



MGM ENERGY CORP.

2009 SECOND QUARTER REPORT

- Letter to Shareholders
- Management's Discussion and Analysis
- Interim Financial Statements (Unaudited) as at and for the three and six months ended June 30, 2009

August 10, 2009

Dear Shareholders,

Attached to this letter are MGM Energy Corp.'s financial statements as at and for the period ending June 30, 2009. As a company that completes substantially all of its drilling activity in the winter months, our peak activity tends to be in the first quarter of each year. This year, however, our second quarter was also critical for the Company's long term success. Highlights of the quarter include:

- We completed and filed with the National Energy Board an application for a significant discovery license at our Ellice J-27 (now called Qavvik) well drilled this past winter. A Significant Discovery Declaration (SDD) was approved by the NEB in early July. The SDD will now move from the NEB to the federal Department of Indian and Northern Affairs for the granting of the Significant Discovery License, expected to occur sometime in the third or four quarter of this year.

Our mapping of the discovered gas pools in the Aklak and Taglu formations on the Qavvik discovery is sufficient to encompass other prospective exploration horizons both above and below the discovered gas pools, and with additional drilling we are confident that the field will increase in size. Qavvik is the largest discovery in the Mackenzie Delta since the Umiak discovery in 2004.

- As described in our press release dated May 5, 2009, we were successful in restructuring our existing Farmout Agreement with Chevron and BP Canada. Under the terms of the restructured agreement, we immediately earned the interests in the Farmout Lands, including a 50% interest in certain discoveries previously made by Chevron and BP Canada in the Mackenzie Delta, while deferring our obligation to drill an additional three wells next winter (among other things). Instead, we will drill three wells (which will likely be development wells) only after a decision to construct the Mackenzie Valley pipeline has been made.
- As part of the restructured Farmout Agreement, we assumed Chevron and BP Canada's 50% interest in certain concession agreements with the Inuvialuit Development Corporation (IDC). We previously held the other 50% interest in those agreements. As a result, we are required to drill two wells on IDC lands by next winter, or pay penalties of \$10 million (up from \$5 million we were previously responsible for) in August, 2010. We are currently reviewing the expected costs of drilling the wells to determine whether it is more prudent to drill the required wells or pay the penalties. As part of the restructuring of the Farmout Agreement, we have set aside \$10 million to pay the penalties if we decide not to drill any wells.

We believe that important steps were taken towards the approval of the Mackenzie Valley pipeline during the second quarter, and that those efforts are continuing. In particular, the Government of Canada, in a report on Arctic Policy issued on July 26, 2009, stated that major projects such as the Mackenzie Valley pipeline are the "cornerstones of sustained economic activity in the North and the key to building prosperous Aboriginal and Native communities." While these words are welcome and encouraging, they must be followed by real action. As promised in my last letter, we are reducing our activity levels in the North until concrete results are realized. In the meantime, we will continue to preserve our assets and we will be prepared to fully exploit them once the Mackenzie Valley pipeline moves ahead.

I want to again thank our employees, our board and our shareholders for their continued support.

Henry W. Sykes
President
MGM ENERGY CORP.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim financial statements of MGM Energy Corp. ("MGM Energy" or the "Company") as at and for the three and six months ended June 30, 2009 and MGM Energy's audited financial statements and MD&A 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 July 28, 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 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. The Company was spun-out of Paramount Resources Ltd. (“Paramount”) on January 12, 2007, and began trading on the TSX on January 17, 2007.

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

Results of Operations

Statement of Loss – Selected Items

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Interest income	31	435	220	1,469
Expenses				
General and administrative	1,266	1,151	2,346	2,716
Stock-based compensation	483	635	1,054	1,006
Pipeline regulatory and access	-	11	-	55
Exploration	504	3,366	1,008	28,293
Lease rental and land costs	803	2,960	1,053	3,210
Dry hole	2,849	(602)	37,089	32,432
Interest and financing charges	268	73	388	139
Accretion and depreciation	177	96	345	182
Future income tax recovery	-	(2,936)	-	(16,616)
Net loss	(6,319)	(4,319)	(43,063)	(49,948)

Interest Income

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Interest Income for the period	31	435	220	1,469

MGM Energy earns interest income from the short-term investment of funds raised from equity issues prior to utilization on capital and administrative expenditures. Interest income decreased by 93% from the second quarter of 2008 to the second quarter of 2009 due to the impact of both lower cash resources during the second quarter of 2009 and lower average interest rates on investments as a result of a general decline in interest rate levels. Interest income for the balance of 2009 will be dependent on the prevailing market interest rates and the timing of capital expenditures and additional equity issues, if any. As at June 30, 2009, MGM Energy had \$21 million of short-term investments, which bore interest at rates between 0.10% and 0.25% per annum and had original maturities of three months or less. The Company had no investments in asset-backed commercial paper at June 30, 2009.

General and Administrative (G&A) Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Gross G&A Expenses	1,269	1,155	2,392	2,725
Overhead Recoveries	(3)	(4)	(46)	(9)
Net G&A Expenses for the period	1,266	1,151	2,346	2,716

G&A expenses for the three month period ended June 30, 2009 increased by 10% from the same period in 2008 primarily due to the timing of certain G&A expenses. G&A expenses declined by 14% from the six month period ended June 30, 2008 to the six month period ended June 30, 2009 due primarily to efforts by the Company to reduce its expenditures. G&A expenses are anticipated to be in the \$5 million range for 2009 unless there is a significant increase or decrease in the level of activity during the year.

Stock-Based Compensation Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Stock-Based Compensation Expense for the period	483	635	1,054	1,006

Stock-based compensation expense relates to options granted to the Company's management, employees and directors. For the three month period ended June 30, 2009, stock-based compensation expense declined 24% from the same period in 2008, primarily as no options were granted during the second quarter of 2009 whereas a large stock option grant was made in the second quarter of 2008.

Pipeline Regulatory and Access Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Pipeline Regulatory and Access Expense for the period	-	11	-	55

Pipeline regulatory and access expense represents costs incurred by the Company associated with regulatory hearings and access on the planned Mackenzie Valley pipeline. These expenses chiefly related to participation in the NEB hearings and negotiation of the Capacity Request Agreement for the Mackenzie Gathering System in 2008.

Exploration Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Exploration Expense for the period	504	3,366	1,008	28,293

MGM Energy utilizes the successful efforts method of accounting, and therefore, all exploration costs are expensed as incurred. Included in exploration expense are the cost of purchasing and shooting seismic and the cost of geological and geophysical employees and consultants. Exploration expense was substantially lower in the second quarter of 2009 as there was no seismic program completed in the winter of 2008/2009. In the six month period ended June 30, 2008, \$27.6 million of the exploration expense was related to the 2007/08 winter seismic program.

Lease Rental and Land Costs

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Lease Rental and Land Costs for the period	803	2,960	1,053	3,210

Lease rental expense represents costs associated with annual lease rentals of properties held by the Company plus the cost of unfulfilled expenditure commitments on lands that expire. Under the successful efforts method of accounting, they are charged to expense as incurred. During the second quarter of 2009, the costs relate to two properties in the Central Mackenzie Valley that expired during the quarter and for which the minimum spending commitment had not been met plus annual lease rentals on a property in the Mackenzie Delta. During the second quarter of 2008, these amounts were higher due to the expiring of two properties in the Central Mackenzie Valley which had higher unmet spending commitments than the properties expiring in 2009.

Dry Hole Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Dry Hole Expense for the period	2,849	(602)	37,089	32,432

Under the successful efforts method of accounting, dry hole expense represents the cost of drilling exploratory wells for which no economically recoverable reserves are found. The dry hole costs for the six month period ended June 30, 2009 relate to costs incurred for the North Ellice J-17 well and the Ellice A-25 well, which were drilled during the period and were both determined to be dry. The dry hole costs for the same period in 2008 were related to the Atik P-19 and Aput C-43 wells which were drilled during the 2007/2008 drilling season and were not successful. The negative dry hole cost of \$0.6 million in the second quarter of 2008 represented a partial reversal of dry hole cost expensed in the first quarter of 2008 as it was determined in the second quarter that the original estimate of costs was higher than actual costs incurred. Although all of the drilling activity related to the 2008/09 winter drilling program was completed in the second quarter of 2009, there is expected to be additional costs incurred during the third and fourth quarter of 2009 that will be charged to dry hole expense related to the demobilization of equipment from the area that will be charged to the 2008/09 drilling program. These costs are expected to be in the \$500,000 range.

Interest and Financing Charges

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Interest and Financing Charges for the period	268	73	388	139

Interest and financing charges include charges for letters of credit. There was a 267% increase from the second quarter of 2008 to the second quarter of 2009 due to the impact of both an increase in the fee charged on letters of credit and a higher amount of letters of credit outstanding in 2009 plus costs incurred during the quarter for renewal of the Company's demand facility .

Accretion and Depreciation

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Accretion of Asset Retirement Obligations for the period	49	31	90	55
Depreciation Expense for the period	128	65	255	127

There was a 58% increase in the accretion of Asset Retirement Obligations ("ARO") from the second quarter of 2009 to the second quarter of 2008 due to the additional ARO liability from the North Ellice J-17 and Ellice J-27 wells drilled and not abandoned in 2009. Depreciation expense represents the depreciation of office furniture and fixtures and corporate vehicles that were purchased throughout 2007 and 2008. There was no amortization of property, plant and equipment as the Company had no production during either year.

Income Taxes

The future income tax recovery for the three months ended June 30, 2009 was nil, compared to \$2.9 million in the same period in 2008. Because MGM Energy is a development stage enterprise, the Company would normally not accrue a future income tax asset given the uncertainty involved with its future operations; however, the Company will accrue a future income tax asset, by recording a future income tax recovery, equal to the expected tax effect arising from renunciation related to flow-through shares. As there have been no flow-through shares issued to date in 2009, there is no future income tax asset at June 30, 2009 and no future income tax recovery during the second quarter of 2009. At June 30, 2008, the Company had committed to a flow-through share issue that closed in July 2008, therefore, a future income tax recovery amount was recorded during the second quarter of 2008 and a future income tax asset established at the end of the quarter.

Based on MGM Energy's current capital expenditure plans and earnings forecasts, the Company does not anticipate 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 was required to incur an equivalent amount of qualifying resource expenditures. MGM Energy incurred the entire amount of qualifying expenditures relative to the flow-through shares issued in 2008 prior to March 31, 2009.

Net Loss and Net Loss Per Share

Net loss for the three months ended June 30, 2009 was \$6.3 million, compared to a net loss of \$4.3 million during the same period in 2008, with the increase chiefly the result of higher dry hole costs during the second quarter of 2009. Net loss per basic share for the three months ended June 30, 2009 was \$0.02 per share compared to \$0.03 per share for three months ended 2008. Given that MGM Energy currently has no production, nor is any production expected until the completion of a pipeline to transport crude oil and natural gas from the areas where the Company is active, it is expected that the Company will continue to generate losses for several years.

Funds Flow From Operations

Funds flow from operations for the three months ended June 30, 2009 was negative \$2.3 million, compared to negative \$3.8 million in the second quarter of 2008. Funds flow from operations is a non-GAAP measure and 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)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Drilling and logistics	3,438	(407)	48,123	48,001
Land	-	-	-	(1,000)
Geological and geophysical	504	3,366	1,008	28,293
Other	3	11	3	33
Total	3,945	2,907	49,134	75,327

Capital expenditures during the six month period ended June 30, 2009 were predominantly related to the 2008/09 winter drilling program. The \$48.1 million of drilling and logistics costs represent expenditures for the three wells drilled during the first quarter and second quarter of 2009: Ellice J-27, North Ellice J-17 and Ellice A-25. The geological and geophysical costs relate to staffing and consultant costs plus other minor seismic expenditures.

Summary of Quarterly Results

(\$000s, except as noted)	2009		2008				2007	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Interest Income	31	189	626	668	435	1,034	1,345	1,091
Net Loss	(6,319)	(36,744)	(49,170)	(1,043)	(4,319)	(45,629)	(31,310)	(1,829)
Per share - (\$/share) ⁽¹⁾	(0.02)	(0.14)	(0.19)	(0.00)	(0.03)	(0.35)	(0.24)	(0.02)

⁽¹⁾ Basic and diluted.

Restructure of Chevron/BP Farmout Agreement

In May 2009, MGM Energy restructured the Chevron/BP Farmout Agreement with Chevron Canada Limited and BP Canada. As a result of the restructured agreement, MGM Energy is not required to drill the final three wells or complete the additional seismic data acquisition required under the original Farmout Agreement until after the decision to construct is made in connection with the Mackenzie Valley pipeline (“DTC”). MGM Energy nevertheless immediately earned the interests available to it under the Farmout Agreement, consisting of a 50% interest in both the Farmout lands and the discoveries in the Mackenzie Delta previously made by Chevron Canada and BP Canada.

The following table compares the principal obligations of MGM Energy under the Farmout Agreement to those under the Amending Agreement:

Original Farmout Agreement	Restructured Agreement
<ul style="list-style-type: none"> • Drill final three wells and pay 100% of costs by April, 2010 to earn 50% of existing Chevron/BP discoveries and joint venture lands (estimated remaining cost of \$55 million - \$60 million) • Spend the remainder of the seismic commitment (approximately \$26 million) on seismic acquisition by August 2012 or, if not spent, pay 50% of the unspent commitment as a cash penalty • Earn 50% interest in Inuvialuit Concession Areas 1 and 2 and make one-half of any penalty payments due to the Inuvialuit Land Corporation if no wells are drilled on those lands by August, 2010 (maximum payment by MGM Energy of \$5 million) 	<ul style="list-style-type: none"> • Earn 50% of existing Chevron/BP discoveries and joint venture lands immediately. Drill three wells and pay 100% of costs within three winter drilling seasons after DTC occurs • Carry the joint account for the remainder of the seismic commitment (approximately \$26 million) on development costs after DTC occurs • Acquire 100% interest in Inuvialuit Concession Areas 1 and 2 and make all penalty payments due to the Inuvialuit Land Corporation if no wells are drilled on those lands by August, 2010 (maximum payment by MGM Energy of \$10 million)

As a result of the agreement, MGM Energy became the operator of the joint venture with Chevron Canada and BP Canada. MGM Energy will fund all of Chevron Canada and BP Canada’s annual costs to monitor existing wells in the Mackenzie Delta until DTC. These costs are estimated to be approximately \$60,000 per year.

Liquidity and Capital Resources

As at June 30, 2009, MGM Energy had positive working capital of \$8.4 million and restricted cash of \$10 million, for total available cash resources of \$18.4 million. The restricted cash represents a separate account established pursuant to the restructuring of the Chevron/BP Farmout Agreement. The cash is available only for the payment of the \$10 million land payment penalty due in August 2010 but will be released if MGM Energy drills wells on the Inuvialuit Concession lands in the winter of 2009/10 to extinguish the land payment penalty. MGM Energy invests its cash in a variety of investments in accordance with the Company's investment policy. At June 30, 2009, MGM Energy had no investments in asset-backed commercial paper. Without raising additional funds and assuming no drilling or seismic program during the 2009/10 winter, the Company currently estimates that it has sufficient working capital available to fund the operations and obligations of the Company until the third quarter of 2010 and the restricted cash balance is sufficient to fund the \$10 million land payment penalty due in August 2010.

As noted above, the Company restructured the Chevron/BP Farmout Agreement in the second quarter with the result that no drilling or seismic is required to be undertaken on the properties until after there is a decision to construct the Mackenzie Valley Pipeline. The only potential capital program during the winter of 2009/10 will be the drilling of up to two wells on the Company's Inuvialuit Concession lands to extinguish a \$10 million land payment penalty otherwise due in August 2010. The Company is currently reviewing the cost of drilling and the prospects on the lands to determine whether it is economically more advantageous to drill the wells or to pay the land payment penalty. The Company intends to finalize its plans by the end of the third quarter of 2009.

Other than interest income on excess cash balances, MGM Energy currently has no other means of generating revenue. The Company is dependent on raising additional equity and/or debt to finance its ongoing operations and capital. Once the 2009/10 plans are finalized, the Company intends to raise sufficient capital prior to making commitments for any potential program. 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, private placement 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 private placement or 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, plus an applicable margin. The terms of the Demand Facility require, on a quarterly basis, that MGM Energy repays the Demand Facility or has 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. As at June 30, 2009, there were no borrowings under the Demand Facility, however, there were outstanding letters of credit totalling \$22.6 million. These letters of credit have not been drawn; however, they reduce the amount available to MGM Energy under the Demand Facility.

At July 28, 2009, MGM Energy had 263.2 million Common Shares issued and outstanding and 11.0 million stock options outstanding, of which 2.1 million are exercisable.

Contractual Obligations

MGM Energy has the following contractual obligations as at June 30, 2009:

(\$000s)	Recognized in financial statements	Less than 1 Year	1 – 3 years	4 – 5 years	After 5 years	Total
Asset retirement obligations	Yes- Partially	470	-	-	22,230	22,700
Obligations under leases	No	936	1,872	1,872	-	4,680
Capital spending commitment ⁽¹⁾	No	1,000	41,400	29,800	-	72,200
Total		2,406	43,272	31,672	22,230	99,580

⁽¹⁾ Includes minimum work commitments under Exploration Licences and the Mackenzie Delta Farm-in.

MGM Energy is obligated under certain Northwest Territories Exploration Licences to fulfill minimum work commitments totalling \$34 million over the next four 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 made over the life of 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 additional work is completed on the Company's various Exploration Licences during their terms, the maximum amount owing by the Company would be 25% of \$34 million, or approximately \$8.5 million.

Related Party Transactions

Paramount Resources Ltd.

At June 30, 2009, 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 six month period ended June 30, 2009:

- For the six month period ended June 30, 2009, amounts billed by Paramount under a services agreement totaled \$0.03 million (2008 - \$0.1 million), including a 10 percent surcharge of approximately \$0.003 million. The amounts billed related primarily to human resources and regulatory consulting services.

Outlook for 2009

In the first quarter of 2009, the Company completed its 2008/09 winter program, consisting of drilling three wells on the Chevron/BP Farmout lands. The first well, Ellice J-27, was completed in January 2009 and was a significant natural gas discovery. The second and third wells, North Ellice J-17 and Ellice A-25, were completed in February and March 2009, respectively, and neither encountered material amounts of hydrocarbons. In the second quarter of 2009, the Company restructured the Chevron/BP Farmout Agreement which resulted in all drilling and seismic obligations being deferred until after there has been a decision to construct the Mackenzie Valley Pipeline. The only potential capital program during the winter of 2009/10 will be the drilling of up to two wells on the Company's Inuvialuit Concession lands to extinguish a \$10 million land payment penalty otherwise due in August 2010. The Company is currently reviewing the cost of drilling one or two wells and the prospects on the lands to determine whether it is economically more advantageous to drill the wells or to pay the land payment penalty. Given the location and nature of these wells, the cost of the wells would be significantly less than the cost of wells drilled by MGM Energy over the past three years. The Company intends to finalize its plans by the end of the third quarter of

2009. Other than the potential drilling on these lands, at this time the Company is not anticipating incurring any other material capital expenditures during the winter of 2009/10.

The Company will not make commitments for a 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, private placement or a rights offering, or other sources of funding such as asset sales.

Recent Accounting Pronouncements

Transition to International Financial Reporting Standards (“IFRS”)

In January 2009, the AcSB reconfirmed 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.

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 Company is continuing to assess the financial reporting impacts of the adoption of IFRS. At this time, the impact on the Company’s 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

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, 2008.

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, 2008 and the unaudited interim financial statements for the six months ended June 30, 2009.

MGM Energy Corp.

Interim Financial Statements (Unaudited)

As at and for the three and six months ended June 30, 2009

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

	As at June 30 2009	As at December 31 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 14,299	\$ 82,001
Accounts receivable and other current assets	2,054	1,850
	16,353	83,851
Restricted cash (Note 3)	10,000	-
Property, plant and equipment (Note 4)	232,164	220,725
Future income taxes (Note 9)	-	9,014
	\$ 258,517	\$ 313,590
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 7,936	\$ 12,628
Due to related parties (Note 11)	4	108
	7,940	12,736
Asset retirement obligations (Note 6)	2,742	1,996
	10,682	14,732
Shareholders' Equity		
Share capital (Note 7)	446,322	455,336
Contributed surplus (Note 8)	5,718	4,664
Deficit	(204,205)	(161,142)
	247,835	298,858
	\$ 258,517	\$ 313,590

See the accompanying notes to the Financial Statements.

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

(\$000s, except as noted)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Revenue				
Interest income	\$ 31	\$ 435	\$ 220	\$ 1,469
Expenses				
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Stock-based compensation (Note 8)	483	635	1,054	1,006
Pipeline regulatory and access	-	11	-	55
Exploration	504	3,366	1,008	28,293
Lease rental and land costs	803	2,960	1,053	3,210
Dry hole (Note 4)	2,849	(602)	37,089	32,432
Interest and financing charges	268	73	388	139
Accretion of asset retirement obligations (Note 6)	49	31	90	55
Depreciation	128	65	255	127
	6,350	7,690	43,283	68,033
Loss before tax	(6,319)	(7,255)	(43,063)	(66,564)
Future income tax recovery (Note 9)	-	(2,936)	-	(16,616)
Net loss and comprehensive loss	\$ (6,319)	\$ (4,319)	\$ (43,063)	\$ (49,948)
Net loss per Common Share (\$/share)				
Basic	(0.02)	(0.03)	(0.16)	(0.39)
Diluted	(0.02)	(0.03)	(0.16)	(0.39)
Weighted average Common Shares outstanding (000s)				
Basic	263,195	128,945	263,195	128,945
Diluted	263,195	128,945	263,195	128,945

Statements of Deficit (Unaudited)

(\$000s)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Deficit, beginning of period	\$ (197,886)	\$ (106,610)	\$ (161,142)	\$ (60,981)
Net loss	(6,319)	(4,319)	(43,063)	(49,948)
Deficit, end of period	\$ (204,205)	\$ (110,929)	\$ (204,205)	\$ (110,929)

See the accompanying notes to the Financial Statements.

MGM Energy Corp.
Statements of Cash Flows (Unaudited)
(\$000s)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Operating activities				
Net loss and other comprehensive loss	\$ (6,319)	\$ (4,319)	\$ (43,063)	\$ (49,948)
Add (deduct):				
Stock-based compensation	483	635	1,054	1,006
Exploration	504	3,366	1,008	28,293
Dry hole	2,849	(602)	37,089	32,432
Accretion of asset retirement obligations	49	31	90	55
Depreciation	128	65	255	127
Future income tax recovery	-	(2,936)	-	(16,616)
	(2,306)	(3,760)	(3,567)	(4,651)
Change in non-cash working capital	(4,489)	(2,499)	(4,265)	261
	(6,795)	(6,259)	(7,832)	(4,390)
Financing activities				
	-	-	-	-
Investing activities				
Restricted cash contributions	(10,000)	-	(10,000)	-
Capital expenditures	(3,945)	(2,907)	(49,134)	(75,327)
Change in non-cash working capital	(16,816)	(45,303)	(736)	(7,705)
	(30,761)	(48,210)	(59,870)	(83,032)
Decrease in cash and cash equivalents	(37,556)	(54,469)	(67,702)	(87,422)
Cash and cash equivalents, beginning of period	51,855	78,348	82,001	111,301
Cash and cash equivalents, end of period	\$ 14,299	\$ 23,879	\$ 14,299	\$ 23,879

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. As at the date of these financial statements, management is uncertain whether MGM Energy will have access to equity in 2009, whether through a marketed or bought deal financing, private placement or a rights offering, or other sources of funding such as asset sales, given the condition of the equity markets and the Company’s significant decline in share price over the past year.

These interim unaudited financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

2. Significant Accounting Policies

These interim unaudited financial statements of MGM Energy have been prepared by management in accordance with Canadian generally accepted accounting principles utilizing the same accounting policies as used in the audited financial statements for the year ended December 31, 2008. 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, 2008.

3. Restricted Cash

The restricted cash balance in non-current assets represents cash in a separate account established pursuant to the restructuring of the Chevron/BP Farmout Agreement. The cash in the account is available only for the payment of a \$10 million land payment penalty due in August 2010 but will be released if the Company drills wells on the Inuvialuit Concession Agreements in the winter of 2009/10 to extinguish the land payment penalty. The amount is included in non-current assets as the payment date of the land payment penalty is greater than 12 months from the date of the financial statements.

4. Property, Plant and Equipment

	June 30, 2009			December 31, 2008
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	\$ 231,318	\$ -	\$ 231,318	\$ 219,627
Other	1,615	769	846	1,098
	\$ 232,933	\$ 769	\$ 232,164	\$ 220,725

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

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.

In May 2009, the Chevron/BP Farmout Agreement was restructured whereby, among other things, the Company earned a 50% interest in discoveries that had previously been made plus earned additional interest in lands in the Mackenzie Delta region. There were no amounts capitalized as a purchase price for these assets as no funds were paid as part of the restructuring. There was a \$0.7 million Asset Retirement Obligation (“ARO”) asset and ARO liability established for the net additional asset retirement obligation assumed as a result of the restructuring.

Continuity of Suspended Exploratory Well Costs

	Six Months Ended June 30, 2009	Year Ended December 31, 2008
Balance, beginning of period	\$ 42,939	\$ 52,778
Additions pending the determination of proved reserves	15,744	15,197
Well costs charged to dry hole expense	(4,292)	(25,036)
Balance, end of period	\$ 54,391	\$ 42,939

Aging of Capitalized Exploratory Well Costs

	June 30 2009	December 31 2008
Exploratory well costs capitalized for a period of one year or less	\$ 26,649	\$ 15,197
Exploratory well costs capitalized for a period of greater than one year	27,742	27,742
Balance, end of period	\$ 54,391	\$ 42,939
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	3	3

At June 30, 2009, \$54.4 million of capitalized exploratory well costs relate to wells in the Central Mackenzie Valley and Mackenzie Delta regions. The commerciality of the gas related to such properties is being evaluated in conjunction with the planned development of the areas and anticipated timing for construction of the Mackenzie Valley Pipeline.

The dry hole expense of \$37.1 million for the six months ended June 30, 2009 relates to two wells drilled during the 2008/09 winter program. The dry hole expense of \$32.4 million for the six months ended June 30, 2008 related to two wells drilled during the 2007/08 winter program.

5. 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. The facility is secured by a first floating debenture over all of the Company’s assets. Of the \$30 million facility, up to \$10 million is available for borrowings and the entire amount is available for letters of credit. The amount available to MGM Energy under the facility is reduced dollar for dollar by any outstanding letters of credit. MGM Energy is required to repay the facility or to have funds available in cash or short-term investments at least equal to the borrowings under the facility, excluding letters of credit, for a period of three consecutive business days each quarter. At June 30, 2009, there was no debt outstanding on the facility; however, there were undrawn letters of

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

credit outstanding of \$22.6 million. All letters of credit have a term of one year or less but are automatically renewable on an annual basis for an additional year if the letter of credit is not cancelled prior to its expiry date.

6. Asset Retirement Obligations

	Six Months Ended June 30, 2009
Asset retirement obligations, beginning of period	\$ 1,996
Liabilities incurred	656
Accretion expense	90
Asset retirement obligations, end of period	\$ 2,742

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 estimated timing of the costs to be incurred in future periods. The undiscounted cash flows estimated to settle the asset retirement obligations associated with MGM Energy's oil and gas properties at June 30, 2009 are \$22.7 million (December 31, 2008 - \$16.1 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.

7. 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, 2008 and June 30, 2009.

Issued and Outstanding

Common Shares	Shares	Amount
Balance, December 31, 2008	263,194,844	\$ 455,336
Tax adjustment on flow-through share renunciations	-	(9,014)
Balance, June 30, 2009	263,194,844	\$ 446,322

Capital Disclosure

MGM Energy manages shareholders' equity as capital. Shareholders' equity had a book value of \$247.8 million as at June 30, 2009. MGM Energy does not manage its revolving demand facility as capital as it is not the intent of MGM Energy at this time to use the facility to finance operations. 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 making financial commitments relating 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 to during the preceding

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

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.

8. 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, 2008	\$ 1.30	11,233,000
Granted during the six month period ended June 30, 2009	0.18	155,000
Forfeited during the six month period ended June 30, 2009	1.17	(376,000)
Balance, June 30, 2009	\$ 1.29	11,012,000
Options exercisable, June 30, 2009	\$ 2.29	2,139,625

Additional information about MGM Energy's stock options outstanding at June 30, 2009 is as follows:

Exercise Prices	Outstanding		Exercisable
	Number	Weighted Average Contractual Life	Number
(\$ / share)		(years)	
0.16 – 1.00	8,072,000	9.13	1,062,125
1.01 – 2.00	-	-	-
2.01 – 3.00	1,600,000	7.71	407,500
3.01 – 4.00	100,000	2.34	50,000
4.01 - 5.00	1,240,000	1.83	620,000
Total	11,012,000	8.04	2,139,625

Up to July 2007, options granted by MGM Energy had a term of approximately 4.5 years. The term of options granted subsequent to July 2007 is ten years.

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

Contributed Surplus

A reconciliation of contributed surplus is provided below.

	Six Months Ended June 30, 2009
Balance, beginning of period	\$ 4,664
Stock-based compensation expense	1,054
Balance, end of period	\$ 5,718

9. Income Taxes

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

	Three Months Ended June 30,		Six Months Ended June 30	
	2009	2008	2009	2008
Loss before tax	\$ (6,319)	\$ (7,255)	\$ (43,063)	\$ (66,564)
Effective Canadian statutory income tax rate	29.0 %	29.5 %	29.0 %	29.5 %
Expected tax recovery	\$ (1,833)	\$ (2,140)	\$ (12,488)	\$ (19,636)
Decrease (increase) resulting from:				
Statutory and other rate differences	271	479	1,479	2,391
Stock-based compensation	141	188	306	297
Valuation allowance (reversal)	1,421	(1,155)	10,700	-
Other	-	(308)	3	332
Future tax recovery	\$ -	\$ (2,936)	\$ -	\$ (16,616)

Components of Future Income Tax Asset:

	June 30, 2009	December 31, 2008
Property, plant and equipment – carrying value in excess of tax basis	\$ (2,582)	\$ (922)
Asset retirement obligations	707	514
Loss carryforwards	18,586	14,429
Share issuance costs and other	2,553	3,552
Valuation allowance	(19,264)	(8,559)
Future income tax asset	\$ -	\$ 9,014

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

10. Financial Instruments

Interest rate risk

MGM Energy is exposed to interest rate risk to the extent that changes in market interest rates impact MGM Energy's short-term deposits that have floating interest rates and to the extent borrowings are made under the debt facility.

Based on the average cash and cash equivalent balance for the quarter ended June 30, 2009, had interest rates during the quarter been 100 basis points higher assuming all other variables remained constant, the net loss for the quarter would have been \$0.1 million lower. The average interest rate earned during the quarter ended June 30, 2009 was less than 100 basis points. If MGM Energy earned no interest income on its cash balances during the quarter, the net loss would have been \$0.03 million higher.

11. Related Party Transactions

Paramount Resources Ltd. ("Paramount")

At June 30, 2009, 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 six months ended June 30, 2009:

- For the six month period ended June 30, 2009, amounts billed by Paramount under a services agreement totaled \$0.03 million (2008 - \$0.1 million), including a 10 percent surcharge of approximately \$0.003 million. The amounts billed related primarily to human resources and regulatory consulting services.

SHAREHOLDER INFORMATION

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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

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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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Robert R. Rooney ^{(1) (3) (4)}
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AUDITORS

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BANKERS

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REGISTRAR AND TRANSFER AGENT

Computershare Investor Service
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
("MGX")



⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Environmental, Health and Safety Committee

⁽³⁾ Member of Compensation Committee

⁽⁴⁾ Member of Corporate Governance Committee