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August 4, 2010

Dear Shareholders,

Attached to this letter are MGM Energy Corp.'s financial statements as at and for the period ending June 30, 2010.

As you will see from these financial statements, we have undertaken little in the way of capital spending over the first half of this year. This is consistent with our announced strategy to reduce or defer spending until we have seen concrete movement on the Mackenzie Valley Pipeline project.

As we reported in our previous Letter to Shareholders, there has in fact been movement on the regulatory process necessary to approve the Mackenzie Gas Project. In the most recent quarter, the National Energy Board completed its hearings into the project, and is now considering its decision, expected in September, 2010. In addition, we understand that the Government of Canada continues to fulfill its obligations to consult with aboriginal groups potentially impacted by the project. All of this is good news.

We believe that important steps were taken towards the approval of the Mackenzie Valley pipeline during the second quarter, and that the regulatory process will reach another major milestone in the third quarter of this year. We remain confident that we have assembled a portfolio of land, exploration opportunities, discoveries and development projects which are second to none, and which cannot be duplicated without great difficulty and at great cost, if at all. Once the pipeline begins to move forward, we will be very well positioned to work with Northern Canadians to take full advantage of the economic opportunities the North has to offer.

As we announced in our press release of our second quarter results, Gary Bunio has resigned as our Chief Operating Officer and re-joined Paramount Resources Ltd., effective August 1, 2010. Gary was MGM Energy's longest serving employee, and both personally and on behalf of the Company, I want to thank him for his contributions to MGM Energy over the years. Gary's enthusiasm, commitment and efforts have been invaluable. Fortunately, we will continue to be able to access Gary's knowledge and expertise through our service agreement with Paramount, and thus he will continue to be a part of our future.

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

Henry W. Sykes
President
MGM Energy Corp.

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MGM Energy Corp.

Management's Discussion and Analysis

For the three and six months ended June 30, 2010

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, 2010 and MGM Energy's audited financial statements and MD&A for the year ended December 31, 2009. 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 29, 2010. 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, exploit and produce oil and natural gas in Northern Canada. The Company owns oil and natural gas resources and land in the Northwest Territories which are not currently accessible to market pending the completion of the Mackenzie Valley Pipeline. The completion of the pipeline is dependent on regulatory approval, which is expected in 2010, and a commercial decision to construct the pipeline, for which there is currently no established timeline. 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	
	2010	2009	2010	2009
Interest income	13	31	19	220
Expenses				
General and administrative	874	1,266	1,939	2,346
Stock-based compensation	646	483	928	1,054
Pipeline regulatory and access	4	-	11	-
Exploration	327	504	1,704	1,008
Lease rental and land costs	250	803	301	1,053
Dry hole	-	2,849	-	37,089
Interest and financing charges	221	268	463	388
Accretion and depreciation	100	177	199	345
Future income tax recovery	-	-	-	-
Net loss	(2,409)	(6,319)	(5,526)	(43,063)

Interest Income

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Interest Income for the period	13	31	19	220

MGM Energy earns interest income from the short-term investment of funds raised from equity issues prior to utilization on operating and capital expenditures. Interest income decreased by 58% from the second quarter of 2009 to the second quarter of 2010 due to the impact of both lower cash resources during the second quarter of 2010 and lower average interest rates on investments as a result of a general decline in interest rate levels. As at June 30, 2010, MGM Energy had \$13.5 million of short-term investments (of which \$10 million was cash held in trust for payment of a land penalty due in July 2010), which bore interest at 0.53% per annum and had an original maturity of three months or less. Interest income for the balance of 2010 will be impacted by the usage of the \$10 million cash held in trust in July 2010 and will also be dependent on the prevailing market interest rates and the timing of other expenditures and additional equity issues, if any.

General and Administrative (G&A) Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Gross G&A Expenses	909	1,269	2,020	2,392
Overhead Recoveries	(35)	(3)	(81)	(46)
Net G&A Expenses for the period	874	1,266	1,939	2,346

G&A expenses for the three month period ended June 30, 2010 decreased by 31% from the same period in 2009 due primarily to efforts by the Company to reduce its expenditures plus the timing of certain expenditures. G&A expenses are anticipated to be in the \$5 million range for 2010 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	
	2010	2009	2010	2009
Stock-Based Compensation Expense for the period	646	483	928	1,054

Stock-based compensation expense relates to options granted to the Company's management, employees and directors. For the three month period ended June 30, 2010, stock-based compensation expense increased from the same period in 2009 due to an adjustment during the quarter to amounts expensed during the previous two quarters. Excluding this adjustment, stock-based compensation expense declined by 25% from the second quarter of 2009 to the second quarter of 2010 due to a lower Black-Scholes-Merton valuation of options granted in the 12 months preceding the second quarter of 2010 compared to those granted in the 12 months preceding the second quarter of 2009.

Pipeline Regulatory and Access Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Pipeline Regulatory and Access Expense for the period	4	-	11	-

Pipeline regulatory and access expense represents costs incurred by the Company associated with regulatory hearings and access on the planned Mackenzie Valley pipeline.

Exploration Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Exploration Expense for the period	327	504	1,704	1,008

MGM Energy utilizes the successful efforts method of accounting, and therefore, all seismic, geological and geophysical costs are expensed as incurred. The costs incurred in the six month period ended June 30, 2010 were comprised of \$1.0 million for the acquisition of seismic in the Great Bear River area of the Central Mackenzie Valley and the balance for geological and geophysical employees and consultants. For the six month period ended June 30, 2009, costs were primarily related to geological and geophysical employees and consultants as there was no seismic program completed during that time.

Lease Rental and Land Costs

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Lease Rental and Land Costs for the period	250	803	301	1,053

Lease rental expense represents costs associated with annual lease rentals on properties held by the Company plus the cost of unfulfilled expenditure commitments on lands for which the term has expired. Under the successful efforts method of accounting, they are charged to expense as incurred. During the second quarter of 2010, these costs predominantly related to annual lease rentals on properties located in the Central Mackenzie Valley. During the second quarter of 2009, the costs related 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 Central Mackenzie Valley.

Dry Hole Expense

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Dry Hole Expense for the period	-	2,849	-	37,089

Under the successful efforts method of accounting, dry hole expense represents the cost of drilling exploratory wells for which no economically recoverable reserves are found. There were no dry hole costs in the six month period ended June 30, 2010. The dry hole costs for the same period of 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.

Interest and Financing Charges

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Interest and Financing Charges for the period	221	268	463	388

Interest and financing charges are comprised primarily of charges for letters of credit, including a fee paid for the provision of a guarantee as security for the credit facility. There was an 18% decrease from the three month period ended June 30, 2009 to the same period of 2010 as costs incurred during the second quarter of 2009 for renewal of the Company's demand facility more than offset the impact of higher fees charged on letters of credit in 2010.

Accretion and Depreciation

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Accretion of Asset Retirement Obligations for the period	45	49	89	90
Depreciation Expense for the period	55	128	110	255

The accretion of Asset Retirement Obligations ("ARO") from the second quarter of 2010 was unchanged from the same period in 2009 due to no additional ARO liabilities assumed in the period. Depreciation expense represents the depreciation of office furniture and fixtures and corporate vehicles that were purchased throughout 2007 and 2008. Depreciation expense declined by 57% from the second quarter of 2009 to the second quarter of 2010 as there was no depreciation expense in the second quarter of 2010 on corporate-owned vehicles that were sold in the third quarter of 2009. There was no amortization of property, plant and equipment as the Company had no production during either year.

Income Taxes

Future income tax recovery for the three months ended June 30, 2010 and 2009 were nil. 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 has been no flow-through shares issued to date in 2010, there is a nil future income tax asset at June 30, 2010. The future income tax asset that existed at December 31, 2009 was reversed in the first quarter of 2010 due to the renouncing of expenditures under flow-through share commitments during that 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 2009, MGM Energy issued a total of \$1.0 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 2009 prior to March 31, 2010.

Net Loss and Net Loss Per Share

Net loss for the three months ended June 30, 2010 was \$2.4 million, compared to a net loss of \$6.3 million during the same period in 2009, with the decrease 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, 2010 was \$0.01 per share compared to \$0.02 per share for three months ended 2009. 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 the foreseeable future.

Funds Flow From Operations

Funds flow from operations for the three months ended June 30, 2010 was negative \$1.3 million, compared to negative \$2.3 million in the second quarter of 2009. 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 the foreseeable future until the Company begins to generate production revenue.

Capital Expenditures

(\$000s)	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Drilling and logistics	6	3,438	(31)	48,123
Land	-	-	-	-
Geological and geophysical	327	504	1,704	1,008
Other	-	3	-	3
Total	333	3,945	1,673	49,134

There was no drilling activity during the six month period ended June 30, 2010. The minor amount of drilling and logistics costs incurred during the quarter ended June 30, 2010 represents costs capitalized related to future drilling locations. The negative drilling and logistics costs for the six months ended June 30, 2010 represent proceeds from the disposition of corporate surplus inventory. The drilling and logistics costs of \$48.1 million for the six months ended June 30, 2009 represent expenditures for the three wells drilled during the winter of 2009: Ellice J-27, North Ellice J-17 and Ellice A-25. The geological and geophysical costs for the six month period ended June 30, 2010 are comprised of \$1.0 million for the acquisition of seismic in the Great Bear River area of the Central Mackenzie Valley and the balance for geological and geophysical employees and consultants. For the six month period ended June 30, 2009, costs were primarily related to geological and geophysical employees and consultants as there was no seismic program completed during that time.

Summary of Quarterly Results

(\$000s, except as noted)	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Interest Income	13	6	9	7	31	189	626	668
Net Loss	(2,409)	(3,117)	(2,732)	(4,527)	(6,319)	(36,744)	(49,170)	(1,043)
Per share - (\$/share) ⁽¹⁾	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.14)	(0.19)	(0.00)

⁽¹⁾ Basic and diluted.

Liquidity and Capital Resources

As at June 30, 2010, MGM Energy had positive working capital of \$14.1 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 June 30, 2010, 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 currently dependent on raising additional equity to finance its ongoing operations and capital expenditures. On April 28, 2010, the Company completed a non-brokered private placement of 25.0 million common shares at \$0.20 per share, for gross proceeds of \$5.0 million. The proceeds of the private placement will be utilized for general corporate purposes and combined with expected sources of additional funding provides sufficient working capital to fund the operations and obligations of the Company, based on current activity levels, until at least the third quarter of 2011 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 current low share price, there is continued risk associated with the Company's ability to obtain additional equity funding. 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.

MGM Energy has a senior secured revolving demand facility with a Canadian bank (the "Demand Facility"). The Demand Facility is secured by a first floating charge debenture over all of the Company's assets. At June 30, 2010, the amount of the Demand Facility was \$22.5 million, which will reduce to \$20 million as certain letters of credit expire. Of the authorized amount of the Demand Facility, up to \$1 million is available for borrowings and the entire amount is available for letters of credit. As at June 30, 2010, the amount of letters of credit outstanding was \$18.1 million. These letters of credit have not been drawn; however, they reduce the amount available to MGM Energy under the Demand Facility on a dollar for dollar basis. At the time the amount of the facility is reduced to \$20 million, existing letters of credit will have been reduced to no greater than \$16.3 million, which provides sufficient capacity under the Demand Facility to issue new letters of credit for the Company's expected near-term requirements.

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. An officer and director of the Company provides a \$14 million guarantee as additional security for the facility. Additional information regarding this guarantee and the compensation paid by the Company is provided under “Related Party Transactions” below.

At July 29, 2010, MGM Energy had 314.5 million Common Shares issued and outstanding and 21.4 million stock options outstanding, of which 4.8 million are exercisable.

Contractual Obligations

MGM Energy has the following contractual obligations as at June 30, 2010:

(\$000s)	Recognized in financial statements	Less than 1 Year	1 – 3 years	4 – 5 years	After 5 years	Total
Asset retirement obligations	Yes- Partially	-	-	-	16,600	16,600
Obligations under leases	No	936	1,872	936	-	3,744
Work Commitment – Exploration Licences	No	-	31,050	-	-	31,050
Capital spending commitment	No	10,250	1,000	26,000	-	37,250
Total		11,186	33,922	26,936	16,600	88,644

MGM Energy is obligated under certain Northwest Territories Exploration Licences to fulfill minimum work commitments totalling \$31 million over the next three years. As a condition of the Exploration Licences, the Company was required to post security of 25% of its share of these work commitments via letters of credit. The posted security is released in proportion to the actual work expenditures over the life of the Exploration Licence. If no expenditures are made on an Exploration Licence prior to its expiry, the Company must make a payment equal to the posted security, or 25% of the work commitment. Therefore, if no work is completed on the Company’s various Exploration Licences during their terms, the maximum amount owing by the Company would be 25% of \$31 million, or approximately \$8 million.

Under the restructured Chevron/BP Farmout Agreement, MGM Energy is required to make a \$10 million land payment penalty in July 2010, which is reflected as a capital spending commitment of less than one year. Under the agreement, MGM Energy is also obligated to fund \$26 million of development costs and drill three additional wells once the decision to construct the Mackenzie Valley Pipeline (“DTC”) is made. The obligation to fund \$26 million of development costs is shown in the table above as an obligation in the next four to five years, although the timing of DTC is not currently known. The obligation to drill three additional wells is not shown in the above table as the cost to drill the wells are not currently estimable.

Related Party Transactions

Paramount Resources Ltd.

At June 30, 2010, Paramount held 43.9 million common shares of MGM Energy, representing 14.0 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, 2010:

- For the six month period ended June 30, 2010, amounts billed by Paramount to MGM Energy under a services agreement totaled \$0.01 million (2009 - \$0.03 million), including a 10 percent surcharge of approximately \$0.001 million. The amounts billed related primarily to human resources consulting services.
- For the six months period ended June 30, 2010, amounts billed by MGM Energy to Paramount under a services agreement totaled \$0.05 million (2009 – nil). The amounts billed related primarily to engineering consulting services provided by MGM Energy to Paramount.

Other

Clayton Riddell, an officer and director of the Company, who as at June 30, 2010, owned, directly or indirectly, 29.6 percent of MGM Energy's outstanding shares, provides a \$14 million guarantee as security for the Company's bank facility. A fee is 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. The fee was payable beginning on October 29, 2009. Based on letters of credit outstanding at June 30, 2010, the fee payable for the guarantee will be approximately \$0.1 million per quarter.

Outlook for Remainder of 2010

The Company did not conduct any drilling activity in the winter of 2009/10. The only material capital expenditure for the winter was the acquisition of seismic in the Great Bear River area of the Central Mackenzie Valley, which was completed in March 2010 at a cost to the Company of approximately \$1 million. For the balance of 2010 there are currently no other planned expenditures other than those required to maintain and monitor the Company's existing assets. The \$10 million land payment penalty referenced under "Contractual Obligations" above was paid on July 29, 2010.

The Company has not yet finalized its plans for the winter of 2010/11. The Company is continuing to evaluate whether to drill an oil well on its Great Bear River property, which will depend on the results of the seismic program recently completed and market conditions impacting the availability of capital. The Great Bear River property is located adjacent to an existing oil pipeline from Norman Wells, therefore, any oil that is discovered can be transported to market without requiring the completion of the Mackenzie Valley Pipeline. Other than the potential drilling of an oil well on the Great Bear River property, the Company currently anticipates that it will not conduct any drilling or seismic program during the winter of 2010/11, although operating plans will not be finalized until the third or fourth quarter of 2010.

Despite the significant reduction in the Company's activity levels this year, the Company's intention is to retain its management and technical staff as they are viewed as a key and valuable asset. During 2010, the Company will be participating in and monitoring the conclusion of the regulatory process for the Mackenzie Valley pipeline. The

National Energy Board has completed its hearings into the project application and is scheduled to release its decision by the end of September 2010.

The Company completed a private placement of common shares on April 28, 2010 which provided gross proceeds of \$5.0 million. This funding plus existing working capital will be sufficient to fund the operations of the Company, based on current activity levels, and meet all commitments until at least the first quarter of 2011. As the Company has no source of revenue, the Company is currently dependent on equity issues, asset sales or debt to fund its operations and capital expenditures. The Company's financial philosophy is to raise sufficient funds prior to making any major capital commitments, which in most years will be in the second or third quarter of the year in anticipation of a winter drilling or seismic program. The Company will consider other sources of funding, such as assets sales, farm-outs and debt once there is greater certainty regarding the timing of the Mackenzie Valley pipeline. As there is not yet certainty, the Company will continue to be reliant on equity issues to fund its operations.

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 has commenced the process to transition from current Canadian GAAP to IFRS. Because the Company does not have active operations and utilizes the "successful-efforts" method of accounting for oil and gas (which is consistent with IFRS accounting for oil and gas), the cost and impact of the transition will be significantly less than for other oil and gas companies.

The Company has prepared an opening balance sheet as at January 1, 2010 and the income statement for the three months ended March 31, 2010 in accordance with International Accounting Standard using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These statements have not been audited. There were a few differences between Canadian GAAP and IFRS identified, although the net impact on shareholders' equity as at January 1, 2010 and the net loss for the first quarter of 2010 was not material.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company notes the following transitional arrangements and financial statement impacts:

- (a) Property, plant and equipment: IAS 16 Property, plant and equipment allows for property, plant and equipment to continue to be carried at cost less depreciation, equivalent to Canadian GAAP. The Company will retain assets at historical cost upon transition rather than utilizing the allowed election to recognize assets at fair value. MGM Energy is designating all of its assets at December 31, 2009 as one Cash Generating Unit as the future development of all of its discoveries are currently dependent on the Mackenzie Valley Pipeline. Once the Mackenzie Valley Pipeline has been approved, the Company will re-examine the allocation of its assets into separate Cash Generating Units.

- (b) Provisions, contingent liabilities and contingent assets: Based on IAS 37, the Company recognizes a decommissioning liability when a present obligation is present as a result of a past event, it is probable that an outflow of resources embodying economic benefits would be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. This is consistent with the estimation of an Asset Retirement Obligation under Canadian GAAP, although the methodology under IFRS is somewhat different than under Canadian GAAP. The estimated Decommissioning Liability for the opening balance sheet at January 1, 2010 was approximately \$0.7 million higher than the estimate under Canadian GAAP as a lower discount rate was used under IFRS. Of the difference, approximately \$0.5 million was added to property, plant and equipment as it relates to wells that have been capitalized and \$0.2 million was charged to retained earnings as it relates to wells that were not successful but that were not abandoned and the costs had previously been charged to dry hole expense. For the first quarter of 2010, the amortization of the decommissioning liability was slightly lower than the amortization of the asset retirement obligation as the higher liability amount was more than offset by a lower accretion rate. As disclosed in the MD&A for the year ended December 31, 2009, the Company's preliminary assessment of the differences between Canadian GAAP and IFRS was that the decommissioning liability under IFRS would be lower due to using a higher discount rate. However, the final assessment concluded that the discount rate to be utilized should be lower, resulting in a higher decommissioning liability under IFRS. The Company's preliminary estimate that the difference would not be material was confirmed with the final estimate.
- (c) Share-based payment transactions: Both IFRS and Canadian GAAP require compensation expense to be measured based on the grant date fair value of share-based awards. IFRS 2 requires that an estimate is made of the forfeiture rate whereas under Canadian GAAP, the stock-based compensation expense is only impacted when the actual forfeiture takes place. As the historical forfeiture rate has been less than what would have been expected, stock-based compensation expense under IFRS is lower than under Canadian GAAP, although the amount is not material to either the opening balance sheet at January 1, 2010 or the income statement for the quarter ended March 31, 2010. The final assessment is consistent with the preliminary assessment outlined in the Company's MD&A for the year ended December 31, 2009.

The Company does not believe that there will be any impact on internal controls over financial reporting or disclosure controls and procedures as a result of the transition to IFRS. As MGM Energy has a relatively straightforward conversion to IFRS, the Company has sufficient internal financial reporting expertise to manage the conversion to IFRS and prepare ongoing financial statements under IFRS. The Company will be completing a full review of its internal controls over financial reporting and disclosure controls and procedures under IFRS in the fourth quarter of 2010 as part of its annual review of its internal controls.

As part of the transition assessment, the Company has evaluated the potential impact on information technology and data systems, particularly accounting software, and the Company believes that the impact on its accounting processes and the amount of expenditures required to convert to IFRS will be minimal.

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, 2009.

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, 2009 and the unaudited interim financial statements for the six months ended June 30, 2010.

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MGM Energy Corp.

Interim Financial Statements (Unaudited)

As at and for the three and six months ended June 30, 2010

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

	As at June 30 2010	As at December 31 2009
ASSETS		
Current assets		
Cash and cash equivalents (Note 10)	\$ 4,265	\$ 4,486
Restricted cash (Notes 3 and 12)	10,000	10,000
Accounts receivable and other current assets	917	1,650
	15,182	16,136
Property, plant and equipment (Note 4)	232,987	233,127
Future income taxes (Note 9)	-	258
	\$ 248,169	\$ 249,521
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,037	\$ 2,601
Due to related parties (Note 11)	61	70
	1,098	2,671
Asset retirement obligations (Note 6)	2,248	2,159
	3,346	4,830
Shareholders' Equity		
Share capital (Note 7)	454,465	449,735
Contributed surplus (Note 8)	7,348	6,420
Deficit	(216,990)	(211,464)
	244,823	244,691
	\$ 248,169	\$ 249,521

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	
	2010	2009	2010	2009
Revenue				
Interest income	\$ 13	\$ 31	\$ 19	\$ 220
Expenses				
General and administrative	874	1,266	1,939	2,346
Stock-based compensation (Note 8)	646	483	928	1,054
Pipeline regulatory and access	4	-	11	-
Exploration	327	504	1,704	1,008
Lease rental and land costs	250	803	301	1,053
Dry hole (Note 4)	-	2,849	-	37,089
Interest and financing charges	221	268	463	388
Accretion of asset retirement obligations (Note 6)	45	49	89	90
Depreciation	55	128	110	255
	2,422	6,350	5,545	43,283
Loss before tax	(2,409)	(6,319)	(5,526)	(43,063)
Future income tax (Note 9)	-	-	-	-
Net loss and comprehensive loss	\$ (2,409)	\$ (6,319)	\$ (5,526)	\$ (43,063)
Net loss per Common Share (\$/share)				
Basic	(0.01)	(0.02)	(0.02)	(0.16)
Diluted	(0.01)	(0.02)	(0.02)	(0.16)
Weighted average Common Shares outstanding (000s)				
Basic	306,528	263,195	298,058	263,195
Diluted	306,528	263,195	298,058	263,195

Statements of Deficit (Unaudited)

(\$000s)

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Deficit, beginning of period	\$ (214,581)	\$ (197,886)	\$ (211,464)	\$ (161,142)
Net loss	(2,409)	(6,319)	(5,526)	(43,063)
Deficit, end of period	\$ (216,990)	\$ (204,205)	\$ (216,990)	\$ (204,205)

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	
	2010	2009	2010	2009
Operating activities				
Net loss and other comprehensive loss	\$ (2,409)	\$ (6,319)	\$ (5,526)	\$ (43,063)
Add:				
Stock-based compensation	646	483	928	1,054
Exploration	327	504	1,704	1,008
Dry hole	-	2,849	-	37,089
Accretion of asset retirement obligations	45	49	89	90
Depreciation	55	128	110	255
	(1,336)	(2,306)	(2,695)	(3,567)
Change in non-cash working capital	(414)	(4,489)	(809)	(4,265)
	(1,750)	(6,795)	(3,504)	(7,832)
Financing activities				
Common shares issued, net of issuance costs	4,988	-	4,988	-
Investing activities				
Restricted cash contributions	-	(10,000)	-	(10,000)
Capital expenditures	(333)	(3,945)	(1,673)	(49,134)
Change in non-cash working capital	-	(16,816)	(32)	(736)
	(333)	(30,761)	(1,705)	(59,870)
Increase (decrease) in cash and cash equivalents	2,905	(37,556)	(221)	(67,702)
Cash and cash equivalents, beginning of period	1,360	51,855	4,486	82,001
Cash and cash equivalents, end of period	\$ 4,265	\$ 14,299	\$ 4,265	\$ 14,299

See the accompanying notes to the Financial Statements.

Notes to Financial Statements (Unaudited)

(\$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, 2009. 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, 2009.

MGM Energy will be required to report its results in accordance with International Financial Reporting Standards (“IFRS”) beginning in 2011. The Company is in the process of assessing the impact of the convergence of Canadian GAPP with IFRS on its financial results of operations, financial position and disclosures. The Company has prepared a draft opening balance sheet as at January 1, 2010 and a draft income statement for the three months ended March 31, 2010 in accordance with IFRS. Based on these financial statements, the Company is of the opinion that the conversion to IFRS does not have a material impact on any balance sheet item as at January 1, 2010 or any income statement item for the three month period ended March 31, 2010.

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 due in July, 2010.

Notes to Financial Statements (Unaudited)

(\$000s, except as noted)

4. Property, Plant and Equipment

	June 30, 2010		December 31, 2009	
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Net Book Value
Petroleum and natural gas properties	\$ 232,607	\$ -	\$ 232,607	\$ 232,636
Other	1,255	875	380	491
	\$ 233,862	\$ 875	\$ 232,987	\$ 233,127

As the Company is in the development stage and has no production, all capitalized costs associated with non-producing petroleum and natural gas properties are currently not subject to depletion.

Continuity of Suspended Exploratory Well Costs

	Six Months Ended June 30, 2010	Year Ended December 31, 2009
Balance, beginning of period	\$ 56,253	\$ 42,939
Additions pending the determination of proved reserves	7	17,606
Well costs charged to dry hole expense	-	(4,292)
Balance, end of period	\$ 56,260	\$ 56,253

Aging of Capitalized Exploratory Well Costs

	June 30 2010	December 31 2009
Exploratory well costs capitalized for a period of one year or less	\$ 642	\$ 17,606
Exploratory well costs capitalized for a period of greater than one year	55,618	38,647
Balance, end of period	\$ 56,260	\$ 56,253
Number of projects that have exploratory well costs that have been capitalized for a period greater than one year	4	4

At June 30, 2010, \$56.3 million of capitalized exploratory well costs relate to projects 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 for the six months ended June 30, 2009 relates to two wells drilled during the 2008/09 winter program.

Notes to Financial Statements (Unaudited)

(\$000s, except as noted)

5. Demand Facility

MGM Energy has a senior secured revolving demand facility bearing interest at the lender's prime rate or banker's acceptance rate, at the discretion of the Company, plus an applicable margin. The facility is secured by a first floating debenture over all of the Company's assets. As at June 30, 2010, the amount of the facility was \$22.5 million. At that date, there was no debt outstanding under the facility; however, there were undrawn letters of credit outstanding of \$18.1 million. The facility will reduce to \$20 million as certain letters of credit expire or reduce, by which time existing letters of credit will have been reduced to \$16.3 million.

The amount available for direct borrowings under the facility is \$1 million, although the entire amount of the facility 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. 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. 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.

In addition to the first floating debenture over the Company's assets, the facility is also secured by a \$14 million guarantee provided by an officer and director of the Company. A fee is 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 letters of credit outstanding at June 30, 2010, the fee payable for the guarantee will be approximately \$0.1 million per quarter.

6. Asset Retirement Obligations

	Six Months Ended June 30, 2010
Asset retirement obligations, beginning of period	\$ 2,159
Liabilities incurred	-
Accretion expense	89
Asset retirement obligations, end of period	\$ 2,248

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, 2010 are \$16.6 million (December 31, 2009 - \$16.6 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.

Notes to Financial Statements (Unaudited)

(\$000s, except as noted)

7. Share Capital

Authorized

MGM Energy's authorized capital is comprised of an unlimited number of Common Shares, an unlimited number of Non-Voting 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 Non-Voting Common Shares, Class A Preferred Shares or Preferred Shares outstanding at December 31, 2009 and June 30, 2010.

Issued and Outstanding

Common Shares	Shares	Amount
Balance, December 31, 2009	289,494,844	\$ 449,735
Tax adjustment on flow-through share renunciations	-	(258)
Issued for cash	25,000,000	5,000
Share issuance costs	-	(12)
Balance, June 30, 2010	314,494,844	\$ 454,465

In April 2010, MGM Energy issued 25,000,000 common shares at \$0.20 per share for gross proceeds of \$5,000,000.

Capital Disclosure

MGM Energy manages shareholders' equity as capital. Shareholders' equity had a book value of \$244.8 million as at June 30, 2010. 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 operations 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 summer or fall 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

Notes to Financial Statements (Unaudited)

(\$000s, except as noted)

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, 2009	\$ 0.72	21,482,500
Granted	-	-
Forfeited	0.27	(101,000)
Exercised	0.16	(8,000)
Balance, June 30, 2010	\$ 0.72	21,373,500
Options exercisable, June 30, 2010	\$ 1.75	4,771,375

Additional information about MGM Energy’s stock options outstanding at June 30, 2010 is as follows:

Exercise Prices	Outstanding		Exercisable
	Number	Weighted Average Contractual Life	Number
(\$ / share)		(years)	
0.16 – 1.00	18,497,500	8.75	3,006,375
1.01 – 2.00	-	-	-
2.01 – 3.00	1,568,000	6.70	784,000
3.01 – 4.00	100,000	1.34	75,000
4.01 - 5.00	1,208,000	0.83	906,000
Total	21,373,500	8.11	4,771,375

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.

Contributed Surplus

A reconciliation of contributed surplus is provided below.

	Six Months Ended June 30, 2010
Balance, beginning of period	\$ 6,420
Stock-based compensation expense	928
Balance, end of period	\$ 7,348

Notes to Financial Statements (Unaudited)

(\$000s, except as noted)

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	
	2010	2009	2010	2009
Loss before tax	\$ (2,409)	\$ (6,319)	\$ (5,526)	\$ (43,063)
Effective Canadian statutory income tax rate	28.0 %	29.0 %	28.0 %	29.0 %
Expected tax recovery	\$ (674)	\$ (1,833)	\$ (1,547)	\$ (12,488)
Decrease resulting from:				
Statutory and other rate differences	80	271	181	1,479
Stock-based compensation	181	141	260	306
Valuation allowance	410	1,421	1,102	10,700
Other	3	-	4	3
Future tax recovery	\$ -	\$ -	\$ -	\$ -

Components of Future Income Tax Asset:

	June 30, 2010	December 31, 2009
Property, plant and equipment – carrying value in excess of tax basis	\$ (5,524)	\$ (3,711)
Asset retirement obligations	579	526
Loss carryforwards	24,971	21,832
Share issuance costs and other	1,808	2,343
Valuation allowance	(21,834)	(20,732)
Future income tax asset	\$ -	\$ 258

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, 2010, 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 \$0.03 million lower. The average interest rate earned during the quarter ended June 30, 2010 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 \$0.02 million higher.

Notes to Financial Statements (Unaudited)

(\$000s, except as noted)

11. Related Party Transactions

Paramount Resources Ltd. (“Paramount”)

At June 30, 2010, Paramount held 43.9 million common shares of MGM Energy, representing 14.0 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, 2010:

- For the six month period ended June 30, 2010, amounts billed by Paramount under a services agreement totaled \$0.01 million (2009 - \$0.03 million), including a 10 percent surcharge of approximately \$0.001 million. The amounts billed related primarily to human resources consulting services.
- For the six months period ended June 30, 2010, amounts billed by MGM Energy to Paramount under a services agreement totaled \$0.05 million (2009 – nil). The amounts billed related primarily to engineering consulting services provided by MGM Energy to Paramount.

Other

Clayton Riddell, an officer and director of the Company, who as at June 30, 2010, owned, directly or indirectly, 29.6 percent of MGM Energy’s outstanding shares, provides a \$14 million guarantee as security for the Company’s bank facility (refer note 5 for a description of the bank facility). A fee is 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 letters of credit outstanding at June 30, 2010, the fee payable for the guarantee will be approximately \$0.1 million per quarter.

12. Subsequent Events

On July 29, 2010, MGM Energy utilized the “Restricted Cash” to fund its obligation detailed under Note 3 to the Financial Statements.

SHAREHOLDER INFORMATION

OFFICERS

C.H. (Clay) Riddell
Chief Executive Officer

Henry W. Sykes, QC
President

Nancy F. Dilts
Vice President Legal and Regulatory

John Hogg
Vice President Exploration and Operations

Rick Miller
Chief Financial Officer

DIRECTORS

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

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

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

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

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

James H.T. Riddell
Calgary, Alberta

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

Henry W. Sykes, QC
President

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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