



Management's Discussion and Analysis
For the year ended December 31, 2008

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial Statements of MGM Energy Corp. ("MGM Energy" or the "Company") as at and for the year ended December 31, 2008. Information in this MD&A and the financial statements has been presented in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP"), unless otherwise stated.

This MD&A contains forward-looking information. Readers are referred to the advisories concerning such matters under the heading "Forward-Looking Information Disclaimer" below.

This MD&A is dated March 5, 2009. Additional information concerning MGM Energy, including its Annual Information Form, can be found on the SEDAR website at www.sedar.com.

Forward-Looking Information Disclaimer

Certain information included in this MD&A constitutes forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain or can be identified by statements that include words such as "anticipate", "assume", "based", "believe", "can", "continue", "depend", "estimate", "expect", "forecast", "if", "intend", "may", "plan", "project", "propose", "result", "upon", "will", "within" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include but are not limited to estimates of future capital expenditures, capital raising, business strategy and objectives, exploration, development and production plans and the timing thereof, operating and other costs.

Such forward-looking statements or information are based on a number of assumptions that may prove to be incorrect. Assumptions have been made regarding, among other things: the ability of MGM Energy to obtain required capital to finance its exploration, development and operations; the ability of MGM Energy to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities; the ability of MGM Energy to market its oil and natural gas successfully; the ability of MGM Energy to transport its oil and natural gas successfully to market; the timing and costs of the Mackenzie Valley pipeline and facility construction and expansion and the ability of MGM Energy to secure adequate product transportation; the ability of MGM Energy to enjoy drilling success consistent with expectations; the timely receipt of required regulatory approvals; and future oil and gas prices.

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

Basis of Presentation

MGM Energy is an independent Canadian public company, the principal business of which is to acquire, develop, optimize, exploit and produce oil and natural gas in Northern Canada. On January 12, 2007, MGM Energy was a party to a plan of arrangement under the ABCA (*Business Corporations Act (Alberta)*) which involved Paramount Resources Ltd. ("Paramount") and its shareholders, through which MGM Energy acquired its principal assets from

Paramount (the “MGM Spinout”). Immediately following the MGM Spinout, the principal assets of MGM Energy were:

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

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

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

This MD&A contains disclosure and discussions concerning: (i) the historic financial position, results of operations and cash flows relating to the Farm-in Properties and the Colville Properties; and (ii) the results of operations and cash flows relating to the Ancillary Asset, on a carve-out basis from Paramount as if MGM Energy had operated as a stand-alone entity subject to Paramount’s control prior to January 12, 2007. Commencing January 12, 2007, MGM Energy 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, 2008.

Results of Operations

Statements of Loss – Selected Items

(\$000s)	2008	2007 ⁽¹⁾
Interest income	2,763	3,116
Expenses		
General and administrative	5,513	5,881
Stock-based compensation	2,357	2,561
Pipeline regulatory and access	55	598
Exploration	28,827	11,591
Lease rental and land costs	3,273	1,051
Dry hole expense	73,942	66,423
Write-down of petroleum and natural gas properties	10,000	-
Interest and financing charges	336	236
Accretion and depreciation	510	331
Future income tax recovery	(21,889)	(23,225)
Net loss	(100,161)	(62,331)

⁽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

	2008	2007
Interest income for the year (\$000s)	2,763	3,116
Average interest rate earned during the year (%)	3.48 %	5.24 %

MGM Energy earns interest income on short-term investments resulting from funds raised from equity issues prior to utilization on capital expenditures. Interest income declined from \$3.1 million in 2007 to \$2.8 million in 2008 due to the affect of higher average cash balances in 2008 being more than offset by the affect of lower average interest rates on investments as a result of a general decline in interest rate levels. Interest income for 2009 will be dependent on the prevailing market interest rates and the timing of capital expenditures and additional equity issues, if any. As at December 31, 2008, MGM Energy had \$80 million of short-term investments, which bore interest at rates between 1.46% and 2.19% per annum and have original maturities of three months or less. The Company had no investments in asset-backed commercial paper at December 31, 2008.

General and Administrative (G&A) Expenses

(\$000s)	2008	2007
Gross G&A Expenses	5,525	5,888
Overhead Recoveries	(12)	(7)
Net G&A Expenses for the year	5,513	5,881

G&A expenses decreased by 6% from 2007 to 2008 due primarily to higher costs incurred in 2007 to set up and establish the Company in its first year of operations. G&A expenses are anticipated to be in the \$5 to \$6 million range in 2009 unless there is a significant increase or decrease in the level of activity during the year.

Stock-Based Compensation Expense

(\$000s)	2008	2007
Stock-Based Compensation Expense for the year	2,357	2,561

For 2008, stock-based compensation expense was \$2.4 million, a reduction of 8% from 2007. The 2008 amount represents expense related to options granted to the Company's management, employees and directors. The reduction from the 2007 expense was due to a lower Black-Scholes-Merton valuation of options granted in 2008 compared to those granted in 2007.

Pipeline Regulatory and Access Expense

(\$000s)	2008	2007
Pipeline Regulatory and Access Expense for the year	55	598

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

Exploration Expense

(\$000s)	2008	2007
Exploration Expense for the year	28,827	11,591

MGM Energy utilizes the successful efforts method of accounting, and therefore, all exploration costs are expensed as incurred. Included in exploration expense are the cost of purchasing and shooting seismic and the cost of geological and geophysical employees and consultants. Exploration expense of \$28.8 million in 2008 included \$26.7 million incurred for the 2007/08 winter seismic program (details under "Capital Expenditures") plus \$2.1 million for employee and consultant costs and processing costs for existing seismic data. Exploration expense was substantially less in 2007 as there was only \$5.7 million of costs related to the 2007/08 winter seismic program and no seismic program in the winter of 2006/07.

Lease Rental and Land Costs

(\$000s)	2008	2007
Lease Rental and Land Cost Expense for the year	3,273	1,051

Lease rental and land cost expense represents costs associated with annual lease rentals of properties held by the Company plus the cost of unfulfilled expenditure commitments on land that expires. Under the successful efforts method of accounting, they are charged to expense as incurred. During 2008 costs totalled \$3.3 million and were primarily related to expenditure commitments on two properties in the Central Mackenzie area. Lease rental and land costs for 2009 are anticipated to be approximately \$2 million representing lease rental and expenditure commitments on MGM Energy's properties.

Dry Hole Expense

(\$000s)	2008	2007
Dry Hole Expense for the year	73,942	66,423

Under the successful efforts method of accounting, dry hole expense represents the cost of drilling exploratory wells for which no economically recoverable reserves are found. There were seven wells that were charged to dry hole expense for 2008, as follows:

- Atik P-19 and Aput C-43 were drilled during the 2007/08 winter drilling program. The Atik well was spudded in December 2007 and completed in February 2008 while the Aput well was spudded in February 2008 and completed in March 2008. Neither of the wells discovered hydrocarbons. The dry hole expense related to these two wells is \$32.4 million and represents the direct drilling costs incurred plus the allocation to the Atik and Aput wells of logistics and ice-road building costs incurred in 2008.
- Langley E-07 well was the final well drilled during the 2007/08 winter drilling program. It was spudded in March 2008 and completed in April 2008. MGM Energy has found sufficient reserves to apply for a Significant Discovery License (SDL). However, the discovery does not appear to be of a sufficient size on its own to be economic to tie in to the proposed Mackenzie Valley pipeline at current gas prices. Therefore, under the successful efforts method of accounting, this well is expensed as “dry hole” expense. The dry hole expense related to this well is \$20.1 million and represents the direct drilling cost incurred as well as the allocation to the Langley well of logistics and ice-road building costs.
- North Ellice J-17 was drilled during the 2008/2009 winter drilling program. The Ellice well was spudded and completed in February 2009. The well encountered poor quality reservoir sections and no hydrocarbons were present. The dry hole expense related to this well is \$4.4 million and represents the costs incurred in 2008 that were allocated to the well.
- Three of the wells were drilled by Paramount and its partner in 2004 and 2005 and had not previously been charged to dry hole expense as there was an ongoing assessment of these wells. The wells involved were in the Maunoir and North Tunaga areas and had an original cost to drill of \$17.0 million. MGM Energy reassessed the two Maunoir wells during 2008 and determined that at current oil prices, it would be uneconomic to tie in this discovery to the proposed Mackenzie Valley pipeline. As a result, under successful efforts accounting, the cost was charged to dry hole expense in the fourth quarter of 2008. The North Tunaga well was a rathole drilled in 2005, which will not be completed as a well prior to the expiry of the land. These dry hole costs are not related to any wells in which the Company has previously attributed resources.

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

Write-down of Petroleum and Natural Gas Properties

(\$000s)	2008	2007
Write-down of Petroleum and Natural Gas Properties for the year	10,000	-

In 2007, MGM Energy made a \$10 million deposit on Inuvik Block lands as part of farm-in agreement, which was carried as “undeveloped land”. MGM Energy has no immediate plans to drill on these lands, although there may be a well drilled on these blocks in the future. Given the lack of drilling activity and land transactions in the North to gauge a current market value, and with no immediate plans to drill on this land, the Company has determined that it is prudent for the book value to be written down to zero.

Interest and Financing Charges

(\$000s)	2008	2007
Interest and Financing Charges for the year	336	236

Interest and financing charges include fees related to the establishment and increase of the Demand Facility and charges for letters of credit. The increase of 42% compared to 2007 is due primarily to a higher average usage of letters of credit in 2008 compared to 2007.

Depreciation and Accretion

(\$000s)	2007	2007
Accretion of ARO Obligations for the year	128	199
Depreciation for the year	382	132

Accretion of Asset Retirement Obligations (“ARO”) decreased by 36% from 2007 to 2008 due to the revisions in the scope and estimated cost of abandonment. Depreciation expense represents the depreciation of the office furniture and fixtures and corporate equipment which almost tripled from 2007 due to asset purchases in late 2007 and 2008. There was no amortization of property, plant and equipment as the Company had no production during either year.

Income Taxes

Future income tax recovery was \$21.9 million in 2008, a 6% decrease from 2007. The recovery amount declined despite a much higher loss in 2008 compared to 2007 as the amount of income tax recovery in 2008 was limited by the amount that will be reversed from renunciation of flow through shares in the first quarter of 2009. As at December 31, 2008, MGM Energy had the following estimated tax pools (\$ million):

Canadian oil and gas property expense	167
Canadian development expense	-
Canadian exploration expense	9
Undepreciated capital cost	6
Share issuance costs	11
Tax losses carried forward	56

Based on MGM Energy’s current capital expenditure plans and earnings forecasts, the Company is not anticipating being taxable for the next several years. During 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. MGM Energy estimates it has incurred approximately \$19 million of qualifying expenditures relative to the flow-through shares issued in 2008 as at December 31, 2008. The Company estimates that it has incurred the balance of the required expenditures as at March 5, 2009.

Net Loss and Net Loss Per Share

Net loss for 2008 was \$100.2 million, compared to a net loss of \$62.3 million in 2007, with the increase chiefly the result of much higher exploration expense and a writedown of \$10 million of petroleum and natural gas properties in 2008. Net loss per basic share in 2008 was \$0.52 per share (2007 - \$0.79 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 or natural gas from the areas where the Company is active, it is likely that the Company will continue to generate losses for several years.

Funds Flow From Operations

Funds flow from operations for 2008 was negative \$6.4 million, compared to negative \$5.5 million in 2007, with the increase due to the higher lease rental and land costs for 2008. Funds flow from operations is equal to interest income less (i) G&A expenses, (ii) pipeline regulatory and access costs, (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 for several years until the Company begins to generate production revenue.

Capital Expenditures

(\$000s)	2008	2007
Drilling and logistics	67,153	47,873
Acquisitions	-	173,061
Land	(1,000)	11,000
Geological and geophysical	28,827	11,591
Other	879	733
Total	95,859	244,258

Of the total drilling and logistics costs in 2008 of \$67.2 million, \$47.6 million relates to 2008 expenditures for MGM Energy’s 2007/08 winter drilling program on the Farm-in Properties, with three wells being drilled: Atik P-19, Aput C-43 and Langley E-07. The Atik P-19 and Aput C-43 wells did not encounter commercial quantities of hydrocarbons and their costs were charged to dry hole expense. The Langley E-07 well discovered sufficient reserves to apply for a Significant Discovery Licence, however, as it has been determined that it would be uneconomic on its own to tie-in to the proposed Mackenzie Valley Pipeline at current gas prices, the costs were charged to dry hole expense in Q4 2008. The remainder of the drilling and logistics costs incurred in 2008 of \$19.6 million relates to the 2008/09 winter drilling program and include logistics and road construction costs for the three well drilling program plus direct drilling costs incurred in 2008 for the first well of the program, Ellice J-27.

The \$1 million recovery of land costs in 2008 represents the refund of a land deposit made in 2007 which had been originally capitalized to land at the time of expenditure and which was recovered as a result of the drilling of the Atik P-19 well.

Geological and geophysical expenditures incurred during 2008 predominantly relate to the 2007/2008 winter seismic program, with a total cost of \$26.7 million for a 3D and a 2D seismic program in the Mackenzie Delta and a 2D seismic program in the Central Mackenzie Valley. The balance of the costs relate to staffing and consultant costs plus other minor seismic costs.

Other capital expenditures represent furniture, computers and equipment purchases.

Fourth Quarter Results

The following is a summary of MGM Energy's 2008 results for the three months ended December 31, 2008 with comparative amounts for the three months ended September 30, 2008 and December 31, 2007:

(\$000s)	Three Months Ended		
	December 31/08	September 30/08	December 31/07
Interest income	626	668	1,345
Expenses			
General and administrative	1,841	956	1,928
Stock-based compensation	646	705	381
Pipeline regulatory and access	-	-	172
Exploration	769	(235)	8,221
Lease rental and land costs	-	63	262
Dry hole	41,510	-	32,182
Write-down of petroleum and natural gas properties	10,000	-	-
Interest and financing charges	122	75	100
Accretion and depreciation	193	135	137
Future income tax expense (recovery)	(5,285)	12	(10,728)
Net loss	(49,170)	(1,043)	(31,310)
Capital Expenditures	15,385	5,147	17,640

Overall results for the fourth quarter of 2008 were consistent with the results of the third quarter of 2008 and fourth quarter of 2007, other than for lower exploration costs, a larger dry hole expense and a write-down of petroleum and natural gas properties in the current quarter. Interest income in the fourth quarter of 2008 represented an average interest rate of 2.9% on average cash balances of \$80 million. General and administrative expenses of \$1.8 million during the fourth quarter of 2008 were higher than third quarter expense of \$1.0 million due to the accrual of bonuses during the fourth quarter of 2008. Stock based compensation expense declined in the fourth quarter of 2008 from the third quarter due to the reversal of amounts related to options that were forfeited during the quarter. The dry hole expense of \$41.5 million in the fourth quarter of 2008 represents (i) \$4.4 million, being the 2008 costs of the North Ellice J-17 well that was completed in February 2009 that did not encounter hydrocarbons and (ii) \$20.1 million, being the cost of the Langley E-07 well that successfully discovered natural gas when drilled in April 2008, however, was determined in the fourth quarter to be uneconomic at current gas prices and (iii) \$16.1 million related to the write-down of the Maunoir oil discovery that was capitalized pending the determination of the economics of the discovery and completion of the Mackenzie Valley Pipeline, however, was determined in the fourth quarter of 2008 to be uneconomic at current oil prices and (iv) \$0.9 million of costs related to the drilling of a rathole in 2005

that was intended to be completed as a well, but will not be completed prior to the expiry of the land. Under successful-efforts accounting, all of these costs are charged to dry-hole expense. In the fourth quarter of 2008, MGM Energy also wrote down the \$10 million deposit on Inuvik Block lands that had previously been capitalized, as MGM Energy has no immediate plans to drill on these lands. Exploration expense in the fourth quarter of 2008 was significantly less than the fourth quarter of 2007 as MGM Energy is not completing a seismic program during the 2008/09 winter season.

Summary of Quarterly Results

<i>(\$000s, except as noted)</i>	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest Income	626	668	435	1,034	1,345	1,091	427	253
Net Loss	(49,170)	(1,043)	(4,319)	(45,629)	(31,310)	(1,829)	(1,849)	(27,343)
Per share - (\$/share) ⁽¹⁾⁽²⁾	(0.19)	(0.00)	(0.03)	(0.35)	(0.24)	(0.02)	(0.03)	(1.57)

⁽¹⁾ Basic and diluted.

Liquidity and Capital Resources

As at December 31, 2008, MGM Energy had a working capital surplus of \$71.1 million, as the majority of the funds raised in the July 15, 2008 equity issue will not be spent until the first and second quarter of 2009. The gross proceeds of the equity issue were \$82.1 million with net proceeds of \$77.2 million. MGM Energy invests its cash resources in a variety of investments in accordance with the Company's investment policy. At December 31, 2008, MGM Energy had no investments in asset-backed commercial paper.

As a result of the equity issue in July 2008, MGM Energy has adequate cash resources to fund the expected 2008/2009 winter drilling program and other corporate costs, with an anticipated surplus of \$15 to \$18 million after the end of the winter drilling program. The excess cash will be sufficient to fund the Company's corporate costs and other potential obligations until 2010, however, the Company must raise additional funds for its ongoing corporate costs and commitments once current cash resources are depleted in 2010 or to finance any exploration activity in the 2009/10 winter drilling season. The Company intends to determine its capital and operating expenditure plans for the 2009/10 winter program in the second or third quarter of 2009. These plans will be dependent on the success of the 2008/09 winter drilling program, the progress on the Mackenzie Valley Pipeline and the ability of the Company to raise additional funds. The Company will not make commitments for its 2009/10 drilling program unless it has raised sufficient capital. As at the date of this MD&A, given the condition of the equity markets, the lack of commitment to build the Mackenzie Valley Pipeline and the Company's significant decline in share price over the past year, the risk associated with the Company's ability to obtain additional equity funding is much higher than in previous years. Management is currently uncertain whether, in the near term, MGM Energy will have access to equity at a price acceptable to it, whether through a marketed or bought deal financing or a rights offering, or other sources of funding such as asset sales. The Company will determine the acceptability of any particular price for equity based, in part, on the type of equity transaction being considered. The Company believes that there is currently a high level of risk associated with the completion of a conventional equity issue, but that a rights offering could be successful. The Company also believes that there will be sources of funding available in the mid to long term if there is confirmation that the Mackenzie Valley Pipeline will be built, and that these funding sources would not necessarily be impacted by the general market conditions at the time.

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. In October, 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 2008/2009 drilling program, such letters of credit to be released at the end of the drilling season. It is expected that the level of outstanding letters of credit will be in the \$22 to \$24 million range after the letters of credit related to the 2008/09 drilling program have been released. 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. At December 31, 2008, there were no borrowings under the Demand Facility, however, there were outstanding letters of credit totalling approximately \$33.0 million. These letters of credit have not been drawn; however, they reduce the amount available to MGM Energy under the Demand Facility on a dollar for dollar basis.

At March 5, 2009, MGM Energy had 263.2 million Common Shares issued and outstanding and 11.4 million stock options outstanding, of which 1.0 million are exercisable.

Contractual Obligations

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

<i>(\$000s)</i>	Recognized in financial statements	Less than 1 Year	1 – 3 years	4 – 5 years	After 5 years	Total
Asset retirement obligations	Yes- Partially	470	-	-	15,630	16,100
Obligations under leases	No	811	1,872	1,872	468	5,023
Capital spending commitment ⁽¹⁾	No	33,400	41,400	29,800	-	104,600
Total		34,681	43,272	31,672	16,098	125,723

(1) Includes MGM Energy drill rig commitment during the first quarter of 2009 and minimum work commitments under Exploration Licences and the Mackenzie Delta Farm-in.

MGM Energy is obligated under certain Northwest Territories Exploration Licences to fulfill minimum work commitments totalling \$38 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. If no expenditures are made on an Exploration Licence prior to its expiry, the Company must make a payment equal to the posted security, or 25% of the work commitment. Therefore, if no work is completed on the Company's various Exploration Licences during their terms, the maximum amount owing by the Company would be 25% of \$38 million, or approximately \$9.5 million.

Related Party Transactions

Paramount Resources Ltd.

At December 31, 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:

- MGM Energy acquired the Spinout Assets from Paramount pursuant to the MGM Spinout, as is more fully described in Note 1 (Structure and Formation of the Company). The transaction was accounted for using the carrying value of the property transferred, with the exception of the Ancillary Asset.
- For the year ended December 31, 2008, amounts billed by Paramount under a services agreement totalled \$0.2 million, which was equal to the cost to Paramount of providing the service plus a 10 percent charge of approximately \$0.02 million. The services that were provided by Paramount were chiefly human resources and regulatory consulting. The provision of these services by Paramount is the most cost effective solution for MGM Energy.
- Paramount Resources participated in the July 15, 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 15, 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.

MGM Energy reimbursed a director and officer of MGM Energy a total of \$0.04 million for costs incurred by the director and officer for transportation services. This amount was outstanding at December 31, 2008.

Outlook for 2009

As at the date of this MD&A, the Company is in the middle of its 2008/09 winter program, consisting of a three well program in the Mackenzie Delta region. The first well, Ellice J-27, was completed in January 2009 and discovered a significant reservoir of natural gas. The second well, North Ellice J-17, was completed in February 2009 and did not encounter any hydrocarbons. The third well, Ellice A-25, was spud on March 2 and will be completed in late March or early April 2009.

MGM Energy's plans for the winter of 2009/10 have not yet been established. The extent of any exploration activities and related capital and corporate expenditures will be based on the ability of the Company to raise additional funds from equity or asset sales. The Company intends to establish its capital and operating expenditure plans for the 2009/10 winter program in the second or third quarter of 2009. These plans will be dependent on the success of the 2008/09 winter drilling program, the progress on the Mackenzie Valley Pipeline and the state of the capital markets. The Company will not make commitments for its 2009/10 capital program unless it has raised sufficient capital. Commodity prices continue to be below levels seen in the past few years, and as a result, the capital markets continue to be difficult for smaller, riskier oil and gas ventures such as MGM Energy. There has, over the past few months, been positive news regarding potential government support for the construction of the Mackenzie Valley pipeline, however, as of the date of this MD&A, there has been no definitive decision to construct the pipeline and regulatory approval has not yet been obtained. Given this uncertainty and the condition of the equity markets, the Company believes that there is a higher level of risk than existed previously that MGM Energy will not have access to equity, whether through a marketed or bought deal financing or a rights offering, or other sources of funding such as asset sales.

Recent Accounting Pronouncements

Capital Disclosures and Financial Instruments – Disclosure and Presentation

Beginning in 2008, MGM Energy adopted 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.

Transition to International Financial Reporting Standards (“IFRS”)

In February 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011.

On June 27, 2008 the Canadian Securities Administrators (“CSA”) issued Staff Notice 52-321, Early Adoption of IFRS which indicated that the CSA would be prepared to grant an exemption to allow Canadian financial statement issuers to adopt IFRS early on a case-by-case basis, provided that they could demonstrate that they met certain conditions. The Company is not planning to adopt IFRS early.

The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The AcSB proposes that CICA Handbook Section - Accounting Changes, paragraph 1506.30 (which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied) not be applied with respect to the IFRS Omnibus Exposure Draft.

The Company is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as systems changes that may be necessary to gather and process the required information.

Operational and Business Risks

Absence of Infrastructure to Transport the Company’s Production

Due to the location of the Company’s assets, there is limited infrastructure currently available to transport oil, natural gas and NGLs from the Company’s existing and future wells to market. While the Mackenzie Valley pipeline and related gathering system, which would enable the Company to transport its oil, natural gas and NGLs to market either with or without additional infrastructure being built by the Company, has been proposed and is currently the subject of regulatory hearings, there is no guarantee that it will be completed on a timely basis or at all. The Norman Wells oil pipeline currently has capacity for any oil discovered in the Central Mackenzie Valley; however, that capacity is only available on a “first come, first served” basis and is not reservable. The Company’s ability to market its oil, natural gas and NGLs, and therefore receive payment for its production, depends upon MGM Energy’s ability to transport its oil, natural gas and NGLs to market. If the Company is unable to transport its

oil, natural gas and NGLs to market within a reasonable time, the value of its assets, and therefore of the Common Shares, will be materially affected.

Exploration Risks

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

Operational Matters

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

Availability of Equipment and Qualified Personnel and Related Costs

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

Resource Estimates

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

Future Financings

The Company will require future financing to fund its future exploration, development and operations. There can be no assurance that additional financing will be available to the Company when needed or on terms acceptable to the Company. The risk of financing in the near term has become greater with the recent downturn in the financial markets and the substantial decline in the Company's share price. The Company's inability to raise funds to support ongoing operations and to fund capital expenditures or acquisitions may limit the Company's growth or may have a material adverse effect upon the Company.

Critical Accounting Estimates

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

Successful Efforts Accounting

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

Reserve Estimates

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

At December 31, 2008, the only asset of MGM Energy that was evaluated by qualified independent reserves evaluators was the Ancillary Asset acquired from Paramount. All of the other assets owned by MGM Energy are not able to be designated as reserves given the uncertainty of the timing of the Mackenzie Valley Pipeline; therefore, they have not been evaluated by qualified independent reserve evaluators.

Impairment of Petroleum and Natural Gas Properties

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

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

Asset Retirement Obligations

MGM Energy recognizes the fair value of an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of the fair value can be made. The fair value of the asset retirement obligations are capitalized as part of the cost of the related long-lived asset and depreciated on the same basis as the underlying asset. The accumulated asset retirement obligation is adjusted for the passage of time, which is recognized in depletion, depreciation and accretion expense in the consolidated statement of earnings, and for revisions in either the timing or the amount of the original estimated cash flows associated with the liability.

Upon retirement of its oil and gas assets, MGM Energy anticipates incurring substantial costs associated with abandonment and reclamation activities. Estimates of the associated costs are subject to uncertainty associated with the method, timing and extent of future retirement activities. Accordingly, the annual expense associated with future abandonment and reclamation activities is impacted by changes in the estimates of the expected costs and reserves. The total undiscounted abandonment liability is currently estimated at \$16.1 million, which is based on management's estimate of costs and in accordance with existing legislation and industry practice.

Stock-based Compensation

The Company has a stock option plan whereby officers, directors and employees are granted options to purchase common shares. The exercise price of each option equals the market price of the common shares on the date of the grant. MGM Energy uses the fair value method of accounting for stock options granted. In determining the fair value of the stock options granted, the Black-Scholes-Merton model was used and assumptions regarding interest rates, underlying volatility of the Company's stock and expected life of the options were made.

Disclosure and Internal Controls

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

Disclosure controls and procedures have been designed to ensure that information to be disclosed by MGM Energy is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. The Company's CEO and CFO have evaluated the effectiveness of MGM Energy's disclosure controls and procedures as at December 31, 2008 and have concluded that they are effective in providing reasonable assurance that all material information relating to MGM Energy is disclosed in a timely manner.

MGM Energy's CEO and CFO are responsible for establishing and maintaining internal controls over financial reporting ("ICFR"). They have, as at the financial year ended December 31, 2008, designed ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework used to design the Company's ICFR is the *Internal Control – Integrated Framework* (COSO Framework) published by The Committee of Sponsoring

Organizations of the Treadway Commission (COSO). As at December 31, 2008, the Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's ICFR. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the ICFR are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with Canadian GAAP. It should be recognized, however, that no system of internal control over financial reporting can provide more than reasonable assurance as to the effectiveness of such reporting. Further, in a company such as MGM Energy, limited staff numbers preclude comprehensive segregation of duties and detailed review of financial records.

There have been no changes in the Company's internal controls over financial reporting during the year ended December 31, 2008 that materially affected, or are reasonably likely to affect, the internal controls over financial reporting.