

MAGNUM ENERGY INC.

FINANCIAL STATEMENTS

For Year Ended August 31, 2009

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Auditors' Report

To the Shareholders
Magnum Energy Inc.

We have audited the balance sheets of Magnum Energy Inc. as at August 31, 2009 and 2008 and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "Collins Barrow Calgary LLP"

CHARTERED ACCOUNTANTS

Calgary, Alberta
November 20, 2009, except as to
note 17 which is as of December 17, 2009

MAGNUM ENERGY INC.
BALANCE SHEETS

	August 31 2009	August 31 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ -	\$ 594,529
Accounts receivable	95,955	297,083
Prepaid expenses and deposits	46,236	43,277
	142,191	934,889
Property and equipment (note 5)	5,527,309	3,923,472
Future income tax asset (note 7)	203,000	-
	\$ 5,872,500	\$ 4,858,361
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 839,274	\$ 493,190
Bank debt (notes 6 and 17)	1,387,759	550,000
	2,227,033	1,043,190
Asset retirement obligations (note 8)	293,230	163,003
	2,520,263	1,206,193
Shareholders' equity:		
Share capital (note 9)	5,212,749	5,179,934
Warrants (note 9)	222,000	222,000
Contributed surplus (note 10)	747,510	679,050
Deficit	(2,830,022)	(2,428,816)
	3,352,237	3,652,168
	\$ 5,872,500	\$ 4,858,361
Commitments (note 12)		
Contingent liabilities (note 16)		
Subsequent events (note 17)		

See accompanying notes to financial statements

Approved by the Directors:

"Richard A. Nemeth"
Richard A. Nemeth

"Gordon J. Dolph"
Gordon J. Dolph

MAGNUM ENERGY INC.**STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**

For the years ended August 31

	2009	2008
Revenue		
Oil and natural gas sales	\$ 1,528,419	\$ 1,868,137
Royalties	(216,657)	(221,706)
Interest	4,806	9,133
	1,316,568	1,655,564
Expenses		
Operating	365,478	379,217
General and administrative	840,696	814,054
Interest	79,941	54,908
Stock-based compensation	68,460	42,200
Depletion, depreciation and accretion	578,337	811,788
	1,932,912	2,102,167
Loss from operations	(616,344)	(446,603)
Settlement of account payable (note 9)	12,138	-
Loss before income taxes	(604,206)	(446,603)
Future income tax recovery (note 7)	203,000	363,778
Net loss and comprehensive loss	(401,206)	(82,825)
Deficit, beginning of year	(2,428,816)	(2,345,991)
Deficit, end of year	\$ (2,830,022)	\$ (2,428,816)
Loss per share - basic and diluted (note 9)	\$ (0.02)	\$ (0.00)

See accompanying notes to financial statements

MAGNUM ENERGY INC.
STATEMENTS OF CASH FLOWS
For the years ended August 31

	2009	2008
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss	\$ (401,206)	\$ (82,825)
Adjustments for items not involving cash:		
Depletion, depreciation and accretion	578,337	811,788
Stock-based compensation	68,460	42,200
Settlement of account payable	(12,138)	-
Future income tax recovery	(203,000)	(363,778)
	30,453	407,385
Changes in non-cash working capital items related to operating:		
Accounts receivable	185,345	(219,624)
Prepaid expenses and deposits	341	(22,936)
Accounts payable and accrued liabilities	27,112	126,916
	243,251	291,741
INVESTING ACTIVITIES		
Property and equipment expenditures	(2,051,947)	(1,221,737)
Sale of property and equipment	-	499,200
Changes in non-cash working capital items related to investing:		
Accounts receivable	15,783	(15,783)
Prepaid expenses and deposits	(3,300)	-
Accounts payable and accrued liabilities	363,925	(55,367)
	(1,675,539)	(793,687)
FINANCING ACTIVITIES		
Proceeds from share issuances (net of issuance costs)	-	265,150
Bank debt proceeds, net of repayments	837,759	550,000
	837,759	815,150
Increase (decrease) in cash and cash equivalents	(594,529)	313,204
Cash and cash equivalents, beginning of year	594,529	281,325
Cash and cash equivalents, end of year	\$ -	\$ 594,529
Cash and cash equivalents is comprised of:		
Balances with banks	\$ -	\$ 91,406
Term deposit	-	503,123
	\$ -	\$ 594,529
Supplementary cash flow information:		
Interest paid	\$ 90,162	\$ 23,775
Income taxes paid	\$ -	\$ -

Non-cash transactions (note 13)

See accompanying notes to financial statements

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended August 31, 2009 and 2008

1. Nature of Operations

Magnum Energy Inc. (the "Company") was incorporated on June 27, 2003 under the laws of British Columbia, Canada. The Company is a public company whose Class A common shares commenced trading on September 28, 2005 on the TSX Venture Exchange. The Company is in the business of the acquisition, exploration, development and production of oil and gas properties in Alberta.

2. Significant Accounting Policies

Basis of Presentation

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

Cash and cash equivalents

Cash and cash equivalents are comprised of amounts on deposit with banks and short term, highly liquid investments with maturities of ninety days or less.

Oil and Gas Properties

Capitalized Costs

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of acquiring, exploring for and developing oil and gas reserves are initially capitalized on a country-by-country basis. Such costs include land acquisition costs, lease rentals, geological and geophysical activities, carrying charges on non-producing properties, costs of drilling productive and non-productive wells, tangible production equipment, asset retirement costs and overhead charges directly related to acquisition and exploration activities.

Proceeds from a sale of oil and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would change the depletion and depreciation rate by 20% or more.

Depletion and Depreciation

Depletion and depreciation of oil and natural gas properties is calculated using the unit-of-production method based on production volumes, before royalties, in relation to total proved reserves as estimated by independent engineers. Natural gas volumes are converted to equivalent oil volumes based on a relative energy content of six thousand cubic feet of natural gas to one barrel of oil. In determining costs subject to depletion, the Company includes estimated future costs to be incurred in developing proved reserves and removes estimated salvage values. Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Ceiling Test

In applying the full cost method, the Company calculates a ceiling test whereby the carrying value of oil and natural gas properties is compared to the sum of the undiscounted cash flows expected to result from the proved reserves and the lower of cost or market of unproved properties. Cash flows used in the ceiling test are based on independent third party quoted forward prices, adjusted for contracted prices and quality differentials. Should the ceiling test result in an excess of carrying value, the Company would then measure the amount of impairment by comparing the carrying amounts of oil and natural gas properties to an amount equal to the estimated net present value of proved and probable reserves and the lower of cost and market of unproved properties. A risk-free interest rate is used to arrive at the net present value of future cash flows. Carrying values in excess of the estimated discounted future cash flows would be recorded as an impairment.

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended August 31, 2009 and 2008

2. Significant Accounting Policies (Continued)

Asset Retirement Obligations

Asset retirement obligations include the abandonment of oil and natural gas wells, the dismantling and removal of tangible equipment such as oil batteries and natural gas facilities and returning the land to its original condition. The Company recognizes the fair value of the obligations in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. Fair value is estimated based on the present value of the estimated future cash outflows to abandon the asset, discounted at the Company's credit-adjusted risk-free interest rate. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. Revisions to the original estimated cost or the timing of the cash outflows may result in a change to the liability. Actual costs incurred to settle an obligation reduce the liability.

Joint Ventures

A substantial portion of the Company's oil and gas operations are conducted jointly with others and accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

Equipment

Equipment is recorded at cost less accumulated depreciation which is provided on a straight-line basis over the life of the related assets.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the recovery or settlement of assets and liabilities at carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on substantively enacted tax laws and rates that are anticipated to apply in the period of realization.

Flow-through Shares

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. To recognize the foregone tax benefits of flow-through shares, the tax effect related to renounced expenditures is recorded as a reduction to share capital and the recognition of a future income tax liability for the amount of the tax reduction when the expenditures are renounced to the shareholders.

Stock-based Compensation

The Company has a stock-based compensation plan (note 9), whereby stock options are granted in accordance with the policies of regulatory authorities. The fair value of all stock options granted is expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of stock options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. Stock option forfeitures are accounted for as they occur.

The Company uses the Black-Scholes valuation model to determine the fair value of stock options and warrants at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected life of the option and warrant, the expected price volatility of the underlying security and the risk-free interest rate.

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended August 31, 2009 and 2008

2. Significant Accounting Policies (Continued)

Income (loss) per share

Basic income (loss) per share information is computed by dividing the income (loss) for the year by the weighted average number of Class A common shares outstanding during the period. Diluted per share amounts reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. The treasury stock method assumes that any proceeds received by the Company upon the exercise of in-the-money options and warrants plus the unamortized portion of stock-based compensation would be used to buy back Class A common shares at the average market price for the period. The weighted average number of shares outstanding is then adjusted by the net change.

Revenue Recognition

Revenue from the sale of oil and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation and production based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

Interest revenue is recognized as earned.

Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingencies. Such estimates primarily relate to unsettled transactions and events at the balance sheet date. Actual results could differ from those estimated.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided.

The amounts recorded for depletion, depreciation, asset retirement obligations and the ceiling test are based on estimated proved reserves, production rates, future petroleum and natural gas prices and future costs.

The amounts recorded to estimate fair values of stock options and warrants are based on estimates of future volatility of the Company's share price, expected lives of the options and warrants, expected dividends to be paid by the Company and other relevant assumptions.

The amounts recorded for the fair value of the consideration given on the acquisition of certain oil and gas properties as described in note 9 are based on estimates of the Company's share price on the date of the transaction.

The amounts disclosed related to the contingencies as described in note 16 are based on estimates of the net revenues earned in prior periods.

The amounts recorded and disclosed related to future income tax assets and future income tax recovery are based on estimates of the probability of the Company utilizing certain tax pools and assets which in turn, is dependent on estimates of proved and probable reserves production rates and future petroleum and natural gas prices.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Financial Instruments

Cash and cash equivalents are designated as held-for-trading instruments and are measured at carrying value, which approximates fair value due to the short term nature of these instruments. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities and bank debt are designated as other financial liabilities.

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended August 31, 2009 and 2008

3. Adoption of New Accounting Policies

On September 1, 2008, the Company adopted the following measures issued by the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

Section 1400, General Standards of Financial Statement Presentation was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of this standard did not have an impact on the Company's financial statements.

Section 3064, Goodwill and Intangible Assets which revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard did not have an impact on the Company's financial statements.

On January 20, 2009, the Company adopted the **Emerging Issues Committee (EIC) Abstract EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities** which provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, **Financial Instruments – Recognition and Measurement**. This EIC Abstract states that an entity's own credit risk and the credit risk of the counterparty to the financial instrument should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after the date of the abstract's issuance. The Company has incorporated the abstract's provisions in its fair value determinations of financial instruments as at August 31, 2009. The implementation of this abstract had no material impact on the Company's financial statements.

4. Future Accounting Pronouncements

Business Combinations

Effective September 1, 2011, the Company will be required to adopt certain amendments of Section 1582 with respect to requirements of the use of the acquisitions method for business combinations and related disclosures with earlier application permitted. The Company plans to adopt this standard prospectively effective September 1, 2009 and does not expect the adoption of this standard to have a significant impact on its results of operations or financial position until a business combination occurs.

Consolidated Financial Statements and Non-controlling Interests

Effective September 1, 2011, the Company will be required to adopt Section 1601, **Consolidated Financial Statements**, and 1602, **Non-controlling Interests**, which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The Company plans to adopt these standards effective September 1, 2009 and does not expect the adoption to have a material impact on its results of operations or financial position.

International Financial Reporting Standards ("IFRS")

In February, 2008, the CICA Accounting Standards Board confirmed that the changeover to IFRS from GAAP will be required for publicly accountable enterprises effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition from current GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

Although IFRS is principles based and uses a conceptual framework similar to GAAP, there are significant differences and choices in accounting policies, as well as increased disclosure requirements under IFRS. The International Accounting Standards Board has issued certain amendments and exemptions to IFRS 1 relating to full cost oil and gas accounting. The amendments permit the Company to apply IFRS prospectively to their full cost pool of capitalized exploration and development expenses, with an initial impairment test, at the transition date. The Company will then be required to adopt a form similar to "successful efforts" method of accounting for oil and gas on a prospective basis.

MAGNUM ENERGY INC.
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For The Year Ended August 31, 2009 and 2008

4. Future Accounting Pronouncements (continued)

The Company has not completed development of its IFRS changeover plan, which will include project structure governance, resourcing and training, analysis of key GAAP differences and a phase plan to assess accounting policies under IFRS as well as potential first time adoption of IFRS exemptions. The Company hopes to complete its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting and business activities, such as financing and compensation arrangements during 2010. The Company will disclose the key elements of its plan and progress on the project as information becomes available during the transition period beginning September 1, 2010.

5. Property and Equipment

August 31, 2009			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties	\$ 8,380,901	\$ 2,867,955	\$ 5,512,946
Equipment	35,678	21,315	14,363
	\$ 8,416,579	\$ 2,889,270	\$ 5,527,309

August 31, 2008			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties	\$ 6,210,241	\$ 2,309,861	\$ 3,900,380
Equipment	35,203	12,111	23,092
	\$ 6,245,444	\$ 2,321,972	\$ 3,923,472

As at August 31, 2009, \$969,691 (2007- \$1,209,389) of oil and gas property costs are undeveloped and have not been subject to depletion. The calculation of depletion included future development costs of \$600,000 (2008 - \$149,350). During the year ended August 31, 2009, the Company capitalized \$42,697 (2008 - \$nil) of general and administrative expenses.

The Company performed a ceiling test calculation at August 31, 2009, to assess the recoverable value of the oil and gas properties. The oil and gas future prices are based on the August 31, 2009 commodity price forecast of the Company's independent reserve evaluators. These prices have been adjusted for commodity price differentials specific to the Company. Benchmark price and exchange assumptions used are as follows:

	Crude Oil Edmonton	Natural Gas AECO
Year	(Cdn\$/bbl)	(\$/mcf)
2009	76.55	3.84
2010	81.79	6.10
2011	85.28	6.92
2012	87.60	7.44
2013	89.02	7.84
2014	89.26	7.94
2015	91.05	8.10
<i>Escalated at 2% thereafter</i>		

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended August 31, 2009 and 2008

6. Bank Debt

At August 31, 2009, the Company has available a demand revolving line of credit availability to a maximum of \$1,400,000 bearing interest at the bank's prime lending rate plus 3% per annum (with a minimum interest rate of 6%) and secured by a first fixed and floating charge debenture in the amount of \$5,000,000 over all present and future assets of the Company. As at August 31, 2009, \$1,350,000 was outstanding on this facility. Principal repayments of \$100,000 per month were to commence on October 1, 2009 and the facility was to be repaid in full by January 31, 2012. The facility was fully repaid on October 20, 2009 (see Note 17).

7. Income Taxes

The provision for future income taxes differs from that which would be expected by applying the effective combined Canadian federal and provincial income tax rates of 29.2% (2008 - 30.4%) to loss before income taxes. The principal reasons for this difference are as follows:

	2009	2008
Expected income tax recovery on loss before taxes	\$ 176,428	\$ 135,767
Increase (decrease) resulting from:		
Stock-based compensation	(19,990)	(12,829)
Change in tax rates	(13,431)	(22,847)
Future income tax asset recognized	59,993	263,687
	<u>\$ 203,000</u>	<u>\$ 363,778</u>

The components of the Company's future tax asset are as follows:

	2009	2008
Carrying value of property and equipment in excess of available tax deductions	\$ (275,000)	\$ (275,000)
Non-capital losses carried forward	450,000	256,000
Share issue costs	28,000	58,000
	<u>203,000</u>	<u>39,000</u>
Valuation allowance	-	(39,000)
	<u>\$ 203,000</u>	<u>\$ -</u>

The Company has non-capital losses of approximately \$1,627,000, resource expenditures of approximately \$4,326,000 and share issue costs of approximately \$106,000 which may be carried forward to reduce taxable income in future years. The non-capital losses expire as follows:

2011	\$ 167,000
2012	315,000
2026	200,000
2027	196,000
2028	131,000
2029	618,000
	<u>\$ 1,627,000</u>

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended August 31, 2009 and 2008

8. Asset Retirement Obligations

The Company has estimated the total future asset retirement obligation based on the Company's net ownership interest in all wells and facilities. This includes all estimated costs to dismantle, remove, reclaim and abandon the wells and facilities and the estimated time period during which these costs will be incurred in the future. The Company has estimated the total undiscounted cash flows required to settle the asset retirement obligations to be approximately \$511,000 (2008: \$302,000). These payments are expected to be made over the next four to sixteen years. A credit-adjusted risk free rate of 7% (2008 – 7%) was used to calculate the fair value of the asset retirement obligations.

The following table reconciles the asset retirement obligations associated with the retirement of oil and gas properties:

	2009	2008
Balance, beginning of year	\$ 163,003	\$ 117,996
Liabilities incurred	119,188	46,756
Liabilities sold	-	(9,559)
Accretion expense	11,039	7,810
Balance, end of year	\$ 293,230	\$ 163,003

9. Share Capital

Authorized:

Unlimited	Class A voting common shares without par value
10,000,000	Class B voting common shares without par value
10,000,000	Class C non-voting common shares without par value
10,000,000	Class A preferred shares with a par value of \$10 each
10,000,000	Class B preferred shares with a par value of \$0.01 each

Issued and Outstanding:

Class A voting common shares	Number of Shares	Stated Value
Balance, August 31, 2007	22,827,014	\$ 4,999,562
Subscriptions received		54,000
Shares issued to purchase oil and gas properties	1,585,000	253,500
Flow-through shares issued	367,500	183,750
Share issuance costs		(13,100)
Future income tax effect related to flow-through shares		(363,778)
Options exercised	150,000	66,000
Balance, August 31, 2008	24,929,514	\$ 5,179,934
Shares issued for debt settlement	214,058	32,815
Balance, August 31, 2009	25,143,572	\$ 5,212,749

Settlement of Account Payable

On March 22, 2009, the Company issued 214,058 Class A common shares to a certain creditor of the Company in exchange for an outstanding debt owed to them of \$64,218. The shares were subject to a four month hold period. The shares have been ascribed a value of \$0.153 per share based on the trading price of the shares at the time of the issuance with the share price differential of \$12,138 recognized as income attributable to the settlement of the accounts payable as of August 31, 2009. The remaining \$19,265 of the debt is included in accounts payable at year end and will be recognized as income during the three months ended November 30, 2009, when certain conditions regarding the trading price of the shares of the Company were met.

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
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9. Share Capital (continued)

Flow-through Shares

In June and August 2007, the Company issued 3,878,593 units at \$0.30 per unit for total proceeds of \$1,163,580. Each unit consists of one flow-through Class A common share and one share purchase warrant entitling the holder to purchase an additional non-flow-through Class A common share for \$0.40 per share for a period of two years. During the year ended August 31, 2008, the Company received the final \$54,000 of the total proceeds of this issuance.

In December 2007, the Company issued 367,500 flow-through share units through a non-brokered private placement at \$0.50 per unit for total proceeds of \$183,750 with each unit consisting of one Class A common share issued on a flow-through basis and one non-transferable share purchase warrant with each warrant entitling the holder to acquire one additional non-flow-through Class A common share at a price of \$0.75 per share for a period of one year from the date of closing.

In February 2008, the Company renounced \$1,347,330 of qualifying expenditures on its flow-through shares issued in 2007. The Company recorded a recovery of future income tax assets with a corresponding reduction in share capital of \$363,778 in 2008 with respect to the renunciation. Of the expenditures renounced, \$978,000 was renounced under the one year look-back rule that allows companies to renounce qualifying expenditures prior to incurring the expenditures. A Part XII.6 tax was levied commencing March 1, 2008 at a prescribed rate applied to the difference between the amount renounced and the actual expenditures incurred. For the year ended August 31, 2009, \$26,000 (2008 - \$28,000) of Part XII.6 tax is included with interest expense.

As at August 31, 2009, the Company had fully incurred the qualifying expenditures related to these renouncements.

Acquisition of Countess (note 11)

During the year ended August 31, 2008, the Company issued 1,585,000 Class A common shares and warrants for an aggregate value of \$475,500 as consideration to acquire certain oil and gas properties. Each warrant entitled the holder to purchase an additional Class A common share at \$0.40 per share until October 15, 2009. The fair value of \$222,000 assigned to the warrants (\$0.14 per warrant) was calculated using the Black-Scholes pricing model with 99% volatility, a risk free interest rate of 2%, a 0% dividend yield and an expected two year life.

Per Share Amounts

The table below summarizes the weighted average number of Class A common shares used in calculating loss per share.

Weighted average number of shares	2009	2008
-basic	25,024,521	24,536,069
-diluted	25,024,521	24,536,069

The weighted average number of shares outstanding for the years ended August 31, 2009 and 2008 were not increased for outstanding stock options and warrants for purposes of calculating diluted loss per share as the effect would be anti-dilutive.

Escrow Shares

As at August 31, 2008, 960,000 Class A common shares were held in escrow. The release of these shares was subject to an escrow agreement. The remaining escrow shares were released on September 27, 2008.

MAGNUM ENERGY INC.
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9. Share Capital (continued)

Warrants

Share purchase warrants transactions for the period are summarized below:

	Number of Warrants	Weighted Average Exercise Price
Balance as at August 31, 2007	7,878,593	\$0.55
Expired	(2,000,000)	1.00
Issued on acquisition of oil and gas properties	1,585,000	0.40
Issued on issuance of flow-through shares	367,500	0.75
Balance as at August 31, 2008	7,831,093	\$0.42
Expired	(6,246,093)	0.42
Balance as at August 31, 2009	1,585,000	\$0.40

As at August 31, 2009, the share purchase warrants outstanding to acquire one Class A common share for each warrant were fully exercisable and expired on October 15, 2009.

Stock Options

The Company has established a stock option plan in accordance with the policies of the TSX Venture Exchange under which it is authorized to grant share purchase options up to 10% of its outstanding Class A common shares. Options are issued at the market price of the Company's stock on the date of the grant. Unless otherwise stated, the options vest when granted. The options are issued for a maximum term of five years.

Stock option transactions for the period and the number of stock options outstanding are summarized below:

	Number of Options	Weighted Average Exercise Price (\$)
Balance as at August 31, 2007	2,215,000	0.35
Granted	20,000	0.40
Exercised	(150,000)	0.27
Balance as at August 31, 2008	2,085,000	0.36
Granted	669,000	0.18
Cancelled	(340,000)	0.42
Balance as at August 31, 2009	2,414,000	0.28

As at August 31, 2009, stock options were outstanding as follows:

Number of Options	Exercise Price (\$)	Remaining contractual life in years	Expiry Date	Number of Options Exercisable
275,000	0.45	0.14	October 21, 2009	275,000
150,000	0.45	1.48	February 22, 2011	150,000
150,000	0.18	1.48	February 22, 2011	150,000
650,000	0.30	2.23	November 24, 2011	650,000
500,000	0.30	2.75	June 1, 2012	500,000
20,000	0.18	0.53	March 14, 2010	20,000
200,000	0.18	4.44	February 5, 2014	200,000
225,000	0.18	4.67	May 1, 2014	225,000
244,000	0.18	4.72	May 20, 2014	244,000
2,414,000		2.66		2,414,000

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended August 31, 2009 and 2008

9. Share Capital (continued)

During the year ended August 31, 2009, the Company applied to the TSX Venture Exchange to re-price, to \$0.18 per share, 1,575,000 options outstanding at an average exercise price of \$0.36 per share. The re-pricing has been approved subject to the approval of the non-interested shareholders at the next Annual General Meeting of the Company.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with assumptions as follows:

	2009	2008
Fair value	\$0.09 to \$0.12	\$0.25
Risk-free interest rate	2.07% - 2.22%	2.43%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	84% - 85%	99%
Expected life of options (years)	5	2

10. Contributed Surplus

The following summarizes the Company's contributed surplus:

	2009	2008
Balance, beginning of year	\$ 679,050	\$ 662,350
Options vested	68,460	42,200
Options exercised	-	(25,500)
Balance, end of year	\$ 747,510	\$ 679,050

11. Related Party Transactions

During the year, the Company incurred consulting fees totaling \$277,650 charged by companies controlled by directors or officers of the Company (2008 -\$319,000), and legal fees totaling \$31,300 charged by a firm where a director is a partner (2008 - \$30,000). These transactions were measured at the exchange amount which is the amount agreed upon by the transacting parties.

The Company shares office space with another public company which has certain directors and officers who are also directors and officers of the Company. During the year ended August 31, 2009, the Company paid approximately \$24,800 (2008 - \$29,700) for office and equipment rentals to that company under a cost sharing agreement. These transactions were measured at the exchange amount which is the amount agreed upon by the transacting parties.

Included in accounts payable and accrued liabilities at August 31, 2009 is approximately \$24,800 (2008 - \$22,000) with respect to unpaid consulting fees, legal fees and general administration owing to related companies which is due under normal credit terms.

During the year ended August 31, 2008, the Company acquired the assets of Countess Production Limited Partnership (Countess) of which one of the directors of the Company owns shares in the General Partner of Countess and certain directors of the Company are also directors of the General Partner of Countess. As consideration, the Company issued 1,585,000 Class A common shares and warrants as described in note 9. This transaction was measured at the exchange amount which is the amount agreed upon by the transacting parties.

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended August 31, 2009 and 2008

12. Commitments

The Company has lease commitments for base rental payments for offices and equipment through 2015. The approximate minimum lease commitments including operating costs for the next five years and thereafter are as follows:

2010	\$	140,655
2011		142,891
2012		37,359
2013		25,728
2014		26,730
thereafter		20,048
	\$	393,411

The Company has entered into two consulting agreements whereby the consultants will provide certain investment relations services. The terms of the first agreement are for \$1,000 per month until the end of June, 2010. The second agreement was entered into effective November 1, 2009 for \$4,000 per month for a period of six months.

13. Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows during the year ended August 31, 2009 as follows:

- the Company recorded an asset retirement obligation of \$119,188 (2008 - \$46,756) on its proven properties
- the Company issued 214,058 (2008 – nil) Class A common shares at a deemed price of \$0.30 per share for payment of an outstanding payable
- the Company issued nil (2008 – 1,585,000) Class A common shares and warrants to purchase certain oil and gas property interests for deemed proceeds of \$475,500.

14. Financial Instruments and Risk Management

The nature of the Company's operations exposes the Company to market, liquidity and credit risk. The Company employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Company's business objectives and risk tolerance levels. Risk management is ultimately established by the Board of Directors and is implemented by senior management and monitored by the risk management function within the Company.

Market Risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Company's net earnings or the value of financial instruments. The objective of the Company is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns.

Commodity Price Risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices to manage its cash flow. Commodity prices for oil and natural gas are impacted by numerous factors, including supply and demand, the relationship between the Canadian and U.S. dollar, the political climate and other market forces. As of August 31, 2009, the Company had entered into no derivative financial instruments for the purpose of managing commodity price risk.

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended August 31, 2009 and 2008

14. Financial Instruments and Risk Management (continued)

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the floating rate credit facility. The floating rate debt is subject to interest rate cash flow risk, as the cash required to service the debt will fluctuate as a result of changes in market rates. The Company had no interest rate swaps or financial contracts in place as at or during the year ended August 31, 2009. If interest rates had been 1% lower with all other variables held constant, after tax net loss for the year ended August 31, 2009 would have been approximately \$9,900 lower, due to lower interest expense. An equal opposite impact would have occurred to net loss had interest rates been 1% higher.

The Company was also exposed to interest rate risk to the extent that changes in market interest rates impacted its earnings on its floating rate redeemable term deposit. This risk was extinguished when the Company redeemed its term deposit during the year ended August 31, 2009.

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are denominated in U.S. dollars, and therefore, are impacted by changes in the exchange rate between the Canadian and U.S. dollar. As at August 31, 2009, the Company had no forward foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies.

The Company is also subject to the risk of fluctuating exchange rates relating to the purchase of services in U.S. dollars. At August 31, 2009, \$19,298 (2008 – nil) of accounts payable is denominated in U.S. dollars and was paid subsequent to year end.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Cash and cash equivalents consisted of cash bank balances and term deposits maturing in 30 days. The Company manages the credit exposure related to short-term investments by selecting counterparties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper.

The majority of the Company's accounts receivables are due from companies in the oil and gas industry and are subject to normal industry credit risks including commodity price fluctuations and escalating costs. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued by the partner. The Company has not experienced any credit loss in the collection of accounts receivable to date. As at August 31, 2009, the Company's receivables consisted of approximately \$2,600 from joint venture partners, \$78,000 from oil and gas marketers and \$15,300 from government agencies.

The Company sells the majority of its production to two petroleum and natural gas marketers and therefore is subject to concentration risk. At August 31, 2009, the Company's largest credit exposure to the petroleum and natural gas marketers represents 81% of accounts receivable. Management does not believe that this concentration of credit risk will result in any loss to the Company based on past payment experience. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large gas marketers. The Company does not obtain collateral from petroleum and natural gas marketers or others in the event of non-payment.

The carrying amount of accounts receivable represents the maximum credit exposure and therefore, the Company reviews its outstanding receivables on an ongoing basis. As of August 31, 2009, there were no significant receivables greater than 90 days.

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended August 31, 2009 and 2008

14. Financial Instruments and Risk Management (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. By nature, the oil and gas industry is very capital intensive. As a result, the Company prepares annual capital expenditure budgets and utilizes authorizations for expenditures to manage capital expenditures. The Company also has a revolving operating credit facility, to facilitate the management of its liquidity risk.

Fair Value of Financial Instruments

Financial instruments of the Company carried on the balance sheet consist mainly of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and bank debt. The estimated fair value of the financial instruments approximates their carrying value due to their short terms to maturity and the floating interest rate on the Company's debt.

15. Capital Management

There was no change to the Company's capital management during the year ended August 31, 2009. The Company actively manages its capital structure which includes shareholders' equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Company considers the following: incremental investment and acquisition opportunities, the current level of credit available from the Company's lender, the level of credit that may be obtainable from the Company's lender as a result of growth in reserve values, the availability of other sources of debt with different characteristics than the existing bank debt, the sale of assets, limiting the size of the investment program, and new share issuances if available on favourable terms. The Company's objective is to maintain a flexible structure that will allow it to execute its investment program, including exploration and development of its oil and gas properties and acquisition and disposition transactions that will carry varying amounts of risk. The Company continually strives to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its investment program. The Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The Company monitors its capital monthly by forecasting expected cash flows from oil and natural gas based on current price and production information. The Company also monitors compliance with the financial covenants it has under its credit facility whereby certain ratios are required to be maintained between specific reserve value data and financial data is monitored. As of August 31, 2009, the Company was in compliance with all required covenants with its banker.

16. Contingent Liabilities

Clarification of producing zone

The operator of one of the Company's properties has applied to the Energy Resources Conservation Board ("ERCB") to have the spacing unit of the producing zone of a well reduced to a half section spacing. If this is not approved by the ERCB, the Company's working interest in the well will decrease from 40% to 30% and it will have to pay an industry partner the amount by which net revenues from the well from inception have exceeded the capital costs incurred on the well. To August 31, 2009, the amount owing if the application is denied is approximately \$130,200. The amount has not been accrued in the financial statements to August 31, 2009 as the outcome of the ERCB application is not determinable. Any amount owing with respect to this application will be recorded in the period the application is approved or denied.

17. Subsequent Events

On October 20, 2009, the Company closed an acquisition ("the Acquisition") of lands, producing gas wells and related gathering and processing facilities in the Sedalia area at a cost of \$2,825,000 before closing adjustments. The Acquisition has an effective date of July 1, 2009.

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended August 31, 2009 and 2008

17. Subsequent Events (continued)

On October 20, 2009, the Company obtained a \$5,000,000 Revolving Operating Loan Facility from a Canadian chartered bank. The facility was used in part to repay indebtedness to the Company's previous lender, to fund the Acquisition and to acquire a compressor and dehydrator for the gas processing facility at the Company's Sedalia property. Interest will be at the bank's prime lending rate plus 2% per annum. As collateral security for the loan facility, there is a general security agreement required from the Company providing a security interest over all present and future acquired property and a floating charge on all lands owned by the Company. The facility may be repaid in whole or in part at any time without penalty and is payable in full on demand by the Lender who may terminate the availability of the facility at any time without notice.

Pursuant to a private placement, on October 23, 2009, the Company issued 3,000,000 Class A common shares at a price of \$0.20 per share for gross proceeds of \$600,000. All of the shares issued pursuant to the private placement are subject to a hold period expiring on February 24, 2010. The funds were used in part to pay outstanding accounts payable and for current working capital.

Subsequent to August 31, 2009, the Company granted 725,000 stock options, vesting immediately and expiring in 5 years, at a weighted average exercise price of \$0.36 per share.

On December 17, 2009, the Company announced that it had closed non-brokered private placements of 3,795,999 flow through Class A common shares at a price of \$0.51 per share for total proceeds of \$1,935,960.

MAGNUM ENERGY INC.

Management's Discussion & Analysis

For the Year Ended August 31, 2009

MANAGEMENT'S DISCUSSION & ANALYSIS

December 17, 2009

This management's discussion and analysis (MD&A) of financial condition and results of operations for the three month period and year ended August 31, 2009 should be read in conjunction with the annual audited financial statements of Magnum Energy Inc. (the "Company" or "Magnum") as well as the Statement of Reserves Data and Other Oil and Gas Information. These documents and other statutory filings are available on SEDAR at www.sedar.com and at the Company's website at www.magnumenergy.com.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

FORWARD LOOKING STATEMENTS

This document contains certain forward-looking statements, including management's assessment of future plans and operation, and capital expenditures and the timing thereof, that involve substantial known and unknown risks and uncertainties, certain of which are beyond Magnum's control. Such risks and uncertainties include, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources, the impact of general economic conditions in Canada, the United States, and overseas, industry conditions, changes in laws and regulations (including the adoption of new environmental laws and regulations) and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. Magnum's actual results, performance or achievements could differ materially from those expressed in, or implied in, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds, that Magnum will derive therefrom. Readers are cautioned that the foregoing list of factors is not exhaustive. All subsequent forward-looking statements, whether written or oral, attributable to Magnum or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Furthermore, the forward-looking statements contained in this document are made as of the date of this document and Magnum does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

BASIS OF PRESENTATION

For the purpose of reporting sales and production volume information, reserves and calculating unit prices and costs, natural gas volumes have been converted to a barrel of oil equivalent (boe) using six thousand cubic feet equal to one barrel. A boe conversion ratio of 6:1 is based upon an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms to the Canadian Securities Administrators' National Instrument 51-101 when boe information is disclosed. Boe information may be misleading, particularly if used in isolation. All references to dollar values are to Canadian dollars.

NON-GAAP MEASURES

The MD&A contains the term cash flow from operations, which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with Canadian GAAP. Cash flow from operations is used by Magnum to analyze operating performance, leverage and liquidity. Cash flow from operations as presented does not have any standardized meaning prescribed by Canadian GAAP and, therefore, may not be comparable with the calculation of similar measures by other entities. Cash flow from operations per share is calculated using the same weighted average number of shares outstanding as used in the calculation of loss per share. Cash flow, as discussed in this report, appears as a separate subtotal on the Company's cash flow statement and is reconciled to net loss.

Magnum also uses "operating netbacks" as a key performance indicator of field results by commodity. Operating netbacks do not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures by other companies. Operating netbacks are determined by deducting royalties and operating expenses from oil and natural gas sales.

Cash flow from operations and operating netbacks are not intended to represent operating profits, nor should they be viewed as an alternative to cash flow provided by operating activities, net loss or other measures of financial performance in accordance with Canadian GAAP.

OVERVIEW

Magnum Energy Inc. (the "Company" or "Magnum") was incorporated under the *Company Act* (British Columbia) on June 27, 2003. Magnum was listed on the TSX Venture Exchange on September 28, 2005.

The Company was formed to operate in Canada as an oil and gas exploration, development and production company. Magnum utilizes the services of consultants, including geologists and engineers on an "as needed" basis.

SELECTED ANNUAL INFORMATION

	August 31 2009	August 31 2008	August 31 2007
Oil and natural gas sales	\$ 1,528,419	\$ 1,868,137	\$ 857,798
Production :			
Oil & NGLs (bbls)	14,915	11,114	757
Gas (mcf)	146,677	108,720	121,776
BOE	39,361	29,234	21,053
Average sales price:			
Oil & NGLs (\$/bbl)	64.52	98.24	53.38
Gas (\$/mcf)	3.86	7.14	6.71
Cash flow from (used in) operations	\$ 30,453	\$ 407,385	\$ (77,210)
Per share (basic & diluted)	\$ 0.00	\$ 0.02	\$ (0.00)
Per BOE	\$ 0.77	\$ 13.94	\$ (3.67)
Net loss	\$ (401,206)	\$ (82,825)	\$ (1,605,116)
Per share (basic & diluted)	\$ (0.02)	\$ (0.00)	\$ (0.09)
Capital expenditures (net of dispositions)	\$ 2,051,947	\$ 1,198,037	\$ 2,329,793
Total assets	\$ 5,872,500	\$ 4,858,361	\$ 3,855,558
Weighted average number of shares			
-basic and diluted	25,024,521	24,536,069	18,693,546

HIGHLIGHTS FOR THE YEAR ENDED AUGUST 31, 2009

- Petroleum and natural gas production was 39,361 boes for the year, an increase of 35% compared to 29,234 boes for the year ended August 31, 2008.
- The Company drilled three successful gas wells (100% w.i.) in the Sedalia area and completed the tie-in of a 14 kilometre pipeline to a nearby gas processing facility.

RESULTS OF OPERATIONS

	Three months ended August 31		Year ended August 31	
	2009	2008	2009	2008
Revenue				
Oil and natural gas sales	\$ 329,349	\$ 470,114	\$ 1,528,419	\$ 1,868,137
Royalties	(43,051)	(50,768)	(216,657)	(221,706)
Interest	308	3,123	4,806	9,133
	286,606	422,469	1,316,568	1,655,564
Expenses				
Operating	125,137	60,533	365,478	379,217
General and administrative	215,998	302,793	840,696	814,054
Interest	29,063	37,593	79,941	54,908
Stock-based compensation	-	5,000	68,460	42,200
Depletion, depreciation and accretion	128,522	202,534	578,337	811,788
	498,720	608,453	1,932,912	2,102,167
Loss from operations	(212,114)	(185,984)	(616,344)	(446,603)
Settlement of account payable (note 9)	12,138	-	12,138	-
Loss before income taxes	(199,976)	(185,984)	(604,206)	(446,603)
Future income tax recovery (expense)	203,000	(95,930)	203,000	363,778
Net loss and comprehensive loss	3,024	(281,914)	(401,206)	(82,825)
Deficit, beginning of period	(2,833,046)	(2,146,902)	(2,428,816)	(2,345,991)
Deficit, end of period	\$ (2,830,022)	\$ (2,428,816)	\$ (2,830,022)	\$ (2,428,816)
Loss per share - basic and diluted	\$ 0.00	\$ (0.01)	\$ (0.02)	\$ (0.00)

Revenues

	Three months ended August 31		Year ended August 31	
	2009	2008	2009	2008
Oil	\$ 126,123	\$ 264,348	\$ 925,310	\$ 1,046,453
Gas	193,860	196,112	565,962	776,264
Natural gas liquids	9,366	9,654	37,147	45,420
	\$ 329,349	\$ 470,114	\$ 1,528,419	\$ 1,868,137

Average selling prices

	Three months ended August 31		Year ended August 31	
	2009	2008	2009	2008
Oil and NGLs(\$/bbl)	63.52	115.08	64.53	98.24
Gas (\$/mcf)	2.97	8.55	3.86	7.14
Total (\$/boe)	25.32	75.77	38.83	63.90

Revenues decreased for both the three month period and year ended August 31, 2009 over 2008 due to decreases in both oil and gas prices.

Magnum markets its oil, natural gas and liquids in the Alberta spot market at various delivery points.

Production

	Three Months Ended August 31		Year Ended August 31	
	2009	2008	2009	2008
Oil and NGL's (bbls)	2,133	2,381	14,915	11,114
Gas (mcf)	65,241	22,943	146,677	108,720
Combined (boe)	13,007	6,205	39,361	29,234

Production for the year ended August 31, 2009 increased by 35% on a per boe basis as compared to 2008, due mainly to three new gas wells in the Sedalia area two of which commenced production in April 2009 and the third in August, 2009. Gas production from the Enchant well has been shut-in since September, 2008 pending the clarification of the producing zone. For the three months ended August 31, production increased due to the Sedalia gas wells.

Production by area for the two years ended August 31 follows:

Year ended August 31, 2009					
Product	Cherry	Enchant	McLeod	Sedalia	Total
Oil & Ngls – bbls	-	8	14,907	-	14,915
Gas – Mcf	35,479	841	18,001	92,356	146,677
Total – boe	5,913	148	17,907	15,393	39,361

Year ended August 31, 2008					
Product	Cherry	Enchant	McLeod	Countess	Total
Oil & Ngls – bbls	-	478	7,498	3,138	11,114
Gas – Mcf	51,288	52,353	2,414	2,665	108,720
Total – boe	8,548	9,204	7,900	3,582	29,234

The Countess well, which was acquired in October 2007, was sold effective February 29, 2008 to allow the Company to focus its efforts in future core areas of exploration.

Royalties

	Three Months Ended August 31		Year ended August 31	
	2009	2008	2009	2008
Crown	\$ 40,909	\$ 39,367	\$ 200,535	\$ 129,336
GORR	2,142	11,401	16,122	41,437
Freehold	-	-	-	50,933
Total royalties expense	\$ 43,051	\$ 50,768	\$ 216,657	\$ 221,706
Royalties as a percent of revenue	13.1%	10.6%	14.2%	11.9%
Royalties expense per BOE	\$ 3.31	\$ 8.18	\$ 5.50	\$ 7.58

The Company's net royalty rate averaged 13.1% for the three months ended August 31, 2009 (2008 – 10.6%) due to a royalty holiday on the producing McLeod oil well that Magnum received until October, 2008. Royalties for the year ended August 31, 2009 were 14.2% of total revenue (2008 – 11.9%); the increase was also due to the expiration of the oil royalty holiday. The Company's three Sedalia wells have benefitted from the reduced royalty rates announced earlier in 2009 and will have a maximum 5% crown royalty burden for the first year of production.

Operating costs

	Three Months ended August 31		Year ended August 31	
	2009	2008	2009	2008
Operating expenses	\$ 107,566	\$ 53,197	\$ 300,679	\$ 342,090
Transportation costs	17,571	7,336	64,799	37,127
Total operating costs	\$ 125,137	\$ 60,533	\$ 365,478	\$ 379,217
Operating costs per BOE	\$ 9.62	\$ 9.76	\$ 9.29	\$ 12.97

Operating costs have decreased for the year ended August 31, 2009 over 2008 due to the lower costs of operating the Sedalia area wells (averaged \$6.93 per boe) The Cherry and McLeod wells' average production costs were \$26.71 and \$4.91 per boe for the year. Operating costs per boe are expected to decline in the future due to increased production from additional wells in the Sedalia area.

General and administrative expenses

	Three Months Ended August 31		Year ended August 31	
	2009	2008	2009	2008
General and administrative expense	\$ 215,998	\$ 302,793	\$ 840,696	\$ 814,054
General and administrative expense per BOE	\$ 16.61	\$ 48.80	\$ 21.36	\$ 27.85

General and administrative expenses have increased by approximately \$27,000 (3%) in 2009 due to the Company's increased activity level. Increases during the year and three months ended August 31, 2009 were incurred mainly in the areas of salaries, consulting and rent due to Magnum's increased level of activity and the movement of the Company's operations to Calgary in August, 2008. Magnum has increased the number of personnel in Calgary to its current level of seven.

Details of general and administrative expenses by category are:

	Year ended August 31	
	2009	2008
Auditing and Legal	\$ 99,351	\$ 106,323
Consulting and Salaries	535,393	490,092
Filing	33,682	91,200
Office and miscellaneous	74,191	77,124
Rent	121,821	28,922
Travel and entertainment	18,955	20,393
Overhead recoveries	(42,697)	-
General and administrative expense	\$ 840,696	\$ 814,054

Interest

Interest expensed during the year ended August 31, 2009 was \$79,941 (2008 – \$54,908) and consists primarily of interest and bank fees on Magnum's credit facility of \$53,300 (2008 - \$26,700) and Part XII.6 tax of approximately \$26,600 (2008 - \$28,200). The Part XII.6 tax was levied commencing March 1, 2008 at a prescribed rate applied to the difference between the amount of flow-through expenditures renounced effective December 31, 2007 and the actual expenditures incurred until December 31, 2008.

Stock-based compensation

During the year ended August 31, 2009, the Company granted 669,000 stock options to various officers, consultants and directors of the Company at a price of \$0.18 per share. The fair value of the options granted ranged from \$0.09 to \$0.12 per share for a total stock based compensation expense for the year of \$68,460 (2008 - \$42,200).

During the year, Magnum applied to the TSX Venture Exchange to re-price, to \$0.18 per share, 1,575,000 options outstanding at an average exercise price of \$0.36 per share. The re-pricing has been approved subject to the approval of the non-interested shareholders at the next Annual General Meeting of the Company.

All options issued and outstanding as of August 31, 2009 were fully vested and expire as follows:

Number of Options	Exercise Price (\$)	Remaining contractual life in years	Expiry Date	Number of Options Exercisable
275,000	0.45	0.14	October 21, 2009	275,000
150,000	0.45	1.48	February 22, 2011	150,000
150,000	0.18	1.48	February 22, 2011	150,000
650,000	0.30	2.23	November 24, 2011	650,000
500,000	0.30	2.75	June 1, 2012	500,000
20,000	0.18	0.53	March 14, 2010	20,000
200,000	0.18	4.44	February 5, 2014	200,000
225,000	0.18	4.67	May 1, 2014	225,000
244,000	0.18	4.72	May 20, 2014	244,000
2,414,000		2.66		2,414,000

On October 21, 2009, 275,000 options exercisable at \$0.45 per share expired. From October to December 17, 2009, 725,000 options were granted to various officers, consultants and directors, vesting immediately and expiring in 5 years, at a weighted average exercise price of \$0.36 per share.

Depletion, depreciation and accretion

	Three Months ended August 31		Year ended August 31	
	2009	2008	2009	2008
Oil and natural gas properties	\$ 123,787	\$ 200,000	\$ 558,094	\$ 797,171
Equipment	2,255	3,576	9,204	6,807
Accretion of asset retirement obligation	2,480	(1,042)	11,039	7,810
	\$ 128,522	\$ 202,534	\$ 578,337	\$ 811,788
Depletion, depreciation and accretion per boe	\$ 9.88	\$ 32.64	\$ 14.69	\$ 27.77

Depletion and accretion decreased during both the year and three month periods ended August 31, 2009 as compared to 2008 due to increased reserves in the Sedalia area.

Future income tax recovery

For the year ended August 31, 2009, Magnum recorded a future income tax recovery of \$203,000 (2008 - \$363,778). The recovery in 2009 was the result of the recognition of excess of tax deductions available over the carrying value of property and equipment. The Company has determined that it is more likely than not that Magnum will realize the benefits from its net tax assets. The recovery in 2008 was the result of recognizing previously unrecognized future income tax assets net of future tax liabilities incurred upon the renunciation of flow-through share expenditures.

Income tax deductions

The Company has approximately \$6,059,000 of available income tax deductions and does not expect to incur cash taxes in its 2010 fiscal year. The following table summarizes Magnum's available approximate income tax deductions as at August 31, 2009:

	Amount	Annual Rate (%)
Non-capital losses	\$ 1,627,000	100
Share issuance costs	106,000	20
Canadian exploration expenses	1,875,000	100
Canadian development expenses	116,000	30
Canadian oil and gas property expenses	470,000	10
Undepreciated capital costs	1,865,000	25-45
	<u>\$ 6,059,000</u>	

Net loss

The Company incurred a loss of \$401,206 (\$0.02 per share) for the year ended August 31, 2009 as compared to a loss of \$82,825 (\$0.00 per share) for the same period in 2008. Income of \$3,024 (\$0.00 per share) was earned during the three months ended August 31, 2009, as a result of the recognition of the \$203,000 future income tax recovery during the quarter, as compared to a loss of \$281,914 (\$0.01 per share) for the three months ended August 31, 2008. The increase in the loss was due to decreased oil and gas revenues which were a result of decreased commodity prices.

Per boe information

	Three Months ended August 31		Year ended August 31	
	2009	2008	2009	2008
(\$/boe)				
Average sales price	\$ 25.32	\$ 75.77	\$ 38.83	\$ 63.90
Operating	(9.62)	(9.76)	(9.29)	(12.97)
Royalties	(3.31)	(8.18)	(5.50)	(7.58)
Operating netback per boe	12.39	57.83	24.04	43.35
General and administrative costs	(16.61)	(48.80)	(21.36)	(27.85)
Interest income	0.02	0.50	0.12	0.32
Interest expense	(2.23)	(6.06)	(2.03)	(1.88)
Cash flow from operations per boe	(6.43)	3.47	0.77	13.94
Depletion, depreciation and accretion	(9.88)	(32.64)	(14.69)	(27.77)
Stock-based compensation	-	(0.80)	(1.74)	(1.44)
Loss from operations per boe	<u>\$ (16.31)</u>	<u>\$ (29.97)</u>	<u>\$ (15.66)</u>	<u>\$ (15.27)</u>

Cash flow from operations

For the year ended August 31, 2009, the Company's cash flow from operations was \$30,453 (\$0.00 per share) as compared to \$407,385 (\$0.02 per share) for the year ended August 31, 2008 due to decreased oil and natural gas revenues.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected quarterly information that has been derived from the unaudited financial statements of Magnum. The summary should be read in conjunction with the unaudited financial statements of the Company as contained in the public record.

Three months ended:	August 31 2009	May 31 2009	February 28 2009	November 30 2008
Total revenue	\$ 329,657	\$ 346,048	\$ 223,718	\$ 633,802
Net income (loss)	\$ 3,024	\$ (183,552)	\$ (152,763)	\$ (67,915)
Per share, basic and diluted	\$ (0.00)	\$ (0.02)	\$ (0.01)	\$ (0.00)
Production (boe)	13,007	11,405	5,878	9,071
Average pricing (\$/boe)	25.32	30.31	37.86	69.54

Three months ended:	August 31 2008	May 31 2008	February 29 2008	November 30 2007
Total revenue	\$ 473,237	\$ 708,505	\$ 413,436	\$ 282,092
Net income (loss)	\$ (281,914)	\$ 272,908	\$ 205,260	\$ (279,079)
Per share, basic and diluted	\$ (0.01)	\$ 0.01	\$ 0.01	\$ (0.01)
Production (boe)	6,205	8,851	7,442	6,736
Average pricing (\$/boe)	75.77	79.42	55.50	41.88

CAPITAL EXPENDITURES

During the years ended August 31, 2009 and 2008, Magnum incurred capital expenditures as follows:

	Year ended August 31	
	2009	2008
Land acquisition and retention	\$ 4,954	\$ 274,140
Geological	23,781	17,216
Drilling and completions	1,117,193	513,483
Well equipping and facilities	905,544	398,592
Property acquisitions	-	475,500
Office equipment	475	18,306
Total	2,051,947	1,697,237
Dispositions	-	(499,200)
Net	\$ 2,051,947	\$ 1,198,037

The land acquisitions in 2008 were incurred in the Sedalia area. Drilling, completions, equipping and pipelines were concentrated in the Sedalia area in 2009 and on the McLeod well in 2008.

On October 20, 2009, the Company closed an acquisition of lands, producing gas wells and related gathering and processing facilities in the Sedalia area (the "Acquisition") at a cost of \$2,825,000 before closing adjustments. The acquisition has an effective date of July 1, 2009.

RESERVES

The reserves data set forth below is based upon an evaluation by Ryder Scott Company LLP (Ryder), an independent reserves evaluator, with an effective date of August 31, 2009 and includes the wells acquired on October 20, 2009 (the "Acquisition") with an effective date of July 1, 2009. The reserves data summarizes the oil, ngl and natural gas reserves of Magnum and the future net revenues for these reserves using forecast prices and costs which are summarized below.

The reserves data conforms to the requirements of National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (NI 51-101). The Company engaged Ryder to provide an evaluation of proved and proved plus probable reserves and no attempt was made to evaluate possible reserves. All of Magnum’s reserves are in Alberta, Canada.

It should not be assumed that the estimate of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs and cost assumptions will be attained, and variances could be material. The recovery and reserve estimates of the Company’s oil, ngl and natural gas reserves provided below are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual oil, ngl and natural gas reserves may be greater than or less than the estimates provided.

**SUMMARY OF RESERVES AS OF AUGUST 31, 2009 (Forecast Prices & Costs)
Pro Forma after giving effect to the Acquisition**

Estimated **Gross** (Pre-Royalties) Reserves:

Product	Reserves Category					
	Proved Developed Producing	Proved Developed Non-Producing	Proved Undeveloped	Total Proved	Probable	Total Proved + Probable
Oil – Barrels	12,509	Nil	Nil	12,509	12,700	25,209
NGL – Barrels	2,519	553	Nil	3,072	5,000	8,072
Sales Gas – Mcf	2,035,609	2,725,686	Nil	4,761,295	4,316,553	9,077,848

Estimated **Net** (After Royalties) Reserves:

Product	Reserves Category					
	Proved Developed Producing	Proved Developed Non-Producing	Proved Undeveloped	Total Proved	Probable	Total Proved + Probable
Oil – Barrels	9,582	Nil	Nil	9,582	10,147	19,729
NGL – Barrels	1,575	332	Nil	1,907	3,144	5,051
Sales Gas – Mcf	1,886,111	2,389,855	Nil	4,275,966	3,503,448	7,779,414

The prices used in the following table were Ryder forecast prices as at August 31, 2009. The estimated future net revenues are presented after deducting estimated future abandonment costs and future capital costs associated with non-producing, undeveloped and probable additional reserves. Estimated values disclosed do not necessarily represent fair market value.

Year	Crude Oil Edmonton	Natural Gas AECO
	(Cdn\$/bbl)	(\$/mcf)
2009	76.55	3.84
2010	81.79	6.10
2011	85.28	6.92
2012	87.60	7.44
2013	89.02	7.84
2014	89.26	7.94
2015	91.05	8.10

Escalated at 2% thereafter

**SUMMARY OF NET PRESENT VALUE OF FUTURE NET REVENUE
AS OF AUGUST 31, 2009 (Forecast Prices & Costs)
Pro Forma after giving effect to the Acquisition**

	Future Net Revenue (\$000) Before Income Tax					
	Proved Developed Producing	Proved Developed Non-Producing	Proved Un-developed	Total Proved	Probable	Total Proved + Probable
Undiscounted	10,403	12,292	Nil	22,695	21,330	44,025
Discounted @ 5%	8,143	10,669	Nil	18,812	16,422	35,234
Discounted @ 10%	6,687	9,393	Nil	16,080	13,162	29,242
Discounted @ 15%	5,689	8,369	Nil	14,058	10,878	24,936
Discounted @ 20%	4,967	7,534	Nil	12,501	9,209	21,710

The following table provides a reconciliation of the changes of Magnum's gross reserves; based on forecast prices and costs.

	Light & Medium Crude And Natural Gas Liquids			Associated & Non-Associated Gas		
	Gross Proved (Bbls)	Gross Probable (Bbls)	Gross Proved + Probable (Bbls)	Gross Proved (Mcf)	Gross Probable (Mcf)	Gross Proved + Probable (Mcf)
August 31, 2008	21,878	20,207	42,085	397,020	252,516	649,536
Improved Recovery	8,618	-2,507	6,111	282,271	145,849	428,120
Discoveries				2,646,725	846,101	3,492,826
Economic Factors				-187,960	-146,988	-334,948
Production	-14,915	Nil	-14,915	-146,677	Nil	-146,677
August 31, 2009 PRIOR TO ACQUISITION	15,581	17,700	33,281	2,991,379	1,097,478	4,088,857
Acquisition with Closing date of October 20, 2009	Nil	Nil	Nil	1,769,916	3,219,075	4,988,991
August 31, 2009 COMBINED	15,581	17,700	33,281	4,761,295	4,316,553	9,077,848

In December, 2009, Magnum commenced several re-completion and re-entry operations in the Sedalia area necessary to bring a significant amount of the Proved Developed Non-Producing reserves to the Producing Category.

FINDING AND DEVELOPMENT (F&D) COSTS

Year ended August 31	2007	2008	Combined 2009 (1)	3 Year Total
Reserve additions				
Proven	24,773	35,897	760,443	821,113
Proven + Probable	31,873	36,224	1,435,275	1,503,372
Change in estimated future capital				
- total proved	475,500	(330,500)	675,000	820,000
Capital expenditures	2,418,127	1,179,729	4,876,472	8,474,328
Total capital - proved	<u>\$ 2,893,627</u>	<u>\$ 849,229</u>	<u>\$ 5,551,472</u>	<u>\$ 9,294,328</u>
Change in estimated future capital				
- total proved plus probable	620,500	(475,500)	1,347,000	1,492,000
Capital expenditures	2,418,127	1,168,628	4,876,472	8,463,227
Total capital - proved and probable	<u>\$ 3,038,627</u>	<u>\$ 693,128</u>	<u>\$ 6,223,472</u>	<u>\$ 9,955,227</u>
F&D per boe				
Proved	\$ 122.66	\$ 19.31	\$ 7.30	\$ 11.32
Proved + Probable	\$ 95.34	\$ 19.13	\$ 4.34	\$ 6.62

(1) includes the reserves acquired effective July 1, 2009 with a closing date of October 20, 2009

The table above summarizes finding and development costs for 2007, 2008 and 2009 as well as the three year average for proved and proved plus probable reserves. Included in the 2009 capital expenditures is \$2,825,000 paid (before closing adjustments) for the Acquisition on October 20, 2009 of certain wells, facilities and land in the Sedalia area. The Company's results indicate a trend of reduced F&D costs per unit of reserves added. The table also indicates that additional capital investments, included in the calculation of F&D costs per boe, will be required to bring a portion of the current estimated reserves on production in the future.

RESERVE LIFE INDEX

Reserve life index is a measurement of the time theoretically remaining to fully deplete a company's reserves. Based on the forecast 2010 combined proved reserve production of 550 boe/d and the most recent independent evaluation of total remaining reserves, the Company's reserve life index is as follows:

	Total Proved Reserves	Total Proved Plus Probable Reserves
Total company interest reserves (boe)	809,130	1,546,256
Annualized forecast production (boe)	200,750	200,750
Reserve life index in years	4.0	7.7

LIQUIDITY AND CAPITAL RESOURCES

During the year ended August 31, 2009, the Company had cash flows from operations of \$30,453 (2008 – \$407,385). As at August 31, 2009, the Company had a working capital deficit of \$2,084,842 (2008 - \$108,301) and had incurred a loss of \$401,206 (2008 - \$82,825) for the year then ended.

At August 31, 2009, the Company has available a demand revolving line of credit availability to a maximum of \$1,400,000 bearing interest at the bank's prime lending rate plus 3% per annum (with a minimum interest rate of 6%) and secured by a first fixed and floating charge debenture in the amount of \$5,000,000 over all present and future assets of the Company. As at August 31, 2009, \$1,350,000

was outstanding on this facility. Principal repayments of \$100,000 per month were to commence on October 1, 2009 and the facility was to be repaid in full by January 31, 2012. The facility was fully repaid on October 20, 2009.

On October 20, 2009, the Company obtained a \$5,000,000 Revolving Operating Loan Facility from a Canadian financial institution. The facility was used in part to repay indebtedness to the Company's previous lender, to fund the Acquisition and to acquire a compressor and dehydrator for the gas processing facility at the Company's Sedalia property. Interest will be at the bank's prime lending rate plus 2% per annum. As collateral security for the loan facility, there is a general security agreement required from the Company providing a security interest over all present and future acquired property and a floating charge on all lands owned by the Company. The facility may be repaid in whole or in part at any time without penalty and is payable in full on demand by the Lender who may terminate the availability of the facility at any time without notice.

Pursuant to a private placement, on October 23, 2009, the Company issued 3,000,000 Class A common shares at a price of \$0.20 per share for gross proceeds of \$600,000. All of the shares issued pursuant to the private placement are subject to a hold period expiring on February 24, 2010. The funds were used in part to pay outstanding accounts payable and for current working capital.

On December 17, 2009, the Company announced that it had closed two non-brokered private placements totaling 3,795,999 flow-through Class A common shares at a price of \$0.51 per share for total proceeds of \$1,935,960.

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Company's revenues or reserves decline, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs.

OUTSTANDING SHARE DATA

As at August 31, 2009, 25,143,572 Class A common shares were issued and outstanding. Pursuant to two private placements in October and December 2009, an additional 6,795,999 Class A common shares were issued resulting in a total of 31,939,571 Class A common shares issued and outstanding as of December 17, 2009.

As at August 31, 2009, 2,414,000 options were issued and outstanding. On October 21, 2009, 275,000 options expired unexercised. In October and December 2009, a total of 725,000 stock options were granted to various officers, consultants and directors at an average exercise price of \$0.36 per share.

FINANCIAL INSTRUMENTS

Cash and cash equivalents are designated as held-for-trading instruments and are measured at carrying value, which approximates fair value due to the short term nature of these instruments. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities and bank debt are designated as other financial liabilities. The Company did not have any commodity contracts related to production or prices during the year ended August 31, 2009 and has not entered into any as at December 17, 2009.

OFF-BALANCE SHEET ARRANGEMENTS

Magnum does not have any special purpose entities nor is it a party to any arrangements that would be excluded from the balance sheet.

COMMITMENTS

Leased Office Space and Equipment

The Company has lease commitments for base rental payments for offices and equipment through 2015. The approximate minimum lease commitments including operating costs for the next five years and thereafter are as follows:

2010	\$	140,655
2011		142,891
2012		37,359
2013		25,728
2014		26,730
thereafter		20,048
	\$	393,411

The Company has entered into two consulting agreements whereby the consultants will provide certain investment relations services. The terms of the first are for \$1,000 per month until the end of June, 2010. The second was entered into effective November 1, 2009 for \$4,000 per month for a period of six months.

Flow-through Shares

In December, 2009, the Company issued an aggregate of \$1,935,960 of flow-through shares. Pursuant to the terms of the agreements, the Company committed to renounce to the subscribers \$1,935,960 of expenditures that qualify as Canadian Exploration Expense ("CEE") and Canadian Development Expense ("CDE") for Canadian income tax purposes and to incur the expenditures no later than December 31, 2010.

Under certain conditions, a provision of Canadian income tax legislation referred to as the one year look-back rule allows corporations to renounce qualifying expenditures to flow-through share subscribers prior to incurring the expenditures. Under these rules, corporations have until December 31 of the year following the year in which the flow-through shares are issued to incur the qualifying expenditures. Corporations that use the one year look-back rule are required to pay Part XII.6 Tax. The tax is effectively a financing charge and is levied commencing March 1 of the look-back year. The tax is calculated monthly based on a prescribed rate applied to the difference between the qualified expenditures renounced and the actual cumulative expenditures incurred. In the event the amount renounced is not fully incurred by the end of the look-back year, the Company is required to reduce the amount of qualifying expenditures renounced to subscribers. Furthermore, there is an additional Part XII.6 Tax equal to ten percent of any shortfall. Pursuant to the terms of the agreements, the Company has agreed to indemnify subscribers for the amount of tax benefits lost in the event the amount of qualifying expenditures renounced to subscribers was reduced.

CONTINGENCIES

Clarification of producing zone

The operator of one of the Company's properties has applied to the Energy Resources Conservation Board ("ERCB") to have the spacing unit of the producing zone of a well reduced to a half section spacing. If this is not approved by the ERCB, the Company's working interest in the well will decrease from 40% to 30% and it will have to pay an industry partner the amount by which net revenues from the well from inception have exceeded the capital costs incurred on the well. To August 31, 2009, the amount owing if the application is denied is approximately \$130,200. The amount has not been accrued in the financial statements to August 31, 2009 as the outcome of the ERCB application is not

determinable. Any amount owing with respect to this application will be recorded in the period the application is approved or denied.

RELATED PARTY TRANSACTIONS

During the year, the Company incurred consulting fees totaling \$277,650 charged by companies controlled by directors or officers of the Company (2008 -\$319,000), and legal fees totaling \$31,300 charged by a firm where a director is a partner (2008 - \$30,000). These transactions were measured at the exchange amount which is the amount agreed upon by the transacting parties.

The Company shares office space with another public company which has certain directors and officers who are also directors and officers of the Company. During the year ended August 31, 2009, the Company paid approximately \$24,800 (2008 - \$29,700) for office and equipment rentals to that company under a cost sharing agreement. These transactions were measured at the exchange amount which is the amount agreed upon by the transacting parties.

Included in accounts payable and accrued liabilities at August 31, 2009 is approximately \$24,800 (2008 - \$22,000) with respect to unpaid consulting fees, legal fees and general administration owing to related companies which is due under normal credit terms.

During the year ended August 31, 2008, the Company acquired the assets of Countess Production Limited Partnership (Countess) of which one of the directors of the Company owns shares in the General Partner of Countess and certain directors of the Company are also directors of the General Partner of Countess. As consideration, the Company issued 1,585,000 Class A common shares and warrants. This transaction was measured at the exchange amount which is the amount agreed upon by the transacting parties.

CHANGES IN ACCOUNTING POLICIES

On September 1, 2008, the Company adopted the following measures issued by the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

Section 1400, General Standards of Financial Statement Presentation was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of this standard did not have an impact on the Company's financial statements.

Section 3064, Goodwill and Intangible Assets which revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard did not have an impact on the Company's financial statements.

On January 20, 2009, the Company adopted the Emerging Issues Committee (EIC) Abstract EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities which provides further information on the determination of the fair value of financial assets and financial liabilities under Section 3855, Financial Instruments – Recognition and Measurement. This EIC Abstract states that an entity's own credit risk and the credit risk of the counterparty to the financial instrument should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after the date of the abstract's issuance. The Company has incorporated the abstract's provisions in its fair value determinations of financial instruments as at August 31, 2009. The implementation of this abstract had no material impact on the Company's financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

Business Combinations

Effective September 1, 2011, the Company will be required to adopt certain amendments of Section 1582 with respect to requirements of the use of the acquisitions method for business combinations and related disclosures with earlier application permitted. The Company plans to adopt this standard prospectively effective September 1, 2009 and does not expect the adoption of this standard to have a significant impact on its results of operations or financial position until a business combination occurs.

Consolidated Financial Statements and Non-controlling Interests

Effective September 1, 2011, the Company will be required to adopt Section 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The Company plans to adopt these standards effective September 1, 2009 and does not expect the adoption to have a material impact on its results of operations or financial position.

International Financial Reporting Standards (“IFRS”)

In February, 2008, the CICA Accounting Standards Board confirmed that the changeover to IFRS from GAAP will be required for publicly accountable enterprises effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition from current GAAP to IFRS is a significant undertaking that may materially affect the Company’s reported financial position and results of operations.

Although IFRS is principles based and uses a conceptual framework similar to GAAP, there are significant differences and choices in accounting policies, as well as increased disclosure requirements under IFRS. The International Accounting Standards Board has issued certain amendments and exemptions to IFRS 1 relating to full cost oil and gas accounting. The amendments permit the Company to apply IFRS prospectively to their full cost pool of capitalized exploration and development expenses, with an initial impairment test, at the transition date. The Company will then be required to adopt a form similar to “successful efforts” method of accounting for oil and gas on a prospective basis.

The Company has not completed development of its IFRS changeover plan, which will include project structure governance, resourcing and training, analysis of key GAAP differences and a phase plan to assess accounting policies under IFRS as well as potential first time adoption of IFRS exemptions. The Company hopes to complete its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting and business activities, such as financing and compensation arrangements during 2010. The Company will disclose the key elements of its plan and progress on the project as information becomes available during the transition period beginning September 1, 2010.

CRITICAL ACCOUNTING ESTIMATES

The Company's financial and operating results contain estimates made by management in the following areas:

- capital expenditures are based on estimates on projects in various stages of completion
- royalties and operating costs are based on estimates for which costs had not yet been billed

- asset retirement obligations are based on estimates of future costs and timing of expenditures
- depletion, depreciation and accretion are based on estimates of oil and natural gas reserves that Magnum expects to recover in the future
- asset retirement obligations are based on estimates of future costs and timing of expenditures
- the future recoverable value of oil and gas properties is also based on estimates that the Company expects to realize
- stock-based compensation and warrants are based on estimates of the fair value of options and warrants
- income taxes are based on estimates of the deductibility of certain expenditures and of future tax rates and laws

Management's assumptions are based on factors that, in management's opinion, are relevant and appropriate. Management's assumptions may change over time as operating conditions change.

Oil and gas reserves determination

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. Reserve estimates are based on current production forecasts, prices and economic conditions. These estimates may change substantively as additional data from ongoing development and production activities becomes available and as economic conditions impact oil and gas prices and costs.

Depletion

The Company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development activities, whether successful or not, are capitalized. The aggregate of net capitalized costs (less costs of unproved properties) and estimated future development costs (less estimated salvage values) is amortized using the unit-of-production method based on estimated proved oil and gas reserves. An increase in such estimated reserves or a decrease in estimated future development costs would each result in a corresponding reduction in depletion expense.

Impairment of oil and gas properties

Magnum is required to review the carrying value of all oil and gas assets for potential impairment. Impairment is indicated if the carrying amount of the oil and gas properties is not recoverable by the future undiscounted cash flows attributed to them. If impairment is indicated, the amount by which the carrying value of the properties exceeds their estimated fair value is charged to earnings as part of depletion expense. The assessment of impairment is dependent upon estimates of reserves, production rates, future prices, future foreign exchange rates, future royalty rates, future operating costs and other relevant assumptions.

Stock-based compensation

Under the fair value method of accounting for stock options and warrants, compensation expense and warrants are determined on the date of grant using the Black-Scholes option pricing model which was developed for use in estimating the fair value of options and warrants that are fully transferable and have no vesting restrictions. The Company's stock options and warrants are not transferable, cannot be traded and are subject to vesting restrictions that would tend to reduce value. The Black-Scholes model requires the input of several variables including estimated volatility of Magnum's stock price over the life of the options and warrants, estimated forfeitures and the estimated life of the options and warrants. Changes in these estimates would alter the fair value of the options and warrants and any related expense as determined by the Black-Scholes model.

Asset retirement obligations

The Company is required to provide for future abandonment and restoration costs. Magnum must estimate these costs in accordance with existing laws, contracts or other policies. The fair value of the liability for the Company's asset retirement obligations is recorded in the current period and is calculated as the cost that is expected to be incurred at the expected inflation rate, discounted to its present value using the Company's credit-adjusted risk-free interest rate. This same value is recorded in the carrying amount of oil and gas properties. The liability amount is increased each reporting period to its current discounted present value and the amount of change is charged to earnings as an accretion expense. Revisions to either the estimated timing or costs of future abandonment and restoration cash outflows could also result in an increase or decrease to the obligation. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded.

Income tax accounting

The determination of Magnum's income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability and/or future income tax asset may differ substantially from that estimated and recorded by management.

RISKS AND UNCERTAINTIES

Magnum's production and exploration activities are concentrated in the Western Canadian Sedimentary Basin where activity is highly competitive and includes companies ranging from smaller junior producers to the much larger integrated petroleum companies. The Company is subject to various types of business risks and uncertainties including:

- finding and developing oil and natural gas reserves at economic costs
- production of oil and natural gas in commercial quantities
- marketability of oil and natural gas produced
- substantial capital requirements and access to capital markets
- environmental risks
- insurance
- reliance on operators and key employees
- third party credit risk
- changes in legislative and incentive programs

In order to reduce exploration risk, Magnum strives to employ highly qualified and motivated professionals with a demonstrated ability to generate quality proprietary geological prospects. To help maximize drilling success, the Company targets low to moderate risk prospects.

Oil and gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. In order to mitigate such risk, the Company conducts its operations at high standards and follows safety procedures intended to reduce the potential for personal injury to contractors and the public at large. Magnum maintains current insurance coverage for general and comprehensive insurance as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect changing corporate requirements as well as industry standards and government regulations.

Insurance

The Company's involvement in the exploration for and development of oil and gas properties may result in the Company becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although the Company will obtain insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances, be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's financial position, results of operations or prospects.

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Company. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of the Company's oil and gas reserves. The Company might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Company's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to the Company are in part determined by the borrowing base of the Company. A sustained material decline in prices from historical average prices could limit or reduce the Company's borrowing base, therefore reducing the bank credit available to the Company, and could require that a portion of any existing bank debt of the Company be repaid.

In addition to establishing markets for its oil and natural gas, the Company must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas, which may be acquired or discovered by the Company, will be affected by numerous factors beyond its control. The Company will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by the Company. The ability of the Company to market its natural gas may depend upon its ability to acquire space on pipelines, which deliver natural gas to commercial markets. The Company will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Company has limited direct experience in the marketing of oil and natural gas.

Substantial Capital Requirements; Liquidity

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Company's revenues or reserves decline, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

Competition

The Company will actively compete for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than the Company. The Company's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

The oil and gas industry is highly competitive. The Company's competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than the Company.

Certain of the Company's customers and potential customers will themselves be exploring for oil and natural gas, and the results of such exploration efforts could affect the Company's ability to sell or supply oil or gas to these customers in the future. The Company's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Reserve Replacement

The Company's future oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on the Company successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on the Company's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Company's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Reliance on Operators and Consultants

The Company may not be the operator of certain oil and gas properties in which it acquires an interest. To the extent the Company is not the operator of its oil and gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of the Company will be largely dependent upon the performance of its management and consultants. The Company does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any consultants could have a material adverse effect on the Company.

Corporate Matters

To date, the Company has not paid any dividends on its outstanding common shares. Certain of the directors and officers of the Company are involved in managerial and/or director positions of other oil and gas companies, partnerships or other entities involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers, managers or directors of the Company and as officers and directors of such other companies, partnerships or other entities. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under, the *Business Company's Act* (B.C.).

Permits and Licenses

The operations of the Company may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Additional Funding Requirements

The Company's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Company's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favourable terms.

Issuance of Debt

From time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Neither the Company's articles nor its by-laws limit

the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Availability of Drilling Equipment and Access Restrictions

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder. The Kyoto Protocol, which entered into force as an international treaty on February 16, 2005, sets legally binding targets to reduce Canada's nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The Company's exploration and production facilities and other operations and activities will emit a small amount of greenhouse gases which may subject The Company to legislation regulating emissions of greenhouse gases. The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse gases emission reduction requirements for the various industrial activities, including oil and gas exploration and production. Future federal legislation, together with provincial emission reduction requirements, such as those contained in Alberta's *Climate Change and Emissions Management Act*, may require the reduction of emissions or emissions intensity produced by the Company's operations and facilities. The direct or indirect costs of these regulations may adversely affect the business of the Company.

ADDITIONAL INFORMATION

Additional information regarding the Company is available on SEDAR at www.sedar.com and on the Company's website at www.magnumenergyinc.com.