter of 2008, these costs predominantly related to the accrual for amounts owing on properties located in the Central Mackenzie Valley for which the leases expired during the quarter and the minimum spending commitment had not been met. There were no lease rental or land costs during the second quarter of 2007.

Dry Hole Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Dry Hole Expense for the period	(602)	-	32,432	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 for the six month period ended June 30, 2008 relate to costs incurred for the Atik P-19 and Aput C-43 wells which were drilled during the period and were determined to be dry. The negative dry hole costs of \$0.6 million in the second quarter of 2008 represent a partial reversal of dry hole costs expensed in the first quarter of 2008 as it has since been determined that the original estimate of costs related to the two dry holes was higher than actual costs incurred. The dry hole costs for the six month period ended June 30, 2007 were related to the Unipkat M-45 and Kumak I-25 wells which were drilled during that period 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.

Interest and Financing Charges

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Interest and Financing Charges for the period	73	76	139	96

Interest and financing charges include fees related to the establishment and increase of the Demand Facility and charges for letters of credit. There was a slight decrease from the three month period ended June 30, 2007 to the same period in 2008 as letter of credit fees were higher in 2008 due to a larger amount of letters of credit outstanding, however, this was offset by fees related to the Demand Facility in 2007 which were not incurred in 2008.

Depreciation and Accretion

(\$000s)	Three Months Ended March 31		Six Months Ended June 30	
	2008	2007	2008	2007
Accretion of Asset Retirement Obligations for the period	31	45	55	70
Depreciation for the period	65	27	127	27

The decrease in the accretion of Asset Retirement Obligations (“ARO”) from the second quarter of 2007 to the same period in 2008 was due to a reduction in ARO liability in the fourth quarter of 2007 arising from a reassessment of the potential liability. Depreciation expense represents the depreciation of the office furniture and fixtures in the Company’s office that were purchased throughout 2007. 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 month period ended June 30, 2008 was \$2.9 million, which was an increase from \$0.5 million in the same period in 2007 as the loss incurred during 2008 was larger than in 2007. 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 up to an amount equal to the expected tax effect from flow-through shares to be renounced. As there were flow-through shares issued in July 2008, the Company established a future income tax asset of \$2.9 million at June 30, 2008, representing the future tax recovery based on the loss for income tax purposes during the six month period ending June 30, 2008. The future income tax asset that existed at December 31, 2007 was reduced to nil during the first quarter of 2008 due to the renouncing of flow-through shares in 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. On July 15, 2008, MGM Energy issued a total of \$35.0 million of Common Shares on a "flow-through" basis. As a result, the Company is required to incur an equivalent amount of qualifying resource expenditures prior to December 31, 2009. Based on MGM Energy's current plans for the winter 2008/09 drilling season, the Company expects to incur the entire amount of qualifying expenditures relative to the flow-through shares prior to March 31, 2009.

Net Loss and Net Loss Per Share

Net loss for the second quarter 2008 was \$4.3 million, compared to a net loss of \$1.8 million during the same period in 2007, with the increase chiefly the result of increased exploration expense and lease rental and land costs in 2008. Net loss per basic share for the three month period ended June 30, 2008 was \$0.03 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 month period ended June 30, 2008 was negative \$3.8 million, compared to negative \$1.3 million in the same period of 2007. Funds flow from operations is equivalent to interest income less (i) G&A expense (ii) pipeline regulatory and access expense (iii) lease rental and land costs and (iv) interest and financing charges, 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 until the Company begins to generate production revenue.

Capital Expenditures

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Drilling and logistics	(470)	825	48,001	32,578
Acquisitions	-	172,750	-	172,750
Land	-	1,000	(1,000)	1,000
Geological and geophysical	3,366	384	28,293	816
Other	11	28	33	139
Total	2,907	174,987	75,327	207,283

Capital expenditures during the six month period ended June 30, 2008 were predominantly related to the 2007/08 winter drilling and seismic programs. The \$48.0 million of drilling and logistics costs represent expenditures incurred in the first and second quarter of 2008 for the three wells drilled during the 2007/08 winter: Atik P-19, Aput C-43 and Langley E-07. The drilling and logistics costs incurred in 2007 for the three wells was \$18 million, resulting in total costs incurred for the three well drilling program of \$66 million. Of the total cost, \$63 million was the cost of drilling and logistics and \$3 million is inventory of drilling supplies and equipment which remained after the drilling program and is available to be used in future drilling programs. The drilling and logistics costs of negative \$0.5 million in the second quarter of 2008 represent a partial reversal of costs accrued at March 31, 2008 as it was determined in the second quarter of 2008 that the original estimate of costs for the 2007/08 drilling program were in excess of actual costs incurred.

There were \$28.3 million of geological and geophysical costs incurred in the six month period ended June 30, 2008, of which \$27.3 million related to the three seismic programs completed in 2008: the 3D and 2D seismic programs on the Chevron/BP farm-in lands in the Mackenzie Delta 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 for the six month period ended June 30, 2008 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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Interest Income	435	1,034	1,345	1,091	427	253	-	-
Net Loss	(4,319)	(45,629)	(31,310)	(1,829)	(1,849)	(27,343)	(2,915)	(109)
Per share - (\$/share) ⁽¹⁾⁽²⁾	(0.03)	(0.35)	(0.24)	(0.02)	(0.03)	(1.57)	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 June 30, 2008, MGM Energy had a working capital surplus of \$16.2 million. MGM Energy invests its cash resources in a variety of investments in accordance with the Company's investment policy. At June 30, 2008, MGM Energy had no investments in asset-backed commercial paper.

Substantially all of the costs related to the 2007/08 winter program had been funded by June 30, 2008 and sufficient working capital exists at that date to fund the remainder of the costs. On July 15, 2008, MGM Energy closed an equity offering which resulted in net proceeds (after share issuance costs) of approximately \$77 million. The Company plans to drill three or four wells during the 2008/09 winter season, with the number of wells to be determined based upon the depth and location of the prospects. Based on a preliminary review of the program, the Company believes that it can complete a four well program within the resources available to it, however, it will only drill three wells if there are insufficient funds available to drill four wells.

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 June 30, 2008, there were no borrowings under the Demand Facility, however, there were outstanding letters of credit totalling \$24.3 million. These letters of credit have not been drawn; however, they reduce the amount available to MGM Energy under the Demand Facility.

At July 30, 2008, MGM Energy had 263.2 million Common Shares issued and outstanding and 7.5 million stock options outstanding, of which 394,500 are exercisable.

Contractual Obligations

MGM Energy has the following contractual obligations as at June 30, 2008:

(\$000s)	Recognized in financial statements	Less than 1	1 – 3 years	4 – 5 years	After 5 years	Total
		Year				
Asset retirement obligations	Yes- Partially	-	25	-	16,200	16,225
Obligations under leases	No	656	2,592	1,812	452	5,512
Capital spending commitment ⁽¹⁾	No	11,000	49,700	29,800	-	90,500
Total		11,656	52,317	31,612	16,652	112,237

⁽¹⁾ Includes commitments for goods and services for the 2008/09 winter drilling program committed as at June 30, 2008 plus 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 \$50 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 the Exploration Licence.

Related Party Transactions

Paramount Resources Ltd.

At June 30, 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 the equity issue completed by MGM Energy on July 15, 2008, Paramount purchased 22.4 million common shares, resulting in an increase in its holdings to 43.9 million common shares, representing 16.7 percent of the issued and outstanding common shares of MGM Energy after completion of the equity issue.

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 six month period ended June 30, 2008:

- For the six month period ended June 30, 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 the second quarter of 2008, MGM Energy and Paramount resolved the ownership issues regarding a lease rental rebate of \$0.4 million that was received by MGM Energy in 2007.

Outlook for 2008

On July 15, 2008, the Company issued 82 million common shares and 52.25 million common shares on a flow-through basis for gross proceeds of \$80.1 million. The net proceeds after expenses will be approximately \$77 million and will be utilized to fund the Company's drilling program for the winter of 2008/09 plus other corporate expenses. The Company must drill a minimum of three wells during the winter of 2008/09 on the BP/Chevron farm-in lands to maintain the ability to earn a 50% interest in existing discoveries (an additional three wells drilled in 2009/10 is required to complete the farm-in). The Company's plans are to drill three or four wells on the BP/Chevron lands during the 2008/09 winter. The Company has not yet finalized its drilling locations, but depending on the final locations and depths of the prospects, believes that it can drill four wells with one rig and for a cost of approximately \$70 million. The final locations will be determined by the end of the third quarter and the Company will drill only three wells if it will not be possible to drill the four wells within the financial resources of the Company. The Company will not be completing any other drilling or seismic programs during the winter and, based on current plans, expects that it will incur approximately \$6 million of general and administrative expenses and \$6 million of land, development and geological and geophysical costs during the period from the third quarter of 2008 to the second quarter of 2009. These costs will be funded from the proceeds of the equity issue plus working capital at June 30, 2008.

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 interim financial statements for the three months and six months ended June 30, 2008.

MGM Energy Corp.

Interim Financial Statements (Unaudited)

As at and for the three and six months ended June 30, 2008

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

	As at June 30 2008	As at December 31 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 23,879	\$ 111,301
Accounts receivable and other current assets	2,833	730
	26,712	112,031
Property, plant and equipment (Note 3)	252,318	237,320
Future income taxes (Note 8)	2,936	13,302
	\$ 281,966	\$ 362,653
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 10,495	\$ 15,799
Due to related parties (Note 10)	44	81
	10,539	15,880
Asset retirement obligations (Note 5)	1,750	1,172
	12,289	17,052
Shareholders' Equity		
Share capital (Note 6)	377,293	404,275
Contributed surplus (Note 7)	3,313	2,307
Deficit	(110,929)	(60,981)
	269,677	345,601
	\$ 281,966	\$ 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 periods prior to January 12, 2007, the financial statements of MGM Energy Corp., including the results of operations and cash flows, have been prepared on a carve-out basis from Paramount Resources Ltd. as is described in Note 1.

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Revenue				(Note 1)
Interest income	\$ 435	\$ 427	\$ 1,469	\$ 680
Expenses				
General and administrative	1,151	1,462	2,716	2,827
Stock-based compensation (Note 7)	635	648	1,006	1,430
Pipeline regulatory and access	11	182	55	260
Exploration	3,366	384	28,293	816
Lease rental and land costs	2,960	-	3,210	4
Dry hole (Note 3)	(602)	-	32,432	36,397
Interest and financing charges	73	76	139	96
Accretion of asset retirement obligations (Note 5)	31	45	55	70
Depreciation	65	27	127	27
	7,690	2,824	68,033	41,927
Loss before tax	(7,255)	(2,397)	(66,564)	(41,247)
Future income tax recovery (Note 8)	(2,936)	(548)	(16,616)	(12,055)
Net loss and other comprehensive loss	\$ (4,319)	\$ (1,849)	\$ (49,948)	\$ (29,192)
Net loss per Common Share (\$/share)				
Basic	(0.03)	(0.03)	(0.39)	(0.81)
Diluted	(0.03)	(0.03)	(0.39)	(0.81)
Weighted average Common Shares outstanding (000s)				
Basic	128,945	53,867	128,945	35,929
Diluted	128,945	53,867	128,945	35,929

Statements of Deficit (Unaudited)

(\$000s)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Deficit, beginning of period	\$ (106,610)	\$ (25,993)	\$ (60,981)	\$ -
Net loss	(4,319)	(1,849)	(49,948)	(29,192)
Allocation to net investment by Paramount Resources Ltd.	-	-	-	1,350
Deficit, end of period	\$ (110,929)	\$ (27,842)	\$ (110,929)	\$ (27,842)

See the accompanying notes to the Financial Statements.

MGM Energy Corp.
Statements of Cash Flows (Unaudited)

(\$000s)

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

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
				(Note 1)
Operating activities				
Net loss	\$ (4,319)	\$ (1,849)	\$ (49,948)	\$ (29,192)
Add (deduct):				
Stock-based compensation	635	648	1,006	1,430
Exploration	3,366	384	28,293	816
Dry hole	(602)	-	32,432	36,397
Accretion of asset retirement obligations (Note 5)	31	45	55	70
Asset retirement obligation expenditures	-	-	-	(400)
Depreciation	65	27	127	27
Future income tax recovery	(2,936)	(548)	(16,616)	(12,055)
Funds flow used in operations	(3,760)	(1,293)	(4,651)	(2,907)
Change in non-cash working capital	(2,499)	(371)	261	268
	(6,259)	(1,664)	(4,390)	(2,639)
Financing activities				
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	-	170,161	-	248,706
Net investment by Paramount Resources Ltd. for period prior to spin-out	-	-	-	3,195
	-	170,161	-	240,064
Investing activities				
Capital expenditures	(2,907)	(174,987)	(75,327)	(207,283)
Reorganization costs	-	-	-	(1,000)
Change in non-cash working capital	(45,303)	(22,419)	(7,705)	5,030
	(48,210)	(197,406)	(83,032)	(203,253)
Increase (decrease) in cash and cash equivalents	(54,469)	(28,909)	(87,422)	34,172
Cash and cash equivalents, beginning of period	78,348	63,081	111,301	-
Cash and cash equivalents, end of period	\$ 23,879	\$ 34,172	\$ 23,879	\$ 34,172

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, the interim unaudited financial statements which include periods prior to January 12, 2007 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 principles 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 and notes. 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. Certain comparative figures have been reclassified to conform to the current period’s financial statement presentation.

3. Property, Plant and Equipment

	June 30, 2008		December 31, 2007	
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	\$ 251,813	\$ -	\$ 251,813	\$ 236,719
Other	763	258	505	601
	\$ 252,576	\$ 258	\$ 252,318	\$ 237,320

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

	Six Months Ended June 30, 2008	Year Ended December 31, 2007
Balance, beginning of period	\$ 52,778	\$ 70,268
Additions pending the determination of proved reserves	12,109	7,691
Well costs charged to dry hole expense	-	(25,181)
Balance, end of period	\$ 64,887	\$ 52,778

Aging of Capitalized Exploratory Well Costs

	June 30 2008	December 31 2007
Exploratory well costs capitalized for a period of one year or less	\$ 19,800	\$ 7,691
Exploratory well costs capitalized for a period of greater than one year	45,087	45,087
Balance, end of period	\$ 64,887	\$ 52,778
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	7	6

At June 30, 2008, \$64.9 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 \$32.4 million for the six months ended June 30, 2008 relates to two wells drilled during the 2007/08 winter program and \$36.4 million for the six months ended June 30, 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 June 30, 2008, there was no debt outstanding on the facility, however, there were undrawn letters of credit outstanding of \$24.3 million that reduce the amount available to MGM Energy under the facility.

5. Asset Retirement Obligations

	Six Months Ended June 30, 2008
Asset retirement obligations, beginning of period	\$ 1,172
Liabilities incurred	523
Liabilities settled	-
Accretion expense	55
Asset retirement obligations, end of period	\$ 1,750

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 June 30, 2008 are \$16.2 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 June 30, 2008.

Issued and Outstanding

Common Shares	Shares	Amount
Balance, December 31, 2007	128,944,844	\$ 404,275
Tax adjustment on flow-through share renunciations		(26,982)
Balance, June 30, 2008	128,944,844	\$ 377,293

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 must incur an equivalent amount of qualifying resource expenditures. As at March 31, 2008, MGM Energy estimates it had 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 not an option 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.

MGM Energy Options

	Weighted Average Exercise Price	Options
	<i>(\$ / share)</i>	
Balance, December 31, 2007	\$ 3.50	3,146,000
Granted during the six month period ended June 30, 2008	0.74	4,666,500
Forfeited during the six month period ended June 30, 2008	1.29	(319,000)
Balance, June 30, 2008	\$ 1.90	7,493,500
Options exercisable, June 30, 2008	\$ 4.81	369,500

Additional information about MGM Energy's stock options outstanding at June 30, 2008 is as follows:

Exercise Prices (\$ / share)	Outstanding		Exercisable
	Number	Weighted Average Contractual Life (years)	Number
\$0.72 - \$2.00	4,397,500	9.84	-
\$2.01 - \$3.00	1,648,000	8.72	7,500
\$3.01 - \$4.00	100,000	3.34	25,000
\$4.01 - \$5.00	1,348,000	2.83	337,000
Total	7,493,500	8.25	369,500

The fair value of the stock options granted in the second quarter of 2008 is estimated to be \$1.9 million using the Black-Scholes model with the following weighted average assumptions: expected life of options – seven years; average interest rate – 3.58 percent; volatility – 50 percent; dividend rate - \$nil.

Contributed Surplus

A reconciliation of contributed surplus is provided below.

	Six Months Ended June 30, 2008
Balance, beginning of period	\$ 2,307
Stock-based compensation expense	1,006
Balance, end of period	\$ 3,313

8. Income Taxes

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

	Three Month Ended June 30, 2008	Six Months Ended June 30, 2008
Loss before tax	\$ (7,255)	\$ (66,564)
Effective Canadian statutory income tax rate	29.5 %	29.5 %
Expected tax recovery	\$ (2,140)	\$ (19,636)
Decrease (increase) resulting from:		
Statutory and other rate differences	479	2,391
Stock-based compensation	188	297
Valuation allowance reversal	(1,155)	-
Other	(308)	332
Future tax recovery	\$ (2,936)	\$ (16,616)

Components of Future Income Tax Asset:

	June 30, 2008	December 31, 2007
Property, plant and equipment – carrying value deficit (excess) over tax basis	\$ (11,867)	\$ 2,111
Asset retirement obligations	451	302
Loss carryforwards	10,778	7,744
Share issuance costs and other	3,574	3,145
Future income tax asset	\$ 2,936	\$ 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 equivalents balance for the quarter ended June 30, 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 June 30, 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 the equity issue completed by MGM Energy on July 15, 2008, Paramount purchased 22.4 million common shares, resulting in an increase in its holdings to 43.9 million common shares, representing 16.7 percent of the issued and outstanding common shares of MGM Energy after completion of the equity issue.

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 six months ended June 30, 2008:

- For the period ended June 30, 2008, other amounts billed by Paramount under a services agreement totaled \$0.1 million, including a 10 percent charge of approximately \$0.01 million.
- During the second quarter of 2008, MGM Energy and Paramount resolved the ownership issues regarding a lease rental rebate of \$0.4 million that was received by MGM Energy in 2007.

11. Subsequent Event

On July 15, 2008, MGM Energy closed an equity offering of Common and Flow-Through Shares for gross proceeds of \$80.1 million by issuing 82 million common shares for \$0.55 per share and 52.25 million common shares on a flow-through basis for \$0.67 per share. The proceeds from the offering will be used to fund MGM Energy's 2008 – 2009 winter drilling program and for general corporate purposes.

SHAREHOLDER INFORMATION

OFFICERS

C.H. (Clay) Riddell
Chief Executive Officer

Henry W. Sykes, QC
President

Gary L. Bunio
Chief Operating Officer

Nancy F. Dilts
Vice President Legal and Regulatory

John Hogg
Vice President Exploration

Rick Miller
Chief Financial Officer

DIRECTORS

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

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

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

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

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

James H.T. Riddell
Calgary, Alberta

Robert R. Rooney ^{(1) (3) (4)}
Calgary, Alberta

Henry W. Sykes, QC
President

HEAD OFFICE

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

INQUIRIES

info@mgmenergy.com

CONSULTING ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

AUDITORS

Ernst & Young LLP
Calgary, Alberta

BANKERS

Bank of Montreal
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Investor Service
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
("MGX")



⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Environmental, Health and Safety Committee

⁽³⁾ Member of Compensation Committee

⁽⁴⁾ Member of Corporate Governance Committee