



MGM ENERGY CORP.

2009 THIRD QUARTER REPORT

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

November 6, 2009

Dear Shareholders,

Attached to this letter are MGM Energy Corp.'s financial statements as at and for the period ending September 30, 2009.

In each of the last two years, the third quarter report focused on the preparations we were making to get our winter drilling season underway. Regrettably, this year is the exception. As we previously announced, we have decided not to undertake a winter drilling program this year. This is not because we don't have any promising drilling prospects. In fact, we have many of those, and some are quite exciting. Rather, it's because we simply cannot justify spending any more money in Canada's North without some concrete movement on the Mackenzie Valley pipeline regulatory process or the discussions with the Government of Canada regarding a fiscal regime.

We do not dispute the need for regulators and government to conduct robust and thoughtful regulatory reviews of major projects. We do, however, believe that no one is served when these processes are lacking in transparency, clear milestones and measurable deadlines. We look forward to the time when the Joint Review Panel completes its work, and the final phase in the regulatory process is in the hands of the National Energy Board. This is expected to be by the end of this year.

Regarding the fiscal discussions between the pipeline project proponents and the Government of Canada, we note that, contrary to some media coverage, Imperial Oil (the operator of the Mackenzie Gas Project) has stated that the proponents continue to work with the Government of Canada to establish an appropriate fiscal regime for the project.

The decision not to drill this winter has costs, many of them human. Many Northern contractors and workers had prepared themselves for further work, and we regret the impact that these events have on them. They deserve better from the regulatory process.

We have also reduced our staff levels and other head office costs as a result. We wish to thank those employees and contractors who are no longer working with us. These are competent and dedicated people and we look forward to working with them again. We have not, however, reduced our commitment to our Northern strategy over the long term. Our geoscience team is continuing their work, which will help us better understand our assets, and therefore maximize value, once the time comes to recommence work.

We again want to thank our employees and contractors, our board, and our shareholders for the continued support and patience.

Henry W. Sykes
President
MGM ENERGY CORP.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim financial statements of MGM Energy Corp. ("MGM Energy" or the "Company") as at and for the three and nine months ended September 30, 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 October 29, 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 September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Interest income	7	668	227	2,137
Expenses				
General and administrative	1,011	956	3,357	3,672
Stock-based compensation	374	705	1,428	1,711
Pipeline regulatory and access	-	-	-	55
Exploration	571	(235)	1,579	28,058
Lease rental and land costs	233	63	1,286	3,273
Dry hole	2,378	-	39,467	32,432
Interest and financing charges	154	75	542	214
Accretion and depreciation	185	135	530	317
Gain on settlement of ARO liabilities	(114)	-	(114)	-
Future income tax expense (recovery)	(258)	12	(258)	(16,604)
Net loss	(4,527)	(1,043)	(47,590)	(50,991)

Interest Income

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Interest Income for the period	7	668	227	2,137

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 99% from the third quarter of 2008 to the third quarter of 2009 due to the impact of both lower cash resources during the third 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 September 30, 2009, MGM Energy had \$10 million of short-term investments, which bore interest at 0.25% per annum and had original maturities of three months or less. The Company had no investments in asset-backed commercial paper at September 30, 2009.

General and Administrative (G&A) Expense

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Gross G&A Expenses	1,019	956	3,411	3,681
Overhead Recoveries	(8)	-	(54)	(9)
Net G&A Expenses for the period	1,011	956	3,357	3,672

G&A expenses for the three month period ended September 30, 2009 increased by 6% from the same period in 2008 primarily due to the timing of certain items. 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 September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Stock-Based Compensation Expense for the period	374	705	1,428	1,711

Stock-based compensation expense relates to options granted to the Company's management, employees and directors. For the three month period ended September 30, 2009, stock-based compensation expense declined 47% from the same period in 2008, primarily due to a lower Black-Scholes-Merton valuation of options granted in the 12 months preceding the third quarter of 2009 compared to those granted in the 12 months preceding the third quarter of 2008.

Pipeline Regulatory and Access Expense

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Pipeline Regulatory and Access Expense for the period	-	-	-	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 September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Exploration Expense for the period	571	(235)	1,579	28,058

MGM Energy utilizes the successful efforts method of accounting, and therefore, all exploration costs are expensed as incurred. The costs incurred in the nine month period ended September 30, 2009 were primarily for geological and geophysical employees and consultants as there was no seismic program completed during that time. For the nine month period ended September 30, 2008, \$26.7 million of the exploration expense related to the 2007/08 winter seismic program. The exploration expense of negative \$0.2 million for the three months ended September 30, 2008 was a result of exploration costs for the period of \$1.1 million being offset by a reversal of \$1.3 million of the estimated costs of the 2007/08 winter seismic program as it was determined that the original estimate of costs was higher than actual costs incurred.

Lease Rental and Land Costs

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Lease Rental and Land Costs for the period	233	63	1,286	3,273

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 third quarter of 2009, these costs predominantly related to annual lease rentals on properties located in the Mackenzie Delta.

Dry Hole Expense

(\$000s)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Dry Hole Expense for the period	2,378	-	39,467	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 nine month period ended September 30, 2009 relate to costs incurred for the North Ellice J-17 and Ellice A-25 wells, 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 dry hole cost of \$2.4 million incurred in the third quarter of 2009 represents (i) direct costs related to the 2008/09 drilling program and charged to dry hole expense of \$1.4 million plus (ii) an allocation of \$1.0 million of costs related to demobilization of equipment and other expenditures incurred by the Company resulting from the decision to not complete a drilling program in the 2009/10 winter drilling season. The amount charged to dry hole in the third quarter of 2009 is higher than previously estimated due to an increase in the final estimate of the costs incurred during the first and second quarter plus higher costs than forecasted for demobilization of equipment.

Interest and Financing Charges

(\$000s)	Three Months Ended September 30		Nine Months Ended September30	
	2009	2008	2009	2008
Interest and Financing Charges for the period	154	75	542	214

Interest and financing charges include charges for letters of credit. There was a 105% increase from the third quarter of 2008 to the third 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.

Accretion and Depreciation

(\$000s)	Three Months Ended September 30		Nine Months Ended September30	
	2009	2008	2009	2008
Accretion of Asset Retirement Obligations for the period	58	36	148	91
Depreciation Expense for the period	127	99	382	226

There was a 61% increase in the accretion of Asset Retirement Obligations (“ARO”) from the third quarter of 2008 to the third quarter of 2009 due to the additional ARO liability from the North Ellice J-17 and Ellice J-27 wells drilled and not abandoned in 2009 and additional interests earned on existing Chevron/BP wells. 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.

Gain on Settlement of Asset Retirement Obligations

(\$000s)	Three Months Ended September 30		Nine Months Ended September30	
	2009	2008	2009	2008
Gain on Settlement of Asset Retirement Obligations for the period	114	-	114	-

During the third quarter of 2009, the Company abandoned two wells in the Central Mackenzie area which eliminated \$0.1 million of asset retirement obligations. The cost of the abandonment is recoverable from rentals previously paid on the property; therefore there was no net cost to the Company to complete the abandonment. As a result, the Company recognized a gain on settlement of the asset retirement obligation of \$0.1 million.

Income Taxes

The future income tax recovery for the three months ended September 30, 2009 was \$0.3 million, compared to future income tax expense of \$0.01 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 were flow-through shares of \$1.0 million issued in October 2009, the Company established a future income tax asset of \$0.3 million at September 30, 2009, representing the future income tax recovery expected from renunciation of costs under these flow-through shares. There was a \$0.01 million future income tax expense during the third quarter of 2008 despite there being a loss before tax of \$1.0 million due to permanent differences between calculating income for tax purposes and income for accounting purposes.

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 September 30, 2009 was \$4.5 million, compared to a net loss of \$1.0 million during the same period in 2008, with the increase chiefly the result of higher dry hole and exploration costs during the third quarter of 2009. Net loss per basic share for the three months ended September 30, 2009 was \$0.02 per share. Given that MGM Energy currently has no production, nor is any production expected until the completion of a pipeline to transport crude oil and natural gas from the areas where the Company is active, it is expected that the Company will continue to generate losses for several years.

Funds Flow From Operations

Funds flow from operations for the three months ended September 30, 2009 was negative \$1.4 million, compared to negative \$0.4 million in the third 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 September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Drilling and logistics	3,289	5,022	51,412	53,023
Land	-	-	-	(1,000)
Geological and geophysical	571	(235)	1,579	28,058
Other	(174)	360	(171)	393
Total	3,686	5,147	52,820	80,474

Capital expenditures during the nine month period ended September 30, 2009 were predominantly related to the 2008/09 winter drilling program. The \$51.4 million of drilling and logistics costs represent \$49.9 million of direct costs for the three wells drilled during the nine month period ended September 30, 2009 (Ellice J-27, North Ellice J-17 and Ellice A-25) plus \$1.5 million of costs for demobilization of equipment and other expenditures incurred as a result of the Company not completing a drilling program in the Mackenzie Delta during the winter of 2009/10.

The drilling and logistics costs of \$3.3 million in the third quarter of 2009 are a combination of (i) an increase in the final estimate of costs incurred during the first and second quarter and (ii) direct costs incurred during the third quarter. The geological and geophysical costs relate to staffing and consultant costs plus other minor seismic expenditures. The “other” costs of negative \$0.2 million for the three month period ending September 30, 2009 represent the proceeds from the sale of certain equipment by the Company during the quarter. The gain on sale of the equipment was \$0.04 million.

Summary of Quarterly Results

(\$000s, except as noted)	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Interest Income	7	31	189	626	668	435	1,034	1,345
Net Loss	(4,527)	(6,319)	(36,744)	(49,170)	(1,043)	(4,319)	(45,629)	(31,310)
Per share - (\$/share) ⁽¹⁾	(0.02)	(0.02)	(0.14)	(0.19)	(0.00)	(0.03)	(0.35)	(0.24)

⁽¹⁾ Basic and diluted.

Liquidity and Capital Resources

As at September 30, 2009, MGM Energy had positive working capital of \$13.3 million, including restricted cash of \$10 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 a \$10 million land payment penalty due in July 2010. MGM Energy invests its cash in a variety of investments in accordance with the Company’s investment policy. At September 30, 2009, MGM Energy had no investments in asset-backed commercial paper.

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. In October 2009, the Company completed a private placement to insiders of 19.6 million common shares at \$0.125 per share and 6.7 million common shares on a flow-through basis for \$0.15 per share for gross proceeds of \$3.5 million. The proceeds will be utilized to finance \$1.0 million of seismic expenditures during the winter of 2009/10 and for general corporate purposes. Without raising additional funds, 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 July 2010.

As at the date of this MD&A, given the lack of commitment to build the Mackenzie Valley Pipeline and the Company's significant decline in share price over the past two years, the risk associated with the Company's ability to continue to obtain additional equity funding is much higher than in previous years. Management is currently uncertain whether MGM Energy will continue to have access to equity from sources other than related parties, or other sources of funding such as asset sales. The Company believes that there will be sources of funding available in the mid to long term when 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.

At September 30, MGM Energy had 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 September 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.

In October 2009, MGM Energy amended its Demand Facility. The amount of the facility was reduced from \$30 million to \$25 million and will further reduce to \$20 million when certain letters of credit expire or reduce. At the time the amount of the facility is reduced to \$20 million, the Company will have outstanding letters of credit of no greater than \$18.3 million. The resulting availability of \$1.7 million is more than sufficient to meet the Company's projected requirements. The amount available for direct borrowings was reduced from \$10 million to \$1 million, and the entire amount of the facility remains available for letters of credit. In addition to the revision to the amount of the facility, an officer and director provided a \$14 million guarantee as additional security for the facility. A fee will be paid for the provision of the guarantee which fee is equivalent to the fees paid to the Bank under the Company's Demand Facility. The amount of the guarantee fee will fluctuate based on the amount and types of letters of credit outstanding. Based on existing letters of credit, the fee payable for the guarantee will be approximately \$0.1 million per quarter. All other terms and conditions of the Demand Facility remain unchanged.

At October 29, 2009, MGM Energy had 263.2 million Common Shares issued and outstanding and 21.5 million stock options outstanding, of which 2.5 million are exercisable.

Contractual Obligations

MGM Energy has the following contractual obligations as at September 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	-	-	-	21,600	21,600
Obligations under leases	No	936	1,872	1,638	-	4,446
Capital spending commitment ⁽¹⁾	No	10,500	32,050	26,000	-	68,550
Total		11,436	33,922	27,638	21,600	94,596

⁽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 \$31 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 \$31 million, or approximately \$7.8 million.

Related Party Transactions

Paramount Resources Ltd.

At September 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 nine month period ended September 30, 2009:

- For the nine month period ended September 30, 2009, amounts billed by Paramount under a services agreement totaled \$0.05 million (2008 - \$0.1 million), including a 10 percent surcharge of approximately \$0.005 million. The amounts billed related primarily to human resources and regulatory consulting services.

Outlook for Remainder of 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. In September 2009, the Company announced that it would not be conducting any drilling operations on the Inuvialuit Concession lands. The only capital program planned for the 2009/10 winter is the participation in a seismic program, with a cost to MGM Energy of \$1.0 million. Other than the seismic program, the Company will be limiting its expenditures over the next few months to the cost of maintaining its assets and continuing the geological work on its properties to establish future drilling prospects.

The regulatory process for the Mackenzie Valley Pipeline appears to be nearing its conclusion. The Joint Review Panel has a target to complete its report by the end of December 2009. The National Energy Board has published its timetable to complete their review which forecasts their final decision being made by the third quarter of 2010 assuming that the Joint Review Panel report is released by the end of December 2009.

Natural gas 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 natural gas ventures such as MGM Energy. As of the date of this MD&A, there has been no fiscal framework agreed between the federal government and the proponents of the pipeline and regulatory approval has not yet been obtained. Given this uncertainty, the Company believes that there is a higher level of risk than existed previously that MGM Energy will not have access to equity from sources other than related parties 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 nine months ended September 30, 2009.

MGM Energy Corp.

Interim Financial Statements (Unaudited)

As at and for the three and nine months ended September 30, 2009

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

	As at September 30 2009	As at December 31 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,236	\$ 82,001
Restricted cash (Note 3)	10,000	-
Accounts receivable and other current assets	1,404	1,850
	15,640	83,851
Property, plant and equipment (Note 4)	232,807	220,725
Future income taxes (Note 9)	258	9,014
	\$ 248,705	\$ 313,590
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,320	\$ 12,628
Due to related parties (Note 11)	17	108
	2,337	12,736
Asset retirement obligations (Note 6)	2,686	1,996
	5,023	14,732
Shareholders' Equity		
Share capital (Note 7)	446,322	455,336
Contributed surplus (Note 8)	6,092	4,664
Deficit	(208,732)	(161,142)
	243,682	298,858
	\$ 248,705	\$ 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 September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Revenue				
Interest income	\$ 7	\$ 668	\$ 227	\$ 2,137
Expenses				
General and administrative	1,011	956	3,357	3,672
Stock-based compensation (Note 8)	374	705	1,428	1,711
Pipeline regulatory and access	-	-	-	55
Exploration	571	(235)	1,579	28,058
Lease rental and land costs	233	63	1,286	3,273
Dry hole (Note 4)	2,378	-	39,467	32,432
Interest and financing charges	154	75	542	214
Accretion of asset retirement obligations (Note 6)	58	36	148	91
Gain on settlement of asset retirement obligations (Note 6)	(114)	-	(114)	-
Depreciation	127	99	382	226
	4,792	1,699	48,075	69,732
Loss before tax	(4,785)	(1,031)	(47,848)	(67,595)
Future income tax expense (recovery) (Note 9)	(258)	12	(258)	(16,604)
Net loss and comprehensive loss	\$ (4,527)	\$ (1,043)	\$ (47,590)	\$ (50,991)
Net loss per Common Share (\$/share)				
Basic	(0.02)	(0.00)	(0.18)	(0.31)
Diluted	(0.02)	(0.00)	(0.18)	(0.31)
Weighted average Common Shares outstanding (000s)				
Basic	263,195	241,306	263,195	166,672
Diluted	263,195	241,306	263,195	166,672

Statements of Deficit (Unaudited)

(\$000s)

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Deficit, beginning of period	\$ (204,205)	\$ (110,929)	\$ (161,142)	\$ (60,981)
Net loss	(4,527)	(1,043)	(47,590)	(50,991)
Deficit, end of period	\$ (208,732)	\$ (111,972)	\$ (208,732)	\$ (111,972)

See the accompanying notes to the Financial Statements.

MGM Energy Corp.
Statements of Cash Flows (Unaudited)

(\$000s)

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Operating activities				
Net loss and other comprehensive loss	\$ (4,527)	\$ (1,043)	\$ (47,590)	\$ (50,991)
Add (deduct):				
Stock-based compensation	374	705	1,428	1,711
Exploration	571	(235)	1,579	28,058
Dry hole	2,378	-	39,467	32,432
Accretion of asset retirement obligations	58	36	148	91
Depreciation	127	99	382	226
Non-cash general and administrative expense	(35)	-	(35)	-
Gain on settlement of asset retirement obligations	(114)	-	(114)	-
Future income tax expense (recovery)	(258)	12	(258)	(16,604)
	(1,426)	(426)	(4,993)	(5,077)
Change in non-cash working capital	751	742	(3,514)	1,003
	(675)	316	(8,507)	(4,074)
Financing activities				
Common shares issued, net of issuance costs	-	77,237	-	77,237
Investing activities				
Restricted cash contributions	-	-	(10,000)	-
Capital expenditures	(3,686)	(5,147)	(52,820)	(80,474)
Change in non-cash working capital	(5,702)	(2,374)	(6,438)	(10,079)
	(9,388)	(7,521)	(69,258)	(90,553)
Increase (decrease) in cash and cash equivalents	(10,063)	70,032	(77,765)	(17,390)
Cash and cash equivalents, beginning of period	14,299	23,879	82,001	111,301
Cash and cash equivalents, end of period	\$ 4,236	\$ 93,911	\$ 4,236	\$ 93,911

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 continue to have access to equity from sources other than related parties or other sources of funding such as asset sales, given the current risk profile of the Company and the significant decline in its share price over the past two years.

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 represents cash in a separate account established pursuant to the restructuring of the Chevron/BP Farmout Agreement. The cash in the account is not available for general use and can only be utilized for the payment of a \$10 million land payment penalty which is due on July 31, 2010.

4. Property, Plant and Equipment

	September 30, 2009			December 31, 2008
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	\$ 232,230	\$ -	\$ 232,230	\$ 219,627
Other	1,263	686	577	1,098
	<u>\$ 233,493</u>	<u>\$ 686</u>	<u>\$ 232,807</u>	<u>\$ 220,725</u>

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.

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

Continuity of Suspended Exploratory Well Costs

	Nine Months Ended September 30, 2009	Year Ended December 31, 2008
Balance, beginning of period	\$ 42,939	\$ 52,778
Additions pending the determination of proved reserves	17,087	15,197
Well costs charged to dry hole expense	(4,292)	(25,036)
Balance, end of period	\$ 55,734	\$ 42,939

Aging of Capitalized Exploratory Well Costs

	September 30 2009	December 31 2008
Exploratory well costs capitalized for a period of one year or less	\$ 27,992	\$ 15,197
Exploratory well costs capitalized for a period of greater than one year	27,742	27,742
Balance, end of period	\$ 55,734	\$ 42,939
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	4	3

At September 30, 2009, \$55.7 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 \$39.5 million for the nine months ended September 30, 2009 relates to two wells drilled during the 2008/09 winter program. The dry hole expense of \$32.4 million for the nine months ended September 30, 2008 related to two wells drilled during the 2007/08 winter program.

5. Demand Facility

At September 30, 2009, MGM Energy had 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 September 30, 2009, there was no debt outstanding on the facility; however, there were undrawn letters of 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.

The demand facility was amended in October 2009, as described in Note 12.

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

6. Asset Retirement Obligations

	Nine Months Ended September 30, 2009	
Asset retirement obligations, beginning of period	\$	1,996
Liabilities incurred		656
Liabilities settled		(114)
Accretion expense		148
Asset retirement obligations, end of period	\$	2,686

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 September 30, 2009 are \$21.6 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.

During the three month period ended September 30, 2009, MGM Energy abandoned two wells in the Central Mackenzie area, which reduced asset retirement obligations by \$0.1 million. The cost of the abandonment is recoverable from rentals previously paid on the property; therefore there was no net cost to the Company to complete the abandonment. As a result, the Company recognized a gain on settlement of the asset retirement obligation of \$0.1 million.

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 September 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, September 30, 2009	263,194,844	\$ 446,322

Capital Disclosure

MGM Energy manages shareholders' equity as capital. Shareholders' equity had a book value of \$243.7 million as at September 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 near-term ongoing operations and to fund any planned winter drilling and seismic programs prior to making financial commitments relating to the

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

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 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, management is of the view that debt financing is not an option for MGM Energy at this time. Therefore, it is likely that all capital requirements will be funded from issuance of equity until such time as there is more certainty regarding the Mackenzie Valley Pipeline. 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 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 nine month period ended September 30, 2009	0.14	10,835,500
Forfeited during the nine month period ended September 30, 2009	1.26	(586,000)
Balance, September 30, 2009	\$ 0.72	21,482,500
Options exercisable, September 30, 2009	\$ 2.31	2,527,625

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

Exercise Prices	Outstanding		Exercisable
	Number	Weighted Average Contractual Life	Number
(\$ / share)		(years)	
0.14 – 1.00	18,606,500	9.49	1,104,625
1.01 – 2.00	-	-	-
2.01 – 3.00	1,568,000	7.45	769,000
3.01 – 4.00	100,000	2.08	50,000
4.01 - 5.00	1,208,000	1.58	604,000
Total	21,482,500	8.86	2,527,625

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.

	Nine Months Ended September 30, 2009
Balance, beginning of period	\$ 4,664
Stock-based compensation expense	1,428
Balance, end of period	\$ 6,092

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 September 30,		Nine Months Ended September 30	
	2009	2008	2009	2008
Loss before tax	\$ (4,785)	\$ (1,031)	\$ (47,848)	\$ (67,595)
Effective Canadian statutory income tax rate	29.0 %	29.5 %	29.0 %	29.5 %
Expected tax recovery	\$ (1,388)	\$ (304)	\$ (13,876)	\$ (19,941)
Decrease resulting from:				
Statutory and other rate differences	132	107	1,611	2,498
Stock-based compensation	108	208	414	505
Valuation allowance	884	-	11,584	-
Other	6	1	9	334
Future tax expense (recovery)	\$ (258)	\$ 12	\$ (258)	\$ (16,604)

Components of Future Income Tax Asset:

	September 30, 2009	December 31, 2008
Property, plant and equipment	\$ (3,027)	\$ (922)
Asset retirement obligations	663	514
Loss carryforwards	20,202	14,429
Share issuance costs and other	2,563	3,552
Valuation allowance	(20,143)	(8,559)
Future income tax asset	\$ 258	\$ 9,014

The future income tax asset at September 30, 2009 is anticipated to be reduced to nil by March 31, 2010 as a result of the renunciation of flow-through share expenditures in the first quarter of 2010.

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 September 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 September 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 \$0.007 million higher.

NOTES TO FINANCIAL STATEMENTS

(\$000s, except as noted)

11. Related Party Transactions

Paramount Resources Ltd. ("Paramount")

At September 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 nine months ended September 30, 2009:

- For the nine month period ended September 30, 2009, amounts billed by Paramount under a services agreement totaled \$0.05 million (2008 - \$0.1 million), including a 10 percent surcharge of approximately \$0.005 million. The amounts billed related primarily to human resources and regulatory consulting services.

12. Subsequent Events

On October 21, 2009, MGM Energy closed a private placement of Common and Flow-Through Shares for gross proceeds of \$3.5 million by issuing 19,633,333 common shares at \$0.125 per share and 6,666,667 common shares on a flow-through basis for \$0.15 per share. The proceeds from the offering will be used to fund MGM Energy's seismic expenditures during the 2009/10 winter season and for general corporate purposes.

In October 2009, MGM Energy amended its demand facility. The facility amount was reduced from \$30 million to \$25 million and will further reduce to \$20 million when certain letters of credit expire or reduce. The amount available for direct borrowings was reduced from \$10 million to \$1 million, and the entire amount of the facility remains available for letters of credit. In addition to the amendment to the facility amount, an officer and director of the Company provided a \$14 million guarantee as additional security for the facility. A fee will be paid for the provision of the guarantee which fee is equivalent to the fees paid to the Bank under the Company's demand facility. The amount of the guarantee fee will fluctuate based on the amount and types of letters of credit outstanding. Based on existing letters of credit, the fee payable for the guarantee will be approximately \$0.1 million per quarter. All other terms and conditions of the demand facility remain unchanged.

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

Robert B. Hodgins ^{(1) (4)}
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Robert Peterson ^{(2) (3)}
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Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
("MGX")



⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Environmental, Health and Safety Committee

⁽³⁾ Member of Compensation Committee

⁽⁴⁾ Member of Corporate Governance Committee