



MGM ENERGY CORP.

2008 THIRD QUARTER REPORT

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

November 5, 2008

Dear Shareholders,

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

As has been the case since we began, the quarter has been mixed. In those areas where we are in control of events, we have done well, meeting our targets. In other areas, where we are not in control, very little has happened.

We remain disappointed by the conduct of the Joint Review Panel, which continues to refuse to give any deadline for issuing its report. This month marks the one-year anniversary of the end of the JRP hearings (which exceeded all deadlines set). An expressed deadline would not only allow others to plan, but would require those operating under it to focus and prioritize. In effect, deadlines are a part of good governance and a best practice. The JRP, however, evidences a continuing disregard for process and for the people, communities and organizations that await its recommendations.

The third quarter is typically one of our busiest quarters, and this year was no exception. We have procured all of the materials and personnel needed to conduct our 2008/09 winter drilling program. Like last year, we have decided to stage the equipment needed to spud our first well on barges, and those barges were all towed to, and moored at, the landing site prior to the Mackenzie River beginning to freeze up. As a result, we expect to spud our first well no later than Christmas, a full month earlier than would have been possible if we had relied on ice roads.

In a press release dated September 10, 2008, we said we would drill four wells on our west Mackenzie Delta farm-in lands this winter. In view of the absence of any progress on the Mackenzie Valley Gas Project regulatory process, we have decided to drill only three wells. The immediate impact of this will be that our spending in the North will be reduced by at least \$10 million this winter. This reduction in spending will have an impact on northern communities and people, which we regret. However, the decision will conserve working capital, giving us more flexibility in 2009.

In addition to planning our drilling program, we also completed a joint operating agreement with Devon Canada with respect to the lands which we acquired in the Central Mackenzie Valley earlier this year. While much work remains to be done to firm up drilling prospects, we believe that these lands may be prospective for oil. The Norman Wells pipeline, which carries oil and is currently less than half full, runs through this property. As a result, any discoveries could be brought on to production very quickly.

Market conditions have of course deteriorated markedly since our last quarterly review, and our stock has not been immune from the downturn. In a view likely shared by many other public companies, we do not believe that our current market valuation adequately reflects the prospects or achievements of this company, and we thank you for your patience.

I want to thank our board, our employees, our shareholders and the people of the Western Arctic for their continuing 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 nine months ended September 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 November 3, 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 September 30		Nine Months Ended September 30	
	2008	2007	2008	2007 ⁽¹⁾
Interest income	668	1,091	2,137	1,771
Expenses				
General and administrative	956	1,526	3,672	4,353
Stock-based compensation	705	750	1,711	2,180
Pipeline regulatory and access	-	166	55	426
Exploration	(235)	2,154	28,058	2,970
Lease rental and land costs	63	785	3,273	789
Dry hole	-	(2,156)	32,432	34,241
Interest and financing charges	75	40	214	136
Accretion and depreciation	135	97	317	194
Future income tax expense (recovery)	12	(442)	(16,604)	(12,497)
Net loss	(1,043)	(1,829)	(50,991)	(31,021)

⁽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 September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Interest income for the period	668	1,091	2,137	1,771

MGM Energy earns interest income on short-term investments resulting from funds raised from equity issues prior to utilization on capital expenditures. Interest income decreased 39% from the third quarter of 2007 to the third quarter of 2008, predominantly due to 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 September 30, 2008, MGM Energy had \$92 million of short-term investments, which bore interest at rates between 3.02% and 3.40% per annum and had original maturities of three months or less. The Company had no investments in asset-backed commercial paper at September 30, 2008.

General and Administrative (G&A) Expense

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Gross G&A Expense	956	1,526	3,681	4,353
Overhead Recoveries	-	-	(9)	-
Net G&A Expense for the period	956	1,526	3,672	4,353

G&A expenses for the three month period ended September 30, 2008 decreased by 37% from the same period in 2007. This was largely due to the timing of certain expenses plus the classification of employee and consultant costs of the exploration group as Exploration Expense in 2008 whereas they were included in G&A expenses in 2007.

Stock-Based Compensation Expense

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Stock-Based Compensation Expense for the period	705	750	1,711	2,180

For the three month period ended September 30, 2008, stock-based compensation expense was essentially 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 three quarters of 2008.

Pipeline Regulatory and Access Expense

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Pipeline Regulatory and Access Expense for the period	-	166	55	426

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 Gas Gathering System. There were no applicable costs in the quarter ended September 30, 2008.

Exploration Expense (Recovery)

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Exploration Expense (Recovery) for the period	(235)	2,154	28,058	2,970

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 \$28.1 million for the nine month period ended September 30, 2008, of which \$26.7 million related to the 2007/08 winter seismic program and the balance related to 2008 projects and employee and consultant costs. The exploration expense of negative \$0.2 million for the three months ended September 30, 2008 was a result of exploration costs for the period of \$1.1 million being offset by a reversal of \$1.3 million of the estimated costs of the 2007/08 winter seismic program as it has since been determined that the original estimate of costs was higher than actual costs incurred.

Lease Rental and Land Cost Expense

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Lease Rental and Land Cost Expense for the period	63	785	3,273	789

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 third quarter of 2008, amounts paid for rentals on properties located in the Central Mackenzie area were partially offset by lease rental refunds accrued due to work completed in the winter of 2007/08 in the Delta region that are available to reduce previous rental payments made.

Dry Hole Expense (Recovery)

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Dry Hole Expense (Recovery) for the period	-	(2,156)	32,432	34,241

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 nine month period ended September 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 dry hole costs for the nine month period ended September 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 September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Interest and Financing Charges for the period	75	40	214	136

Interest and financing charges include fees related to the establishment and increase of the Demand Facility and charges for letters of credit. There was an increase from the three month period ended September 30, 2007 to the same period in 2008 as there was a larger amount of letters of credit outstanding in 2008.

Depreciation and Accretion

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Accretion of Asset Retirement Obligations for the period	36	64	91	134
Depreciation for the period	99	33	226	60

The decline in the accretion of Asset Retirement Obligations (“ARO”) from the third 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 furniture and fixtures in the Company’s offices and other company-owned assets. The increase in depreciation from the the third quarter of 2007 to the third quarter of 2008 was due to an increase in assets subject to depreciation. There was no amortization of property, plant and equipment as the Company had no production during either year.

Income Taxes

The future income tax expense for the three month period ended September 30, 2008 was \$0.01 million as compared to a future income tax recovery of \$0.44 million in the same period in 2007. There was a small future income tax expense during the third quarter of 2008 despite there being a loss before tax of \$1.0 million due to permanent differences between calculating income for tax purposes and income for accounting purposes. 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 \$3.7 million at September 30, 2008, representing the future tax recovery based on the loss for income tax purposes during the nine month period ending September 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 expenditures to 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 third quarter 2008 was \$1.0 million, compared to a net loss of \$1.8 million during the same period in 2007, with the decrease chiefly the result of lower exploration, G&A and lease rental expenses. Net loss per basic share for the three month period ended September 30, 2008 was nil. 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 September 30, 2008 was negative \$0.4 million, compared to negative \$1.4 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 generates production revenue.

Capital Expenditures

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Drilling and logistics	5,022	6,015	53,023	38,592
Acquisitions	-	-	-	172,750
Land	-	10,244	(1,000)	11,244
Geological and geophysical	(235)	2,154	28,058	2,971
Other	360	522	393	661
Total	5,147	18,935	80,474	226,218

Capital expenditures during the nine month period ended September 30, 2008 were predominantly related to the 2007/08 winter drilling and seismic programs. The drilling and logistics costs were \$53.0 million for the nine months ended September 30, 2008, of which \$48.0 million represents expenditures incurred in the three quarters of 2008 for the three wells drilled during the 2007/08 winter: Atik P-19, Aput C-43 and Langley E-07. The balance represents expenditures incurred for the 2008/2009 winter drilling program.

There were \$28.1 million of geological and geophysical (“G&G”) costs incurred in the nine month period ended September 30, 2008, of which \$26.7 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 G&G costs relate to staffing and consultant costs plus other minor seismic costs. The G&G costs of negative \$0.2 million in the third quarter of 2008 was a result of exploration costs for the period of \$1.1 million being offset by a reversal of \$1.3 million of the estimated costs of the 2007/08 winter seismic program as it has since been determined that the original estimate of costs was higher than actual costs incurred. Other costs are for minor furniture and equipment purchases.

Summary of Quarterly Results

(\$000s, except as noted)	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Interest Income	668	435	1,034	1,345	1,091	427	253	-
Net Loss	(1,043)	(4,319)	(45,629)	(31,310)	(1,829)	(1,849)	(27,343)	(2,915)
Per share - (\$/share) ⁽¹⁾⁽²⁾	(0.00)	(0.03)	(0.35)	(0.24)	(0.02)	(0.03)	(1.57)	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 September 30, 2008, MGM Energy had a working capital surplus of \$87.8 million. MGM Energy invests its cash resources in a variety of investments in accordance with the Company's investment policy. At September 30, 2008, MGM Energy had no investments in asset-backed commercial paper.

On July 15, 2008, MGM Energy closed an equity offering which resulted in net proceeds (after share issuance costs) of approximately \$77.2 million. The Company plans to drill three wells during the 2008/09 winter season and sufficient cash resources exist at September 30, 2008 to fund the expected cost of the winter drilling program plus all of the other corporate costs of MGM Energy for at least the next year.

MGM Energy has a \$30 million senior secured revolving demand facility with a Canadian bank (the "Demand Facility"), which was increased on October 14, 2008 to \$40 million on a temporary basis to April 30, 2009. The increase in the facility will provide additional capacity for MGM Energy to issue letters of credit for its planned 2008/09 drilling program, such letters of credit to be released at the end of the drilling season. Any usage of the facility in excess of \$30 million will be available only to the extent that MGM Energy maintains cash or cash equivalents equal to the amount of usage in excess of \$30 million. MGM Energy's current cash flow forecast indicates that it will have more than sufficient cash resources during the winter drilling season to allow usage of the facility up to its \$40 million limit.

Up to \$10 million of the facility 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 repay 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 September 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 November 3, 2008, MGM Energy had 263.2 million Common Shares issued and outstanding and 8.1 million stock options outstanding, of which 1,076,000 are exercisable.

Contractual Obligations

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

(\$000s)	Recognized in financial statements	Less than 1 Year	1 – 3 years	4 – 5 years	After 5 years	Total
Asset retirement obligations	Yes- Partially	-	-	-	16,300	16,300
Obligations under leases	No	718	1,812	1,812	679	5,021
Capital spending commitment ⁽¹⁾	No	23,400	41,400	29,800	-	94,600
Total		24,118	43,212	31,612	16,979	115,921

⁽¹⁾ Includes commitments for goods and services for the 2008/09 winter drilling program committed as at September 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 \$38 million over the next five years. As a condition of the Exploration Licences, the Company is required to post security of 25% of its share of these work commitments via letters of credit. The letters of credit are reduced in proportion to the actual work expenditures over the life of the Exploration Licence. If the

work commitment is not fully met by the expiry date of the Exploration Licence, the Company is liable only for the remaining amount of the letter of credit.

Related Party Transactions

Paramount Resources Ltd.

At September 30, 2008, Paramount held 43.9 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 nine month period ended September 30, 2008:

- For the nine month period ended September 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.
- Paramount participated in the July 2008 Common Share issuance, purchasing 22,363,636 Common Shares for gross proceeds of \$12.3 million.

Other

Certain directors and officers of MGM Energy participated in the July 2008 Common Share issuance, purchasing 110,000 Common Shares and 30,379,850 Common Shares issued on a flow-through basis for aggregate gross proceeds to MGM Energy of \$20.4 million.

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 was approximately \$77.2 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 farmin 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 farmin). The Company had originally planned to drill up to four wells on the BP/Chevron lands during the 2008/09 winter, however, the Company has reduced the program to three wells. The three wells to be drilled are a well located on Ellice Island to test the Taglu formation (Ellice J-27), a well to test a stratigraphic play on the west side of Langley Island (Ellice J-17) and a well to test a footwall of the Ellice Island anticline (Ellice A-25). The reduction in the drilling program was considered prudent by the Company given the lack of progress in the Mackenzie Valley Gas Project regulatory process.

In addition, the Company is reviewing all of its capital and operating expenditures to ensure they remain necessary in the current environment of economic uncertainty. The Company has sufficient funds on hand from its July 2008 equity issue to fund the cost of the drilling program and fund its corporate costs for at least 2008 and 2009.

Recent Accounting Pronouncements

Capital Disclosures and Financial Instruments – Disclosure and Presentation

Beginning in 2008, MGM Energy 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 nine months ended September 30, 2008.

MGM Energy Corp.

Interim Financial Statements (Unaudited)

As at and for the three and nine months ended September 30, 2008 and 2007

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

	As at September 30 2008	As at December 31 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 93,911	\$ 111,301
Accounts receivable and other current assets	1,632	730
	95,543	112,031
Property, plant and equipment (Note 3)	257,601	237,320
Future income taxes (Note 8)	3,730	13,302
	\$ 356,874	\$ 362,653
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 7,640	\$ 15,799
Due to related parties (Note 10)	66	81
	7,706	15,880
Asset retirement obligations (Note 5)	1,786	1,172
	9,492	17,052
Shareholders' Equity		
Share capital (Note 6)	455,336	404,275
Contributed surplus (Note 7)	4,018	2,307
Deficit	(111,972)	(60,981)
	347,382	345,601
	\$ 356,874	\$ 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 September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Revenue				(Note 1)
Interest income	\$ 668	\$ 1,091	\$ 2,137	\$ 1,771
Expenses				
General and administrative	956	1,526	3,672	4,353
Stock-based compensation (Note 7)	705	750	1,711	2,180
Pipeline regulatory and access	-	166	55	426
Exploration	(235)	2,154	28,058	2,970
Lease rental and land costs	63	785	3,273	789
Dry hole (Note 3)	-	(2,156)	32,432	34,241
Interest and financing charges	75	40	214	136
Accretion of asset retirement obligations (Note 5)	36	64	91	134
Depreciation	99	33	226	60
	1,699	3,362	69,732	45,289
Loss before tax	(1,031)	(2,271)	(67,595)	(43,518)
Future income tax expense (recovery) (Note 8)	12	(442)	(16,604)	(12,497)
Net loss and comprehensive loss	\$ (1,043)	\$ (1,829)	\$ (50,991)	\$ (31,021)
Net loss per Common Share (\$/share)				
Basic	(0.00)	(0.02)	(0.31)	(0.50)
Diluted	(0.00)	(0.02)	(0.31)	(0.50)
Weighted average Common Shares outstanding (000s)				
Basic	241,306	114,532	166,672	62,516
Diluted	241,306	114,532	166,672	62,516

Statements of Deficit (Unaudited)

(\$000s)

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Deficit, beginning of period	\$ (110,929)	\$ (27,842)	\$ (60,981)	\$ -
Net loss	(1,043)	(1,829)	(50,991)	(31,021)
Allocation to net investment by Paramount Resources Ltd.	-	-	-	1,350
Deficit, end of period	\$ (111,972)	\$ (29,671)	\$ (111,972)	\$ (29,671)

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		Nine Months Ended	
	September 30		September 30	
	2008	2007	2008	2007
				(Note 1)
Operating activities				
Net loss	\$ (1,043)	\$ (1,829)	\$ (50,991)	\$ (31,021)
Add (deduct):				
Stock-based compensation	705	750	1,711	2,180
Exploration	(235)	2,154	28,058	2,970
Dry hole	-	(2,156)	32,432	34,241
Accretion of asset retirement obligations (Note 5)	36	64	91	134
Asset retirement obligation expenditures	-	(2)	-	(402)
Depreciation	99	33	226	60
Future income tax expense (recovery)	12	(442)	(16,604)	(12,497)
Funds flow used in operations	(426)	(1,428)	(5,077)	(4,335)
Change in non-cash working capital	742	278	1,003	546
	316	(1,150)	(4,074)	(3,789)
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	77,237	106,400	77,237	355,106
Net investment by Paramount Resources Ltd. for period prior to spin-out	-	-	-	3,195
	77,237	106,400	77,237	346,464
Investing activities				
Capital expenditures	(5,147)	(18,935)	(80,474)	(226,218)
Reorganization costs	-	-	-	(1,000)
Change in non-cash working capital	(2,374)	3,086	(10,079)	8,116
	(7,521)	(15,849)	(90,553)	(219,102)
Increase (decrease) in cash and cash equivalents	70,032	89,401	(17,390)	123,573
Cash and cash equivalents, beginning of period	23,879	34,172	111,301	-
Cash and cash equivalents, end of period	\$ 93,911	\$ 123,573	\$ 93,911	\$ 123,573

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.

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

3. Property, Plant and Equipment

	September 30, 2008			December 31, 2007
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	\$ 256,836	\$ -	\$ 256,836	\$ 236,719
Other	1,123	(358)	765	601
	\$ 257,959	\$ (358)	\$ 257,601	\$ 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

	Nine Months Ended September 30, 2008	Year Ended December 31, 2007
Balance, beginning of period	\$ 52,778	\$ 70,268
Additions pending the determination of proved reserves	17,469	7,691
Well costs charged to dry hole expense	-	(25,181)
Balance, end of period	\$ 70,247	\$ 52,778

Aging of Capitalized Exploratory Well Costs

	September 30 2008	December 31 2007
Exploratory well costs capitalized for a period of one year or less	\$ 25,160	\$ 7,691
Exploratory well costs capitalized for a period of greater than one year	45,087	45,087
Balance, end of period	\$ 70,247	\$ 52,778
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	7	6

At September 30, 2008, \$70.2 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 nine months ended September 30, 2008 relates to two wells drilled during the 2007/08 winter program and \$34.2 million for the nine months ended September 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 September 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.

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

5. Asset Retirement Obligations

	Nine Months Ended September 30, 2008	
Asset retirement obligations, beginning of period	\$	1,172
Liabilities incurred		523
Liabilities settled		-
Accretion expense		91
Asset retirement obligations, end of period	\$	1,786

The total future asset retirement obligation was estimated by management based on MGM Energy's net ownership in all wells, estimated work to reclaim and abandon the wells and the estimated timing of the costs to be incurred in future periods. The undiscounted cash flows estimated to settle the asset retirement obligations associated with MGM Energy's oil and gas properties at September 30, 2008 are \$16.3 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 September 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)
Issued for cash	134,250,000	80,108
Share issuance cost, net of tax benefit	-	(2,065)
Balance, September 30, 2008	263,194,844	\$ 455,336

In July 2008, MGM Energy issued 82,000,000 Common Shares at \$0.55 per share and 52,250,000 Common Shares issued on a flow-through basis at \$0.67 per share, for gross proceeds of \$80.1 million.

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 that it had incurred the entire amount of qualifying expenditures relative to the flow-through shares issued in 2007.

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

In July 2008, MGM Energy issued a total of \$35.0 million of Common Shares on a “flow-through” basis. As a result, the Company must incur an equivalent amount of qualifying resource expenditures. At September 30, 2008, MGM Energy estimates it has incurred approximately \$5.0 million of qualifying expenditures relative to the flow through shares issued in July 2008.

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
	(\$ / share)	
Balance, December 31, 2007	\$ 3.50	3,146,000
Granted during the nine month period ended September 30, 2008	0.69	5,134,500
Forfeited during the nine month period ended September 30, 2008	1.27	(334,000)
Balance, September 30, 2008	\$ 1.82	7,946,500
Options exercisable, September 30, 2008	\$ 3.60	759,000

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

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

Exercise Prices (\$ / share)	Outstanding		Exercisable
	Number	Weighted Average Contractual Life (years)	Number
\$0.50 - \$2.00	4,850,500	8.66	-
\$2.01 - \$3.00	1,648,000	8.47	397,000
\$3.01 - \$4.00	100,000	3.08	25,000
\$4.01 - \$5.00	1,348,000	2.58	337,000
Total	7,946,500	7.52	759,000

The fair value of the stock options granted in the third quarter of 2008 is estimated to be \$0.1 million using the Black-Scholes model with the following weighted average assumptions: expected life of options – seven years; average interest rate – 3.80 percent; volatility – 50 percent; dividend rate - \$nil.

Contributed Surplus

A reconciliation of contributed surplus is provided below.

	Nine Months Ended September 30, 2008
Balance, beginning of period	\$ 2,307
Stock-based compensation expense	1,711
Balance, end of period	\$ 4,018

8. Income Taxes

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

	Three Month Ended September 30, 2008	Nine Months Ended September 30, 2008
Loss before tax	\$ (1,031)	\$ (67,595)
Effective Canadian statutory income tax rate	29.5 %	29.5 %
Expected tax recovery	\$ (304)	\$ (19,941)
Decrease resulting from:		
Statutory and other rate differences	107	2,498
Stock-based compensation	208	505
Other	1	334
Future income tax expense (recovery)	\$ 12	\$ (16,604)

Components of Future Income Tax Asset:

	September 30, 2008	December 31, 2007
Property, plant and equipment – carrying value deficit (excess) over tax basis	\$ (13,192)	\$ 2,111
Asset retirement obligations	460	302
Loss carry forwards	12,743	7,744
Share issuance costs and other	3,719	3,145
Future income tax asset	\$ 3,730	\$ 13,302

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

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 September 30, 2008, had interest rates during the quarter been 100 basis points higher assuming all other variables remained constant, the net loss before tax 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 September 30, 2008, Paramount held 43.9 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 nine months ended September 30, 2008:

- For the nine months ended September 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.
- Paramount participated in the July 2008 Common Share issuance, purchasing 22,363,636 Common Shares for gross proceeds of \$12.3 million.

Other

Certain directors and officers of MGM Energy participated in the July 2008 Common Share issuance, purchasing 110,000 Common Shares and 30,379,850 Common Shares issued on a flow-through basis for aggregate gross proceeds to MGM Energy of \$20.4 million.

11. Subsequent Event

On October 14, 2008, MGM Energy obtained a temporary increase in the amount of its bank facility from \$30 million to \$40 million until April 30, 2009. The increase in the facility will provide additional capacity for MGM Energy to issue letters of credit for its planned 2008/09 drilling program, such letters of credit to be released at the end of the drilling season. Any usage of the facility in excess of \$30 million will be available only to the extent that MGM Energy maintains cash or cash equivalents equal to the amount of usage in excess of \$30 million.

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

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Computershare Investor Service
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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